



KAZAKHSTAN ENGINEERING
NATIONAL COMPANY

ANNUAL REPORT
2015



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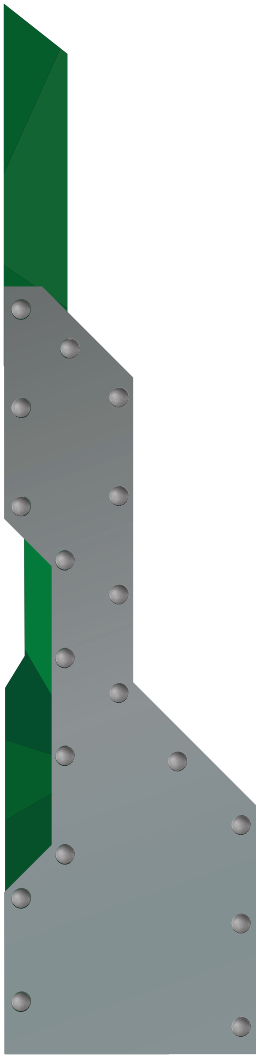


KAZAKHSTAN ENGINEERING
NATIONAL COMPANY

“NC “Kazakhstan engineering”, JSC Annual report for 2015

INTRODUCTION

- Welcoming address of the Chairman of the Board of Directors of “NC “Kazakhstan engineering”, JSC
- Welcoming address of the Chairman of the Executive Board of “NC “Kazakhstan engineering”, JSC
- Market review for engineering industry in Kazakhstan



WELCOMING ADDRESS OF THE CHAIRMAN OF THE BOARD OF DIRECTORS
OF "NC "KAZAKHSTAN ENGINEERING", JSC



SAURANBAYEV NURLAN YERMEKOVICH

Chairman of the Board of Directors
of "NC "Kazakhstan engineering", JSC

The Company is a holding structure, which provides a unified financial, industrial and technological policy in the fields of defense production, dual-use goods and civil engineering.

The sole shareholder of the Company is «Samruk-Kazyna», JSC which is 100% owned by the Government of the Republic of Kazakhstan. At the same time from 2010 The Company is in trust management of the Ministry of Defense of the Republic of Kazakhstan.

For the implementation of the Strategy «Kazakhstan - 2050» Kazakhstan should strengthen its defense capability and military doctrine, to participate in the various mechanisms of defensive deterrence.

In this regard, the Company is vested strategic objectives to ensure the timely and quality implementation of the state defense order, promote technical and technological modernization of the Armed Forces of the Republic of Kazakhstan, other troops and military formations, the development of the national machinery, increasing the share of local content in the production of goods, works and services, as well as the training of qualified technical personnel, able to work in modern conditions.

The Company implements the development strategy of the Company for 2013-2022, approved by the Board of Directors of the Company in accordance with the address of the President of the Republic of Kazakhstan «Strategy» Kazakhstan - 2050 «: a new policy established state». The Company's development strategy defines the strategic goals and objectives for a ten-year period. The Work of the Company was built on the principles of implementation of the best standards of corporate governance, maximizing long-term value of assets under management, competitiveness in world markets, taking into account priorities



of state policy in the military-technical, industrial innovation, socio-economic and other areas of activity of «Samruk-Kazyna», JSC and Ministry Defense of the Republic of Kazakhstan.

The Company's share in the engineering industry of the Republic of Kazakhstan was at the level of 10.3% in 2015.

The Company and the Companies of the Group of organizations make a significant contribution to the socio-economic modernization of the country. Along with the development of its own production, defense industries contribute to the development of the regions of the country, to ensure social stability by providing jobs and deducting taxes to local budgets.

In order to study the experience of international organizations in the field of mechanical engineering, the company actively participates in the development of international military-technical cooperation by attracting foreign specialists and modern technologies for the professional development of local personnel.

Thus, in order to develop the export potential of the Company stepped up its advertising and exhibition activities. Thus, the organizations of the Company participated in the ongoing IV International exhibition of arms and military equipment KADEX (Kazakhstan Defense Exhibition) under the auspices of the Ministry of Defense of the Republic of Kazakhstan, held from 2 to 5 June 2016 in Astana.

Nowadays, similar exhibitions are hugely popular all over the world. After all, especially now the defense department have great potential impact on the global and regional stability. Therefore one of the main focuses is on the development of the sphere of electronic and electro-optical systems, communication systems and control network solutions. Traditionally, the greatest demand among foreign partners in such exhibitions are command and control systems, protection from high-precision weapons, aircraft equipment, defense facilities and systems, optoelectronic devices. As part of the visitors and participants have the opportunity not only to get acquainted with the exposition of the latest developments of the defense sector enterprises, but also to assess their combat capabilities in action.

At the same time, the corporate governance of the Company is one of the main non-financial factors increasing the competitiveness of the Company, which also contributes to the level of perception of the Company's shareholder, trustee and investors, its market value, as well as reduce the cost of capital. In this regard, the Company has done considerable work on the improvement of corporate governance practices.

Taking into account that the main objective is the social security and welfare of our citizens, the Company joined the UN Global Compact Initiated, calls on the business community to be guided in its activities in the field of fundamental principles of human rights, labor standards and environmental protection.

In general, it should be noted that the Company has the positive momentum and great potential for further growth.

WELCOMING ADDRESS OF THE CHAIRMAN OF THE EXECUTIVE BOARD OF “NC “KAZAKHSTAN ENGINEERING”, JSC



KAZAKHSTAN ENGINEERING
NATIONAL COMPANY



IDRISSOV YERLAN SAPARGALIYEVICH
the Chairman of the Executive Board
of “NC “Kazakhstan engineering”, JSC

Nowadays, there are 15 subsidiaries and 12 affiliates in a Group of the Company on engineering and military-industrial sector.

The main activities of the Group of the Companies are engineering, manufacturing and servicing products and dual-use defense, engineering, production output and services in the oil and gas, railway, agro-industrial and fuel and energy complexes.

Steadily increasing production, technical and financial capacity of those included in the Group of the Companies of «NC «Kazakhstan Engineering», JCS employs about 6 thousand people. 250 design engineers out of them work in 11 design bureaus and 9 specialized laboratories.

Today the results of the Company largely achieved thanks to the support of the Head of State Nursultan Nazarbayev and the Government of the Republic of Kazakhstan, «Samruk-Kazyna», JSC and the Ministry of Defense of the Republic of Kazakhstan.

In 2015, the international rating agency Fitch Ratings affirmed the long-term ratings of the Company’s investment in foreign and local currency ratings at BBB- and BBB, respectively, the international rating



agency Moody's assigned the Company's credit rating at Ba3 level.

The Company is the only engineering company in Kazakhstan, which has the status of «national company» and among the first engineering companies of Kazakhstan, received the international ratings and the access to capital markets.

Corporate governance rating was 71% in 2015, exceeding the previous year by 3.2 percentage points. Social stability rating was 71%, indicating that maintaining stability under difficult conditions of the global economic crisis and industrial recession.

Particularly important objectives of the Company in 2016 and subsequent years is to develop leadership positions in the engineering sector, which should play the role of locomotive of accelerated diversification of industry, as well as the ability to compete with the near and far abroad peer companies, the introduction of new products and participation in the implementation of the privatization program.

During 2016-2017 period the Company plans to implement the decision of the Republic of Kazakhstan dated 30.12.2015, No. 1141 «On some issues of privatization in 2016-2020» (hereinafter referred to as the Decree No. 1141). As part of the planned sale, liquidation and reorganization of 17 subsidiaries, affiliated companies and grandchild Companies included in Decree number 1141 and specific decision of the Board of «Samruk-Kazyna» dated 29.01.2016, No. 02/16, as well as the implementation of an additional four assets Company in accordance with the restructuring plan assets of the Company for 2016, approved by the decision of the Board of Directors of the Company dated 20.01.2016 (minutes No. 1).

The Company is actively working in the field of cooperation with foreign companies for further joint ventures in Kazakhstan. Today, a number of joint ventures with leading international companies such as: Turkish company Aselsan manufacturing electronic devices of night vision, the Franco-German company, a leading manufacturer of helicopters Airbus Helicopters and a South African company Paramount Group to establish a production of armored vehicles.

November 30, 2015 in Astana, President Nursultan Nazarbayev inaugurated a plant for the production of armored wheeled vehicles, launched a joint venture «Kazakhstan Engineering Paramount», LLP.

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



MARKET REVIEW FOR ENGINEERING INDUSTRY IN KAZAKHSTAN



Dynamics of volumes of production in mechanical engineering

The volume of production of mechanical engineering of the Republic of Kazakhstan has grown in nominal terms in 2015 compared with 2008 in 2 times (from KZT 302.8 Bn to KZT 614.4 Bn). In 2015, in comparison with 2014 the volume of production of mechanical engineering products fell from KZT 869.9 Bn to KZT 614.4 Bn, up 29.4% (Figure 1).

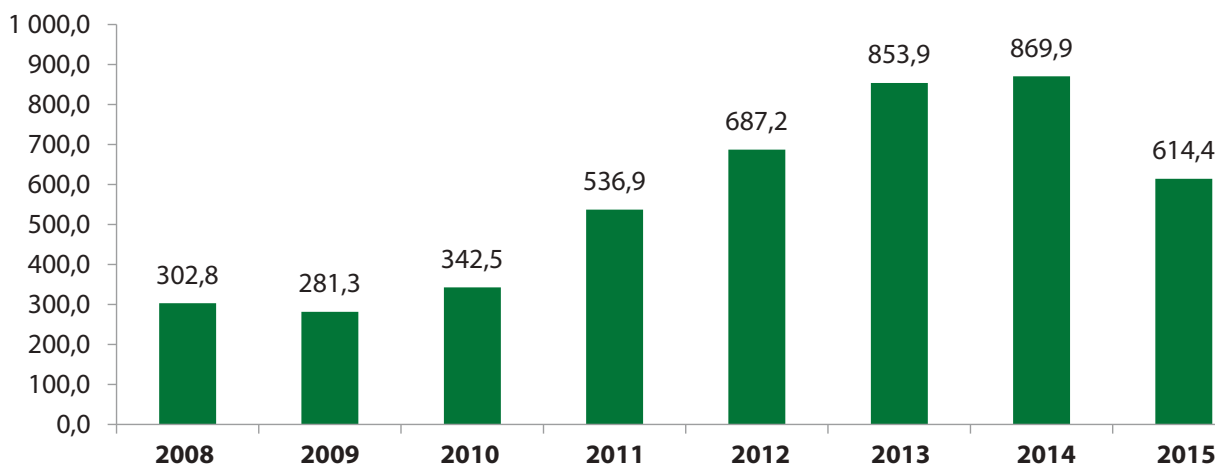


Figure 1. The volume of production of mechanical engineering for 2008–2015, KZT Bn

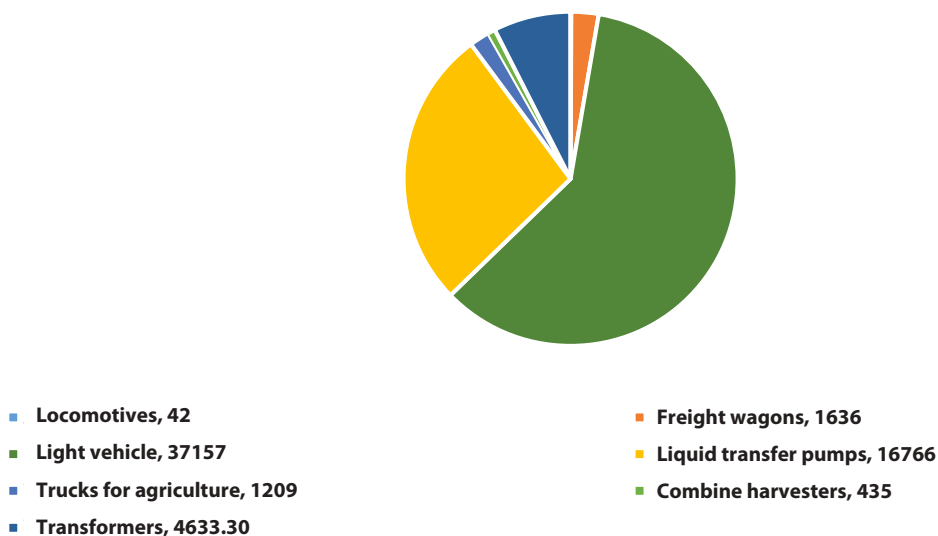


Figure 2. The volume of production of key types of products of mechanical engineering, items.

Export and import of the products of the mechanical engineering field

Dynamics of export values of mechanical engineering of the Republic of Kazakhstan is ambiguous. As a result of the crisis in 2009-2010, there is a sharp (more than 3-fold) reduction in export values of engineering products industry. As a result of steady growth over the past two years by 2012 export figures exceeded the pre-crisis level. In the following years there was a decrease of export values of engineering products. At the end of 2015, export values of mechanical engineering in Kazakhstan amounted to US \$ 0.6 bn., which is 53% less than the volume of exports of 2008, which is more than 2 times lower than export values in 2008 and 2014. (Figure 3).

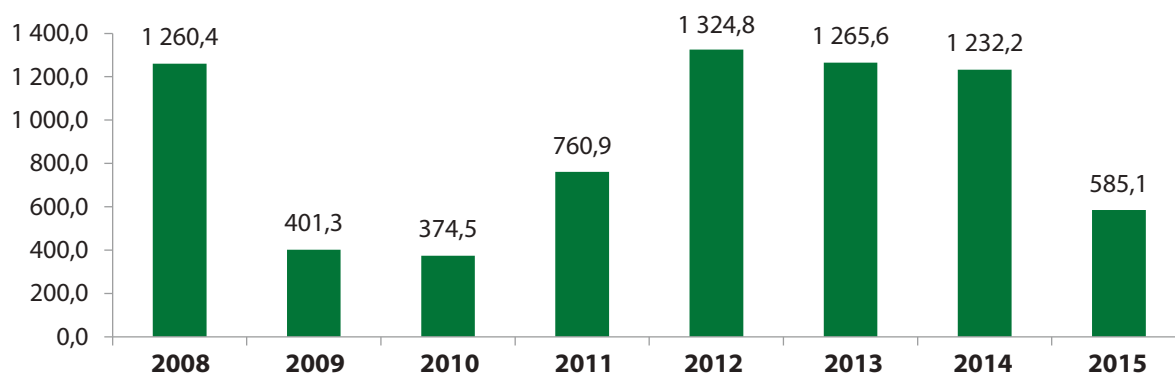


Figure 3. The export of products of mechanical engineering field for 2008–2015, USD Mn

Under the results of 2015 the import of the productions of the mechanical engineering field constituted USD 11.9 Mn, it is for 14.7 % less those in 2008 and for 32% less those in 2014 (Figure 4).

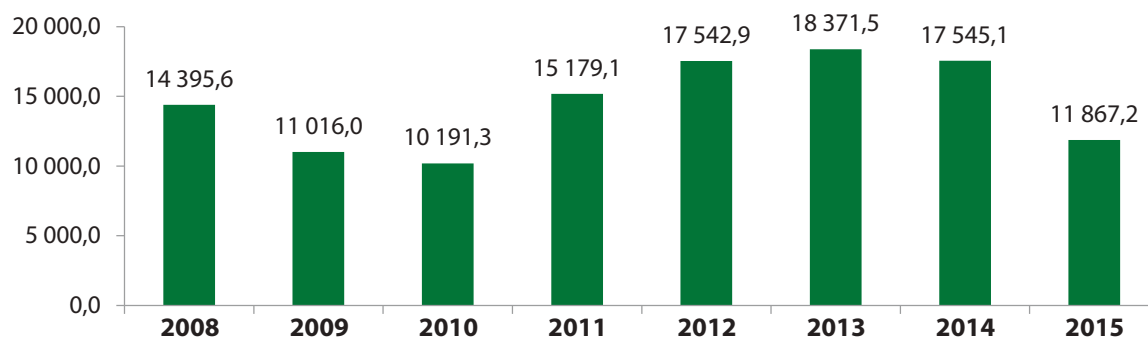


Figure 4. Import of the products of mechanical engineering field for 2008–2015, USD Mn.

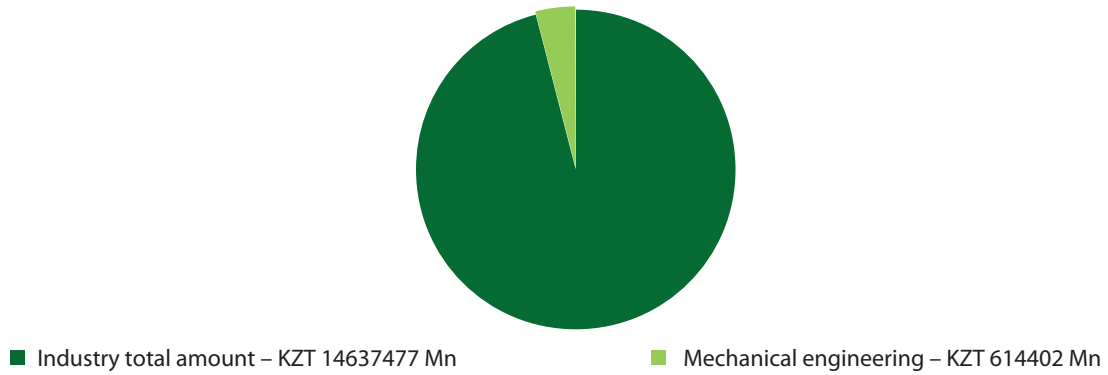


Figure 5. The amount of mechanical engineering production in 2015

Volumes of production of mechanical engineering industry in 2015 amounted to KZT 614.4 Bn, or 4.2% of the total industry.

Currently, the priority areas in the engineering industry of Kazakhstan are as follows: car industry, railway engineering, and manufacture of electrical equipment, agricultural machinery, oil and gas engineering, mining engineering.



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General information and the structure of joint-stock capital of "NC "Kazakhstan engineering", JSC

JSC «National Company «Kazakhstan Engineering», (hereinafter referred to as «NC «Kazakhstan Engineering», JSC or the Company) was established in accordance with the Decree of the Government of the Republic of Kazakhstan dated March 13, 2003 No. 244» On some issues of military-industrial complex of the Republic of Kazakhstan «by the inclusion of the Company's enterprises of the defense industry and military plants of the Ministry of Defense of the Republic of Kazakhstan. In October 2006, the state-owned shares of the Company (100%) were transferred to the authorized capital of JSC «Holding «Samruk «(now – «Samruk-Kazyna", JSC – for the purposes of enhancement of management system for defense industry of the Republic of Kazakhstan, owned at that time by the State. In September 2009, a 100% stake in the Company has been transferred to «Samruk-Kazyna» in trust to the Ministry of industry and trade of the Republic of Kazakhstan, and in June 2010 - in trust to the Ministry of Defense of the Republic of Kazakhstan.

The founder of the Company is the Government of the Republic of Kazakhstan. The sole shareholder of the Company is «Samruk-Kazyna», JSC (hereinafter - «Samruk-Kazyna», JSC or the Fund).

The Company is a holding structure, designed to provide with unified financial, industrial and technology policy at the largest machine-building enterprises, specializing in the production of civil and special products, as well as dual-use products.

Information about capital stock up to 31.12.2015 as follows:

- 1) amount, types of capital stock — 21 476 802 (twenty-one million four hundred seventy-six thousand eight hundred and two) common stocks;
- 2) amount, types of outstanding stocks — 21 476 802 (twenty-one million four hundred seventy-six thousand eight hundred and two) common stocks;
- 3) nominal cost of one stock, paid by the establisher — 1 000 (one thousand) tenge;
- 4) there is no privileged stocks.

The strategy of the Company's development – the mission, major directions of the activity, aims and tasks

At present time, the world economy is showing signs of uncertainty, which largely increases the risk of significant changes of market conditions in individual markets. For reducing in a long-term perspective for the dependency of there the world prices for energy the economy should be significantly diversified. This will ensure stability and it will provide an opportunity to adapt to new economic conditions, regardless of what they will be. In the Republic of Kazakhstan the State implements the strategy «Kazakhstan - 2050», in which the main priorities of the long-term development strategy are the development of machine-building, the strengthening of its defense capability and military doctrine and participation in various mechanisms of defensive deterrence. And in this respect the role of the Company rises.

The Company, being the largest entity in the industry, should be a driving force for its development in the most popular sectors of the engineering industry at the expense of technology transfer, implementation of best management practices and expand into new geographic markets. The Company must not only create shareholder value and maximize the profitability of operations, but also to attract partners to develop intra- and intersectoral co-operation, to ensure the development of proactive technologies that will enable the entire machinery industry of the Republic of Kazakhstan to compete not only at the local but also at the regional and in the future - on the global market.

The mission of the Company is to implement the strategic interests of the state in the engineering development through effective management of assets and increase long-term value of companies within the group of the Company in accordance with the Development Strategy of «NC «Kazakhstan Engineering», JSC within 2013-2022, approved by the Board of Directors on February 17, 2014 (minutes No. 4).

By 2022, the Company has to turn into an effective machine-building holding, which unites a number of industrial enterprises producing engineering products for all industries, including the military-industrial complex, the leading engineering companies in the Kazakhstan market of engineering services, to become a center of competence in the field of high technologies and a recognized expert in sectors of specialization.

Taking into account the current situation in the global and national economy, as well as the prospects for the development of integration processes, there is an increasing competition even on the domestic market. In this regard, in order to achieve the strategic goal of the Company is equally to be developed in the following strategic areas:

- 1) formation of effective and compatible Holding;
- 2) facilitation at the development of machinery engineering sector for the purposes of diversification and modernization of the national economy;
- 3) provision of sustainable development of the Company.

The results of financial and operational activity of the Company for 2015

Today «NC «Kazakhstan Engineering», JSC (hereinafter referred to as - the Company) has great potential for the development of the engineering industry in Kazakhstan. There are new investment projects implementing. The company develops various sub-sectors of mechanical engineering and seeks to implement them together with international leaders.

The Company's share in the engineering industry of the Republic of Kazakhstan was at the level of 10.3% in 2015. At the same time in 2015 compared to 2010 income from the sale of the Group of the Companies increased by 4.1 times, labor productivity - in 3 times.

In 2015, the current economic situation in the country has led to a decrease in the overall industry performance, including mechanical engineering. In particular, in 2015 the volume of engineering products production reached the level of KZT 614 Bn, which is lower than the same period last year by 29%. The index of physical volume of industrial engineering products amounted to 70.4% in 2015 compared to the same period of the year before.

There are also negative factors influenced at the Company, as the subject of the engineering industry, by that they affected the results of the Company's activity.

Financial and operational figures of the activity over the Group of Companies

Figures	2010	2011	2012	2013	2014	2015	Growth dynamics of 2015 in relation to 2010
Sales revenue (KZT Bn)	15,4	33,6	52,2	44,8	38,5	63,5	4,1 times more
Assets (KZT Bn)	24,7	27,4	45,9	74,1	89,1	114,1	5,1 times more
Financial result (KZT Mn) *	378,8	2264	4558	3083	917	-8 266	-
Development expenses (investments) (KZT Mn)	897	2044	9651	3552	6720	4 822	5,4 times more
Labor capacity (thous. KZT/person)	3838	6560	10 763	12 868	11 794	12 595	3,3 times more
Average monthly salary (thous. KZT)	70,5	86,9	135,5	114,2	124,2	111,9	1,6 times more

* financial result = net income before minority interest exemption

Consolidated amount of the products of the Company for 2015 within the plan of KZT 41.2 Bn consisted of KZT 63.5 Bn, or equal of 154% to the plan (increase for 65% in relation to 2014 figures), including as follows:

- over the amount of realization of specialized production and dual use production the execution constituted KZT 53.2 Bn, or 351% to the plan in the result of execution of SDO (State Defense Order);
- over the amount of services the execution constituted KZT 2.1 Bn, which is 75% lower the planned figure for 2015 and for 80% lower than in 2014;
- over the amount of realization of civil production the execution constituted KZT 8.2 Bn, or 46% of the plan (Figure 6).

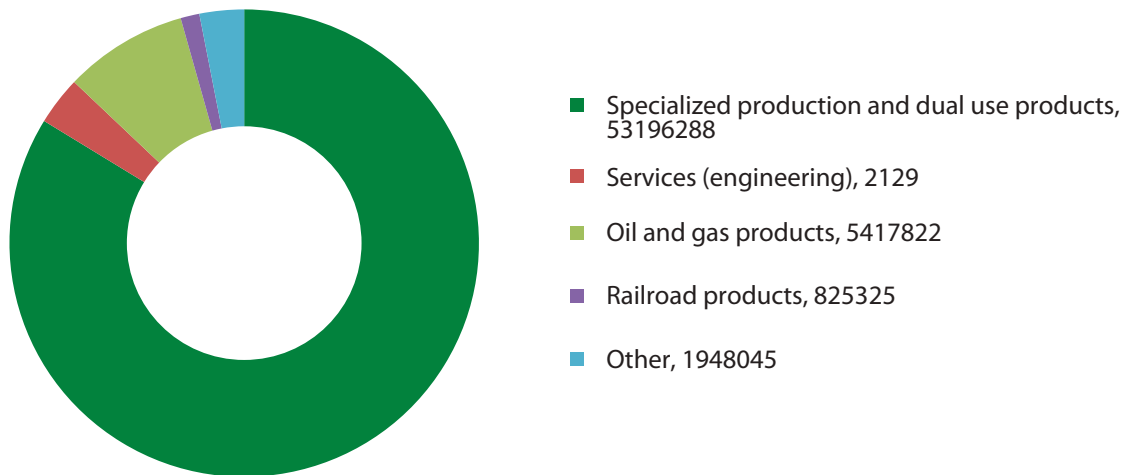


Figure 6. The Structure of revenues

Profitability of operations was 13.1% (7.7% by the plan). In 2014 this figure was 2.1%.

Return on equity was 28.4% (9.2% by the plan), which is below the planned figure.

EBITDA margin was 2.1% (12.5% by the plan). Implementation of the planned figure was 17% in 2014.

The share of exports in sales volume in 2015 amounted to 3.7% of total sales.

Consolidated assets at the end of 2015 amounted to KZT 114.1 Bn. The growth of assets was 1.3 times compared to 2014 (Figure 7).

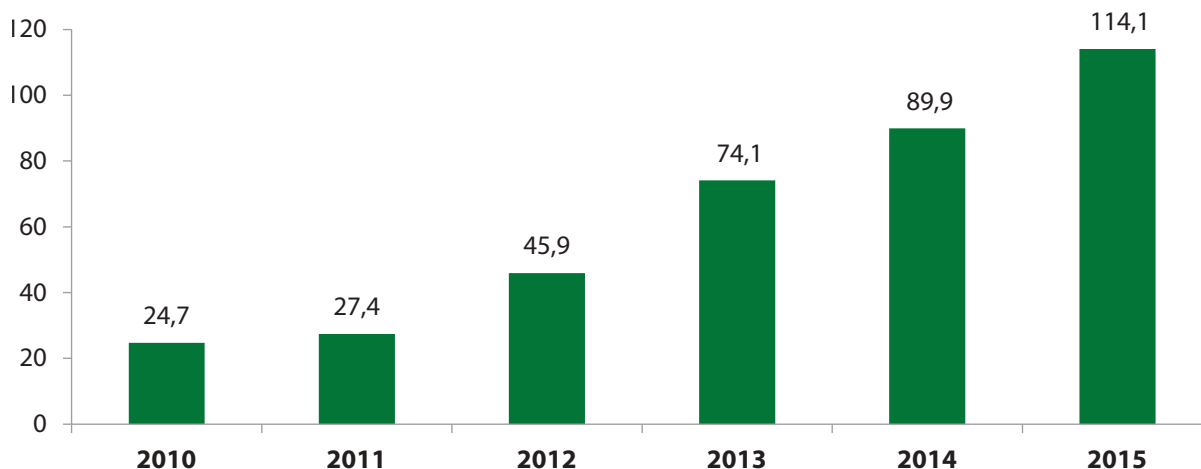


Figure 7. Assets, KZT Bn

The financial result of the Company in 2015 amounted to a loss of KZT 8 266 Mn with planned profit of KZT 3163 Mn. The main causes of the financial result is to obtain foreign currency losses of KZT 13 811 Mn as a result of the transition to a freely floating exchange rate of the national currency (Figure 8).

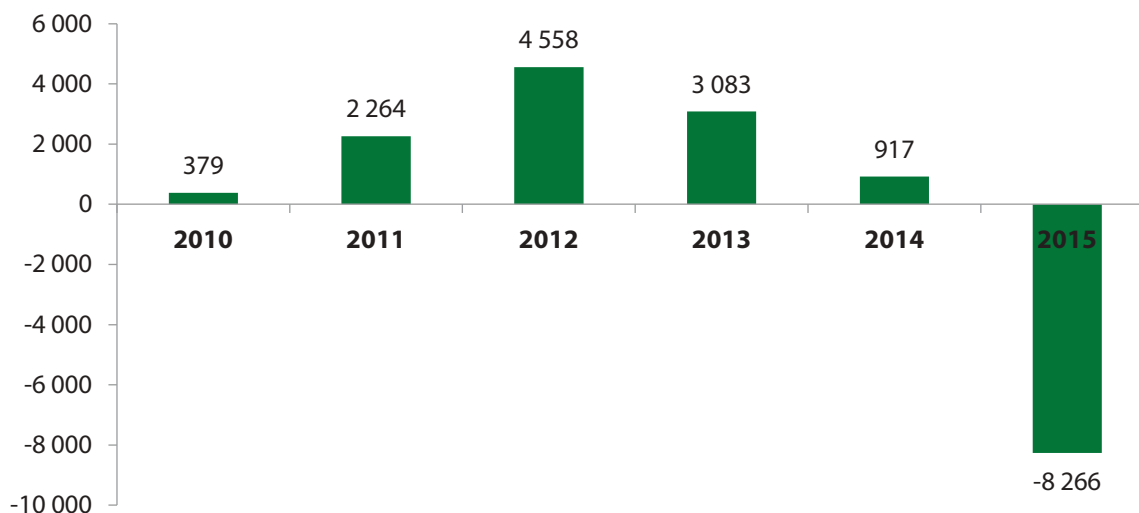


Figure 8. Financial result, KZT Mn

Labor capacity reached KZT 12.6 Mn for the employee. The average industry performance indicator is exceeded for 1.6 times (Figure 9).

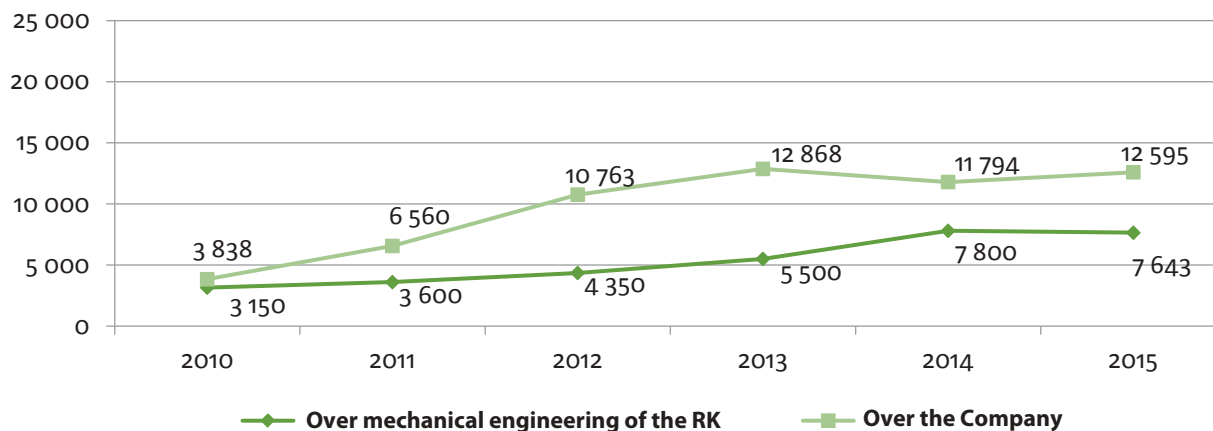


Figure 9. Labor capacity, thous. KZT

Financial support. Information on dividends

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

The Company has a Dividend Policy of «Samruk-Kazyna», JSC with respect to the subsidiaries, approved by the decision of the Executive Board of «Samruk-Kazyna», JSC on October 2, 2012 (Minutes No. 39/12).

The decision to pay dividends to the shareholders of the Company adopted the decision of the Sole Shareholder of the Company.

On July 31, 2015 the Company entered into an agreement with «Deloitte», LLP on procurement of services for audit separate and consolidated financial statements of the Company for 2015-2017 (contract No. KE-3/172).

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

Decision of the Board of «Samruk-Kazyna», JSC on 16 June 2016 (Minutes No. 24/16) approved the annual financial statements of the Company for 2015.

The same decision was made not to pay dividends on common shares of the Company on the results of 2015 in connection with the receipt of the consolidated losses of the company in the amount of KZT 8 337 487 000 (eight billion, three hundred thirty-seven million four hundred eighty-seven thousand).

Key events and achievements of the Company in 2015

1. By the Order of the Minister of Defense of the Republic of Kazakhstan dated January 27, 2015 No. 39 from 27 January, 2015 early terminated the powers of the members of the Board of Directors Smagulov Bolat Sovetovich, Rakishev Kenes Khamitovich.

2. By the Decision of the Board of Directors of «NC «Kazakhstan Engineering», JSC of January 29, 2015 (Minutes No. 1) approved a new organizational structure of «NC «Kazakhstan Engineering», JSC with the standard number of 69 people. By the same decision approved the new composition of the Executive Board of «NC «Kazakhstan Engineering». Under the new structure, the members of the Executive Board are Deputy Chairman of the Executive Board re-elected Bizhanov Dimash Nurahmetovich, Idrisov Yerlan Sapargalievich and Mynsharipova Saya Naymanbaykyzy for a period of 3 years. Also, under the same decision, members of the Board of Directors of «NC «Kazakhstan Engineering», JSC Kapakov Aibek Amirbekovich, Muratov Yerlan Muratovich were released from their positions of Deputy Chairmen of the Board of «NC «Kazakhstan Engineering», JSC.

3. By the Decision of the Board of Directors of «NC «Kazakhstan Engineering», JSC dated February 25, 2015 (Minutes No. 2) Idrisov Yerlan Sapargalievich appointed as the Chairman of the Executive Board of «NC «Kazakhstan Engineering», JSC. By the same decision the Board of Directors of «NC «Kazakhstan Engineering», JSC Sultanbekov Kanat Tanatarovich is appointed Deputy Chairman of the Executive Board of «NC «Kazakhstan Engineering», JSC for the period until the expiration of the term of office of the Executive Board of «NC «Kazakhstan Engineering», JSC in general.

4. By the Order of the Minister of Defense of the Republic of Kazakhstan dated April 3, 2015 No. 172 Idrisov Yerlan Sapargalievich is elected a member of the Board of Directors of «NC «Kazakhstan Engineering», JSC for the period until the expiration of the term of office of the Board of Directors of «NC «Kazakhstan Engineering», JSC in general.

5. On May 21, 2015 between «NC «Kazakhstan Engineering», JSC and the company Rheinmetall Eastern GmbH signed a Cooperation Agreement in which the parties expressed their intention to establish in the Republic of Kazakhstan a joint venture for the production of defense products with using existing projects and technologies of Rheinmetall company, for the needs of the Armed Forces and other security agencies of the Republic of Kazakhstan, as well as export-oriented.

6. By the Order of the Minister of Defense of the Republic of Kazakhstan dated May 29, 2015 No. 285 Abduov Nurlan Kanatovich is elected a member of the Board of Directors of «NC «Kazakhstan Engineering», JSC, an independent director for a term until the expiration the term of office of the Board of Directors of «NC «Kazakhstan Engineering», JSC in general.

7. By the Decision of the Board of Directors of «NC «Kazakhstan Engineering», JSC dated 30 June 2015 (Minutes No. 6) the organizational structure with the standard number of 87 people is approved. By the same decision of the Board of Directors of «NC «Kazakhstan Engineering», JSC put on the loss of the organizational structure of the Company, approved by the Decision of the Board of Directors of «NC «Kazakhstan Engineering», JSC dated March 31, 2015 (Minutes No. 3).

8. On August 19, 2015 signed an agreement on long-term cooperation between «NC «Kazakhstan Engineering», JSC and «Uralvagonzavod named after F.E. Dzerzhinsky" SRC JSC (Russia).

9. On August 20, 2015 signed an agreement on cooperation between «NC «Kazakhstan Engineering», JSC and «Beltechexport», CJSC (Republic of Belarus).

10. On August 25, 2015 signed an agreement on long-term cooperation between «NC «Kazakhstan Engineering» JSC, and «SKTB «Granite» LLP, «Concern PVO “Almaz-Antey», OJSC (Russia).

11. By the Order of the Minister of Defense of the Republic of Kazakhstan dated September 18, 2015 No. 538 early terminated powers of the office of the Board of Directors of «NC «Kazakhstan Engineering», JSC, of independent directors Mahat Rashit Mukaramuly (1, July 2015) and Abduov Nurlan Kanatovich (29 July 2015), and elected as members of the Board of Directors of «NC «Kazakhstan engineering», JSC, of independent directors Issenzhulov Yerzhan Bahytovich, Larionov Dmitry Vladimirovich up to the expiry of the office of the Board of Directors of «NC «Kazakhstan engineering», JSC in general.

12. On October 26, 2015 signed a Memorandum on the establishment of a joint venture between «NC «Kazakhstan Engineering», JSC and the company Rheinmetall Eastern GmbH.

13. On October 30, 2015 established a joint venture company with the Turkish company manufacturing electronic devices of night vision Aselsan, «Kazakhstan Aselsan Engineering», LLP was awarded a diploma in the nomination «the Leader of Innovation» within the VI International investment forum - Astana Invest 2015.

14. By the Decision of the Board of Directors of «NC «Kazakhstan Engineering», JSC dated November 27, 2015 (Minutes No. 9), a member of the Executive Board of «NC «Kazakhstan Engineering», JSC Bergenev Adylgazy Sadvokasovich was appointed as a chief of staff of «NC «Kazakhstan Engineering», JSC.

15. On November 28, 2015 the Chairman of the Executive Board of «NC «Kazakhstan Engineering», JSC, Idrissov Yerlan had met with the CEO of Design Bureau named after King Abdullah II (hereinafter - KADDB) Mohammed M. Al-Habhba. The parties have signed a memorandum of understanding. The document provides for the supply of 50 units of armored wheeled vehicles to KADDB, which will be produced at the plant «Kazakhstan Engineering Paramount», LLP in Astana. At the end of the meeting the Chairman of the Executive Board of «NC «Kazakhstan Engineering», JSC Idrissov Yerlan invited Jordanian colleagues to take part in the IV International Exhibition of Arms and Military Equipment KADDEX 2016.

16. On November 30, 2015 in Astana, the President Nursultan Nazarbayev inaugurated a plant for the production of armored wheeled vehicles, launched a joint venture «Kazakhstan Engineering Paramount”, LLP.

17. On December 3, 2015 the Chairman of the Executive Board of «NC «Kazakhstan Engineering», JSC Idrissov Yerlan and the president of «Rosatom - International Network»(RIN) Alexander Merten have signed a Memorandum of Understanding on strategic cooperation.

18. On December 11, 2015 the Company’s subsidiary «Petropavlovsk Heavy Engineering Plant», LLP was awarded the Prize of the President of the Republic of Kazakhstan «Altyn Sapa»(Golden Quality) as the best company for production purposes in the category of large enterprises.

19. Throughout 2015 twelve employees of the Group of companies were awarded the Jubilee Medal in honor of the 20th anniversary of the Constitution, twenty more – with a sign of «Kurmetty machina zhassaushy” (Honorary machine constructor) thirty more – with certificates of the Minister of Defense and the Chairman of the Executive Board of «National Welfare Fund «Samruk-Kazyna». Also, for the celebration of Independence Day of the Republic of Kazakhstan the state awards were awarded for eight representatives of the Company, including the Order «Kurmet»(Honor) – three, with the medal «Yeren yenbegi ushin» (For exceptional labor capacities) - two, Certificate of Merit of the Republic of Kazakhstan - two.

The list and information about subsidiary and affiliated organizations of the Company

The group of Companies includes 27 companies that produce products and provide services for oil and gas, railway, energy, agricultural engineering, military-industrial complex, as well as in the field of electronic communications.

Due to the transfer of shares in trust management of the Ministry of Defense of the Republic of Kazakhstan, the Company actually became the main executor of the state defense order, which made it possible to increase the load of the defense enterprises of the Group of Companies.

The name of the organization	Types of activities
Subsidiary organizations (more than 50% owned shares/stocks of participation)	
JSC «811 Automotive equipment maintenance plant KE»	Repair of freight car and tracked vehicles, engines and components, modernization and re-equipment of motor vehicles.
JSC «832 Automotive equipment maintenance plant KE»	Repair of automobile equipment.
JSC «Plant named after S.M. Kirov»	Production and maintenance of navigation systems, control panels for the railway industry; control units and automated systems for the oil and gas industry, etc.
JSC «KazEng Electronics»	Modernization and repair of weapons, dual-use goods, the production of modern means of communication and electronics manufacturing, assembly production of computer equipment.
JSC «Machine factory named after S.M. Kirov»	Production and service of marine underwater weapons and articles of hydraulics and automation of burning marine vessels; Buster for the mining industry; spare parts for the railroad industry.
JSC «Munaymash»	Sucker rod pumps for the oil and gas sector; common consumption goods.
JSC «SRI «Gidropribor»	Design and research works, as well as the production of sea and river autoboots, boats and underwater vehicles, ground and aerial robots, equipment for underwater inspection and repair of pipelines and subsea facilities.

JSC «Petrovavlovsk plant of heavy engineering»	Production of equipment for drilling and workover equipment for refineries and petrochemical plants, track tools and mechanization tools for repair and maintenance of railways.
JSC «Instrument engineering plant «Omega»	Production of facilities for water purification products for the railway industry; Digital PBX and components, telephones; consumer goods and others.
JSC «Semey Engineering »	Repair of weapons and military equipment; Repair of engines of various modifications.
JSC «Semipalatinsk engineering plant»	Manufacturing crawler transporter-tractor on the chassis of the GT-T, its modifications and production of spare parts; products for the railway industry.
JSC «Tynys»	Production of aeronautical products, fire-fighting equipment, medical equipment, production of polyethylene pipes, protective equipment for law enforcement agencies.
JSC «Ural plant «Zenith»	Manufacture and repair of boats and ships; design and manufacture of steel structures, spare parts, etc. for oil and gas industry.
LLP «Aviation industry of Kazakhstan»	Production and maintenance of aircraft equipment.
LLP «SRI «Kazakhstan Engineering»	The design of new types of special products for enterprises of military-industrial complex.

Jointly controlled organizations (50% owned of the shares the participation)

LLP «Eurocopter Kazakhstan Engineering »	Production and maintenance of helicopters.
LLP «Kazakhstan Aselsan Engineering»	Production of optoelectronic instruments.



LLP «Thales Kazakhstan Engineering»	Production and maintenance of electronic equipment, systems and software; manufacture and maintenance of radio communication equipment for the defense market.
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Affiliated organizations (less than 50% owned shares/stocks of participation)

LLP «Kazakhstan Engineering Distribution»	Realization of production of enterprises of the Group of Companies, investment attraction, participation in state programs and tenders for the equipment supply.
JSC «ZIKSTO»	Repair of freight cars, repair of wheel pairs with the change of the elements.
JSC «KAMAZ-Engineering»	Production and maintenance of buses, cars, machinery and spare parts to them.
LLP «Indra Kazakhstan Engineering»	Production and maintenance of radars, electronic warfare systems and radio electronic intelligence.
LLP «Kaz-ST Engineering Bastau»	Provision of engineering services (joint venture with Singapore Technologies Engineering).
LLP «Kamaz Semey»	Production of automatic vehicle equipment.
LLP «Specmash Astana»	Manufacture and repair of parts of spare parts for railway, oil and gas and energy industries.

Organizations, where the Company owns less than 10% of the stocks

JSC «Aircraft Repair Plant No.405»	Technical maintenance and repair of aircrafts and helicopters.
JSC «Aircraft Repair Plant No. 406GA»	Technical maintenance and repair of aircrafts and helicopters.

ASSET STRUCTURE OF “NC “KAZAKHSTAN ENGINEERING”, JSC



Privatization program

Pursuant to the Resolution of the Government of the Republic of Kazakhstan dated March 31, 2014 No. 280 «On some issues of privatization» (hereinafter - the Decree No. 280), the decision of the Executive Board of «Samruk-Kazyna» dated July 24, 2014 No.34/14 (hereinafter - the Fund's decision) The Board of Directors of «NC «Kazakhstan engineering», JSC (hereinafter - the Company) has approved (minutes No.6 dated 30 June 2015) the assets restructuring plan of the Company in 2015-2016.

Throughout 2015 the Company's assets, to be implemented in accordance with the Resolution No. 280, and Decision of the Fund put up for auction on the web portal of the State Property Registry of the Ministry of Finance of the Republic of Kazakhstan of the electronic auction process both English and Dutch auction methods. In addition, each asset is put up for auction at least two times, and some have been exposed five times.

However, all bids were declared not valid due to the lack of a sufficient number of bidders.

In the fourth quarter of 2015 the Company together with JSC «Samruk-Kazyna» has established a new list of the Company's assets to be transferred to the competitive environment. The list was included in the decree of the Republic of Kazakhstan dated December 30, 2015 No. 1141 «On some issues of privatization in 2016- 2020» (hereinafter - the Decree No. 1141).

Throughout 2016-2017 it is planned realization, liquidation and reorganization of 17 subsidiaries, affiliated companies and grandchild Companies included in Decree No. 1141 and on January 20, 2016 No. 02/16, as well as the implementation of additional specific decision of the Board of «Samruk-Kazyna» 4 assets of the Company in accordance with the restructuring plan assets of the Company for 2016, approved by the decision of the Company's Board of Directors on January 29, 2016 (minutes No. 1).

Transformation program

The transformation Program is a program of large-scale transformation of «Samruk-Kazyna», JSC and the activities of controlled portfolio companies. Transformation program of «Samruk-Kazyna» has been approved by the Board of Directors of «Samruk-Kazyna» dated September 17, 2014 (Minutes No. 113).

The program covers three areas:

- increasing the value of portfolio companies;
- Changes in the portfolio structure and approach to the management of the Fund's investment activities;
- Redistribution of powers and responsibilities in the system of management of the Fund and its portfolio companies.

As it is known, the transformation of the Group of Companies of «Samruk-Kazyna» will be held at the world's best practice on the basis of «People, Processes, Technology» principles. The work of all the companies in these areas is planned to build vertically using a unified methodology, developed by the Fund.

However, the decision of the Board of the Fund dated December 9, 2014 (minutes No. 55/14) approved the road map for the transformation of «NC «Kazakhstan Engineering», JSC (hereinafter - the Road Map). The road map, which consists of several stages, provides for the implementation of a number of activities.

Throughout 2015 over the implementation of the transformation program of the Fund and the

fulfillment of the Roadmap, the Company carries out the following activities:

Over "People" principle:

- The Company has implemented a competitive selection in hiring at managerial and administrative positions. At the same time, it introduced a system of non-material stimulation of workers in the framework of the Company entered into a contract with PI «Corporate University» Samruk-Kazyna» to provide services for the development of test questions and conduct testing. Similar rules are established in all the subsidiaries of «NC «Kazakhstan Engineering», JSC. Vacancy announcements are posted on the official websites of the Company and its subsidiaries, as well as at the unified portal of the Fund;

- By the Order of the Chairman of the Executive Board of «NC «Kazakhstan Engineering», JSC dated May 21, 2015 No. 29 persons responsible for the implementation of the Roadmap were assigned;

- By the decision of the Executive Board of the Company on August 19, 2015 the rules of internal communication between the employer and employees of the Company are approved, as well as the procedure for interaction on issues of activity of the Company's representatives on the Boards of directors and Supervisory Boards of subsidiaries of the Company;

- On October 5, 2015 Abdrakhmanova Zhanargul Ondasynovna appointed as general manager of transformation services, in charge for the implementation of the Company's processes and technologies in terms of IT;

- From 18 to 20 November 2015 the Deputy Chairmen of the Executive Board were trained in PI «Corporate University of «Samruk-Kazyna» on the program «Leader in the transformation" - module No. 1;

- The company is also currently implementing a project job evaluation of «Hay Group», according to which the determined value of posts for the establishment of an effective remuneration system and increase employee motivation. At the same time, the composition of the evaluation committee of the Company is identified (by the order dated December 7, 2015 No. 78);

- By the Decision of the Executive Board dated 15 December 2015 (Minutes No. 54/15) the talent management rules of «NC» Kazakhstan Engineering", JSC are approved;

- By the Decision of the Executive Board dated 24 December 2015 (Minutes No. 56/15) the list of candidates in the top 25 effective employees of «NC «Kazakhstan Engineering», JSC is approved.

Over "Processes" and "Technologies" principles:

- Carried out the preparation and mobilization of IT infrastructure in the Company's subsidiaries and affiliates;

- Held diagnostics of IT processes and information security in subsidiaries;

- Carried out on the basis of ERP implementation «1C Enterprise» and PLM systems in three subsidiaries and affiliates of the Company as part of the pilot project;

- Held development positions and responsibilities of «Local transformation team»;

- Carried out a phased plan to develop in the 2016-2017 to introduce automation of the enterprises using ERP based on «1C Enterprise» and PLM systems;

- Carried out the implementation of information security management systems based on ST RK ISO / IEC 27001, together with IT Service.

Investment activity of the Company

In accordance with the Company's investment policy, the purpose of the investment activity of the Company is to maximize shareholder value in the long term period.

Investment Policy main principles are as follows:

- Integration of strategic objectives in the investment decision-making process.
- Use of investment evaluation tools when making investment decisions.
- Use tools and project management procedures for investment management.
- The balance of budgetary control and the degree of management freedom for leaders responsible for the result of the investment activities of the Company.
- Mandatory monitoring, evaluation and analysis of investment performance.

In 2015, the Company continued to implement investment projects:

1. «Creation of Aviation Technical Centre in Astana»;
2. «Organization of production of military and civil engineering in the Republic of Kazakhstan»;
3. «Creation of assembly of MAZ production»;
4. «Establishment of a center for the production of electrooptical devices at the territory of the Republic of Kazakhstan»;
5. «Development of Maritime shipbuilding based on «Ural «Zenith» Plant", JSC for the development of the release of a new class of vessels to a dry weight of 600 tons, and other large products».

The above-mentioned investment projects aimed for achieving the objectives of the production and sales of the Company's defense, civilian as part of import substitution, to ensure domestic demand and output for export:

1) The project «Creation of Aviation Technical Centre in Astana» is aimed at the creation in Kazakhstan of a specialized aviation enterprises engaged in servicing, overhaul and repair of aviation equipment in Kazakhstan. Currently, all these activities are conducted in enterprises of the neighboring countries (Russia, Belarus, Ukraine);

2) The project «Organization of production of military and civil engineering in the Republic of Kazakhstan» is aimed at the production of armored wheeled vehicles and armored personnel carriers. It should be noted that on November 30 in Astana the President of Kazakhstan - Supreme Commander of the Armed Forces Nursultan Nazarbayev inaugurated a plant for the production of armored wheeled vehicles, including: Arlan, Barys, launched a joint venture «Kazakhstan Paramount Engineering», LLP;

3) The project «Creation of assembly of MAZ production» is aimed at ensuring the needs of the domestic market of the country in «MAZ» model trucks. When the designed capacity of the production volumes will amount to 440 units of motor vehicles and 1,000 trailers per year;

4) The project «Establishment of a center for the production of electrooptical devices at the territory of the Republic of Kazakhstan» is aimed at meeting the needs of the defense industry of the RK in the electro-optical device by creating a local process of production as part of the strategy to increase Kazakhstani content of goods and services in the domestic market of Kazakhstan;

5) The project «Development of Maritime shipbuilding based on «Ural «Zenith» Plant", JSC for the development of the release of a new class of vessels to a dry weight of 600 tons, and other large products» is aimed at meeting the Kazakhstan defense industry needs in the vessels of a new class of dry weight up to 600 tons, and other large products.

The Company looks forward the possibility of realization of the following investment projects:

- 1) Organization of foundry engineering on investment patterns.
- 2) Production of composite armor plates of «Tynys», JSC.
- 3) Modernization of blank production of «Ural plant Zenith», JSC.
- 4) Modernization of productions of «Plant named after S.M. Kirov», JSC.
- 5) Modernization of «Petropavlovsk Plant of heavy engineering», JSC.

Separate investment projects are the strategic ones and aimed for development of military-productive complex of the Republic of Kazakhstan in accordance with the program of technological modernization of the Armed Forces.

The investments to the investment project from the Kazakhstan's side to be done by the Company by means of Republican budget, «Samruk-Kazyna», JSC, owned means, by means of involved loans (bonded programs).



KAZAKHSTAN ENGINEERING
NATIONAL COMPANY

“NC “Kazakhstan engineering”, JSC Annual report for 2015

CORPORATE MANAGEMENT

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- Description of the corporate management system of the Company
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- Membership, short biographies of the members of the Board of Directors of the Company
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- Membership, short biographies of the members of the Executive Board of the Company
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- Major factors of the risk and the risk management system of the Company



Structure of corporate management of the Company

The executive establishment of the Company includes:

Sole Shareholder is the highest establishment of the Company.

Board of Directors is the management body responsible for developing the Company's strategy, general management of its activity and control over the activities of the Executive Board.

The Executive Board is a collegial executive body, managing the current activities of the Company and implementing the strategy defined by the Board of Directors.

Internal Audit service is the body responsible for evaluation in the field of internal control, risk management, evaluation of reliability, completeness, objectivity of the accounting system and the reliability of financial statements, execution of documents in the field of corporate management and counseling in order to improve the Company's operations.

Enforcement authorities and officials of the Company's procedures aimed at ensuring the rights and interests of the Sole Shareholder, as well as at following the Company's standards of legislation in the field of corporate management provisions of the Charter and other internal documents of the Company rest with the Corporate Secretary of the Board of Directors of the Company (hereinafter - the Corporate Secretary).

The Corporate Secretary facilitates the efficient exchange of information between the Company's bodies and serves as an adviser to the members of the Board of Directors and the Executive Board on all management issues of the Company.

The division of responsibilities between the bodies of the Company, in accordance with the Charter of the Company, is set out clearly and guarantees the interests of the Sole Shareholder. The bodies of the Company have the authority and resources to fulfill their obligations in a professional way.

The relationship between the Company and subsidiaries and affiliated organizations are carried out within the approved corporate procedures through the relevant bodies of the Company and its subsidiaries and affiliates. Informal address of the workers of the Company to the subsidiaries and affiliated companies outside the approved corporate procedures is forbidden.

Description of the corporate management system of the Company

Under the corporate management of the Company it is understood a set of processes that provide management and control over the activities of the Company, including the relationship between the Sole Shareholder, trustee, represented by the Ministry of Defense of the Republic of Kazakhstan, the Board of Directors, the Executive Board and interested parties in the interests of the Sole Shareholder, the Company and its subsidiaries and affiliates.

The rights of the sole shareholder and the procedure for disposition of property rights are enshrined in the Charter of the Company.

The Sole Shareholder of the Company has a positive impact on the corporate management practices, as it stimulates the development and adoption of key internal regulatory documents in the area of corporate management; it provides methodological assistance to stimulate the organization of effective corporate management processes.

The company is considering the development of corporate management as a means to improve the effectiveness of the Company, its cost, reputation, reducing the cost of capital.

On an annual basis, over the instructions of the Fund corporate management diagnostics is held for the Company. The Company in accordance with the Methodology for the diagnosis of corporate management is in the Fund's group of companies. According to the results of corporate management diagnostics of the Company, in order to further improve the Company's corporate management system and the implementation of the recommendations to address identified inconsistencies, the decision of the Company's Board of Directors approves a plan of measures to improve the corporate management system for the upcoming year. At the results of the year the Company makes a report to the Board of Directors on the implementation of measures in accordance with the Action Plan.

The principle and the report on corporate management of the Company

The company is guided by the Corporate Management Code, approved by the decision of the Executive Board of «Samruk-Kazyna» dated May 27, 2015 (Minutes No. 22/15) to organize corporate management to ensure transparency and confirm the readiness of the Company to follow the standards of good corporate management.

In 2015, the company «PricewaterhouseCoopers», LLP (hereinafter - PwC) in accordance with the Methodology for the diagnosis of corporate management in the Group of Companies of «Samruk-Kazyna» has held diagnostics of corporate management system.

We investigated the events and materials in 2014 and the 1st half of 2015, conducted interviews with members of the Board of Directors, the Executive Board and management of the Company. According to the results of diagnosis, compliance with corporate management requirements of international best practice was on 71%. Compared with the previous year the Company's corporate governance has increased by 3.2 percentage points.

In the future, the Company's task is to implement the recommendations made in the course of diagnosis of corporate management done by PwC company, for the purpose of which will be approved the action plan for improving the Company's corporate management system for 2016-2017.

The core principles of the Code are as follows:

1. Sustainable development principle

The Company has approved the Code of Business Conduct and Ethics (the Company's Board of Directors decision dated May 31, 2013 Minutes No. 5), which applies to all employees and officials, including members of the Board of Directors. In the process of implementing the Code of Conduct, all employees of the Company were introduced to him by hand. Explanation of the document re-enrolled employees conducted in hiring.

In accordance with the Code of Corporate Management and Business Ethics All employees of the Company and public officials should behave so as to avoid a situation in which they may experience a conflict of interest, nor in respect of themselves (or persons related to them), nor in relation to others. The policy in the field of regulation of social and labor relations is aimed at creating favorable conditions of work, improving the quality of life of workers, raising their level of qualification. Maps purposes of administrative staff, as well as maps of key indicators of leadership and management employees shall be approved annually. As the part of the staff recruitment system is held an open competition for the

vacant positions.

The company is committed to uphold the principles of maximum respect for the environment and sustainable use of natural resources contributed to the prevention of negative impacts on the environment, taken initiatives aimed at increasing responsibility for the environment. It contributes to the development and diffusion of environmentally friendly and energy-saving technologies. The Company and subsidiaries has an extensive occupational health and safety. The subsidiaries implemented a quality system OHSAS.

In order to exercise its rights as a shareholder / parent company it carries out relations with subsidiaries and affiliated companies in accordance with the requirements of the Legislation, Charter, Corporate Management Code and internal documents of the Company, charters of subsidiaries and affiliates.

2. The principle of maintaining the shareholders' (participants') rights and just relation to the shareholders (participants)

The fund has a positive effect on the Company's corporate management practices, as it stimulates the development and adoption of key internal regulatory documents in the field of corporate management, provides methodological assistance to stimulate the organization of effective corporate management processes.

The company provides the effective participation of the Fund and the trustee in making key corporate decisions such as the appointment and election of the members of the Executive Board.

Rights of the Sole Shareholder and the procedure for disposition of property rights are enshrined in the Charter of the Company.

Dividends payment is regulated by the Dividend Policy of the Company (Minutes of the Executive Board of the Fund No.39/12 dated 02.10.2012). Dividend policy contains principles that determine the order and timing of payment of dividends.

3. The principle of effectiveness of the Board of Directors and the Executive body

Activities of the Board of Directors of the Company are regulated by the legislation of the Republic of Kazakhstan, the Company Charter, the Corporate Management Code, and Regulations on the Board of Directors.

The Company Charter defines the criteria to be met by members of the Board of Directors, including by the independent directors of the Board of Directors of the Company. In addition, the requirements for the members of the Board of Directors are defined in the Law of the Republic of Kazakhstan «On Joint Stock Companies» and the Rules of the selection of independent directors of the companies of «Samruk-Kazyna». There are of the Audit Committees of the Board of Directors, the Remuneration and Nomination, Strategy and Investment functioning.

In accordance with international best practice, the Chairmen of Committees of the Board of Directors are elected out of the independent directors.

The Board of the Company, as the Company's collegial executive body, carries out the decisions of the Sole Shareholder and the Company's Board of Directors is accountable to the Board of Directors and is responsible to it for the performance of the assigned duties.

The rights and obligations of the members of the Executive Board are determined by the Company's Charter, Corporate Management Code and the Regulations on the Executive Board, the employment contract. The Executive Board Regulations regulate the organizational and legal bases of activity of the Executive Board, its competence, responsibility, order of formation, work order, the order of registration decisions and minutes of the meetings, the responsibility of the Executive Board. The Board carries

out operational management of the Company and takes decisions on the activities of the Company which are not within the competence of other bodies and officers of the Company. It executes timely and efficiently the decisions of the Sole Shareholder and the Board of Directors. The meetings of the Executive Board are held at least once a week.

The majority of the Board of Directors and the Management Board of the Company are in full-time under the work plan of the Company Board and the Board of Directors, respectively, are in active discussions, decisions are made by high quality and timely, the Company and the Company's Board of Directors The Board of Directors actively participate in risk management and other issues in accordance with the their competencies.

4. The principle of risk management, internal control and audit

The Company has established a system of internal control, risk management as follows: Provisions of internal control are implemented, the risk management policy, rules of identification and risk assessment, management rules on separate risks. The mentioned above documents defined levels of management, the competence of the Company's Board of Directors, the Executive Board, Internal Audit Service of the Company, risk owners - the structural units of the Company.

The company also introduced rules of risk assessment for investment projects, the Methodology of realized risk registration, being the risk base, formed division of risk management and internal control on an ongoing basis function the Risk Committee under the Executive Board of the Company.

The Company on an annual basis is revised at the Register of risks, risk owners are defined, and measures are aimed at reduction or risk management, implementing measures, deadlines and cost measures. In the event of significant changes in external or internal conditions, the risk Register is subject to updating throughout the year. Also, on an annual basis the Action Plan for the improvement of the internal control system is formed.

The Company on a quarterly basis informs the Board of Directors on the system of risk management in the Company. The Audit Committee of the Board of Directors considers and makes recommendations to the Board of Directors on all matters of internal control and risk management.

The decision of the Executive Board of the Company dated May 11, 2007 established the internal audit service of the Company Directors, whose main goal is to provide the Audit Committee of the Board of Directors of the Company and the Board of Directors with independent and objective information to ensure effective management of the Company, by assessing the internal control, risk management and corporate management.

5. The principle of transparency

In accordance with the principle the timely disclosure of the information is done on the Company's activity, including on its financial condition, economic figures, results of its activities, the structure of property and management at the corporate portal of the Company, and also at the Annual reports of the Company.



KAZAKHSTAN ENGINEERING
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Membership, short biographies of the members of the Board of Directors of the Company



MEMBERSHIP, SHORT BIOGRAPHIES OF THE MEMBERS OF THE BOARD OF DIRECTORS OF THE COMPANY

The members of the Board of Directors of the Company in 2015 were the following:

SAURANBAYEV Nurlan Yermekovich	- member of the Board of Directors since 10.09.2014 r.; - chairman of the Board of Directors since 27.01.2015 r.
RAU Albert Pavlovich	member of the Board of Directors since 10.06.2010.
SALINGEREEV Malik Zhanabayevich	member of the Board of Directors since 3.03.2012
AUBAKIROV Serik Gabdullovich	member of the Board of Directors 4.12.2013 — 22.10.2015
SMAGULOV Bolat Sovetovich	member of the Board of Directors 5.10.2010 — 27.01.2015
BAYSSEITOV Bahytbek Rymbekovich	member of the Board of Directors, independent director since 13.03.2014
RAKISHEV Kenes Khamitul	member of the Board of Directors, independent director 13.03.2014 — 27.01.2015
MUKHAT Rashit Mukaramuly	member of the Board of Directors, independent director 13.03.2014 — 1.07.2015
ABDUOV Nurlan Kanatovich	member of the Board of Directors, independent director 29.05.2015 — 29.07.2015
ISSEZHULOV Yerzhan Bahytovich	member of the Board of Directors, independent director since 18.09.2015
LARIONOV Dmitry Vladimirovich	member of the Board of Directors, independent director since 18.09.2015
IDRISSOV Yerlan Sapargaliyevich	member of the Board of Directors since 3.04.2015

As of December 31 2015 the membership of the Board of Directors consists of 7 members, including 3 independent directors.



SAURANBAYEV NURLAN YERMEKOVICH

Chairman of the Board of Directors;

- Deputy Minister of Defense of the Republic of Kazakhstan (since 14.08.2014);
 - Vice-Minister of Industry and New Technologies of the Republic of Kazakhstan (18.05.2011 - 08.13.2014);
 - Managing Director of «Samruk-Kazyna», JSC (17.01.2011 - 17.05.2011)
 - Managing Director of «NC «KazMunayGas», JSC (22.07.2009 - 24.06.2010).
- Information on membership in the Board of Directors:
from 2008 to 2010 - Member of the Board of Directors of «KazTransOil», JSC;
2010 - 2011. - Member of the Board of Directors of «NC «KazMunayGas», JSC.
Year of birth - 1967
Higher education.
Does not own any shares of suppliers and competitors of the Company.



RAU ALBERT PAVLOVICH

Member of the Board of Directors;

- Vice-Minister of Investment and Development of the Republic of Kazakhstan (since 08.13.2014);
 - First Vice-Minister of Industry and New Technologies of the Republic of Kazakhstan (2010-2014);
 - Governor of Akmola region (2008-2010).
- Year of birth - 1960
Higher education.
Does not own any shares of suppliers and competitors of the Company.



SALIMGEREEV MALIK ZHANABAYEVICH

Member of the Board of Directors, the representative of the Board of Directors of «Samruk-Kazyna», JSC;

- Chief Asset Management officer at «Samruk-Kazyna», JSC since 2014;
- Managing Director at «Samruk-Kazyna», JSC (2012-2014);
- Director of oil and gas assets management at «Samruk-Kazyna», JSC (2010-2012);
- Director of Oil Industry Development at MEMR (2007-2010).

Year of birth - 1960

Higher education, candidate of geological-mineralogical sciences.

Does not own any shares of suppliers and competitors of the Company.



BAYSSEITOV BAHYTBEK RYMBEKOVICH

Member of the Board of Directors, independent director;

- Chairman of the Supervisory Board BRB Invest Group (since 2013);
- Vice-Chairman of Pearl Oriental Oil Limited (since 2011);
- Member of the Board of Directors at the Corporation «Yak-Alacón» (Since 2003);
- Chairman of the Board of Directors at «BCC Invest», JSC (Since 1999);
- Chairman of the Board of Directors at JSC «Bank CenterCredit» (Since 1997).

Year of birth - 1958

Higher education.

Does not own any shares of suppliers and competitors of the Company.



ISSENZHULOV YERZHAN BAHYTOVICH

Member of the Board of Directors, independent director;

- Deputy General Director for Commerce at «Ontustik Munay», LLP (since 2010);
- Vice-President for Commerce at ORIENT Energy - partner British Petroleum; (2006-2009).
- Deputy Head of «British Petroleum» International trading representative (2005-2006);
- Deputy Director for Commerce at «KazMunayGas», LLP - Alatau «(2004-2005).

Year of birth - 1968

Higher education.

Does not own any shares of suppliers and competitors of the Company.



LARIONOV DMITRY VLADIMIROVICH

Member of the Board of Directors, independent director;

- Member of the Advisory Body on accounting and auditing of the Ministry of Finance of the Republic of Kazakhstan (2009);
- Lecturer at KIMEP IPBA Kazakhstan (since 2009);
- Partner in the «BDO Kazakhstanaudit», LLP; (2005-2015).
- World Bank Consultant (2005, 2012.);
- Member of the Committee for Developing Nations of the International Federation of Accountants; (2008-2010).
- Deputy Chairman, member of the Board at PHB «The Chamber of Professional Accountants of the Republic of Kazakhstan» (2003-2010).

Information about membership in the Board of Directors:

since 2013 until now - JSC «National Company» Astana EXPO 2017 «, independent director;

since 2008 until now - JSC «Air Astana», independent director;

since 2015 to 2008. - «Kazakhtelecom» JSC, Independent Director.

Year of birth - 1973

Higher education.

Does not own any shares of suppliers and competitors of the Company.



IDRISSOV YERLAN SAPARGALIYEVICH

Member of the Board of Directors;

- Chairman of the Board of «NC «Kazakhstan Engineering», JSC (since 26.02.2015);
- Deputy Chairman of the Board of «NC «Kazakhstan Engineering», JSC (29.08.2014 – 25.02.2015);
- Managing Director of «NC «Kazakhstan Engineering», JSC (29.06.2010 - 29.08.2014);
- Vice-President, Member of the Board of «NC «Kazakhstan Engineering», JSC (16.02.2010 - 29.06.2010);
- Director of Technical Policy Department and innovation of «NC «Kazakhstan Engineering», JSC (01.06.2005 - 16.02.2010).

Year of birth - 1977

Higher education.

Does not own any shares of suppliers and competitors of the Company.

By the Order of the Minister of Defense of the Republic of Kazakhstan No. 39 dated January 27, 2015 starting from January 27, 2015 early terminated powers of the members of the Board of Directors Smagulov Bolat Sovetovich, Rakishev Kenes Khamitovich. Also, in accordance with paragraph 2 of the Order Sauranbayev Nurlan Yermekovich elected as a Chairman of the Board of Directors.

By the Order of the Minister of Defense of the Republic of Kazakhstan No. 285 dated May 29, 2015 Abduov Nurlan Kanatovich elected a member of the Board of Directors - Independent Director of the Company.

By the Order of the Minister of Defense of the Republic of Kazakhstan No. 172 dated April 3, 2015 Idrissof Yerlan Sapargaliyevich elected a member of the Board of Directors.

By the Order of the Minister of Defense of the Republic of Kazakhstan No. 538 dated September 18, 2015 early terminated powers of the Board of Directors - Independent Directors Mahat Rashit Mukaramuly (1 July 2015) and Abduov Nurlan Kanatovich (29 July 2015). Also, in accordance with paragraph 2 of the order of the Board of Directors member - independent directors are elected Issenzhulov Yerzhan Bahytovich and Larionov Dmitry Vladimirovich.

By the Order of the Minister of Defense of the Republic of Kazakhstan No. 50 dated January 29, 2016 early terminated powers of the Board of Directors member Aubakirov Serik Abdullulovich (October 22, 2015).

The independent directors of the Board of Directors elected in accordance with the rules of selection of independent directors of the companies of «Samruk-Kazyna», approved by the decision of the Board of «Samruk-Kazyna», JSC No. 36/10 dated June 8, 2010.



Report on the activity of the Board of Directors of the Company

In 2015 there 10 meetings of the Board of Directors of the Company had taken place, among them meetings in presentia — 9, in absentia — 1. The members of the Board of Directors have considered 102 issues.

Table of participation at the meetings of the Board of Directors of the Company in 2015

Full-name, position	Participation at the meetings of the Board of Directors (%)
SAURANBAYEV Nurlan Yermekovich, Chairman of the BoD	100
RAU Albert Pavlovich, Member of BoD	40
SALIMGEREEV Malik Zhanabayevich, Member of BoD	100
AUBAKIROV Serik Gabdullovich, Member of BoD	80
BAYSSEITOV Bahytbek Rymbekovich, Member of BoD, independent director	80
MAHAT Rashit Mukaramuly, Member of BoD, independent director	100
ABDUOV Nurlan Kanatovich, Member of BoD, independent director	100
ISSENZHULOV Yerzhan Bahytovich, Member of BoD, independent director	100
LARIONOV Dmitry Vladimirovich, Member of BoD, independent director	100
IDRISSOV Yerlan Sapargalievich, Member of BoD	100

Key issues of the Board of Directors, considered in 2015

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

- forming of the personal composition of the Executive Board;*
- approving of the organizational structure;*
- making of major transactions and of transactions with related parties;*
- providing of sponsorship and charity;*
- approving the Company's organizational structure;*
- reporting on the review of the Internal Audit Service of the Company;*
- approving by the Company's risk reporting on a consolidated basis;*
- approving of the action plan for the restructuring of assets;*
- on early terminating of office of the Corporate Secretary and appointing of a new Corporate Secretary;*
- preliminary approving of the Company's annual report for 2014;*
- preliminary approving of the annual financial statements of «NC «Kazakhstan Engineering», JSC (consolidated and separate) in 2014, the proposal of net income allocation, the decision to pay dividends on ordinary shares and approving of dividend size per common share;*
- on early terminating of powers of members and election of new members of the Board of Directors of subsidiaries of the Company, as well as the definition of a term, the size, conditions, remuneration and reimbursement of expenses for the execution of the duties of newly appointed members of the Board of Directors;*
- on Amendments and Additions to the Corporate accounting policy of the Company;*
- considering of the report on the activities of the Committees of the Board of Directors of the Company;*
- approving of the Company's dividend policy in relation to the subsidiaries;*
- approving of the chairman of maps of key indicators of activity and members of the Executive Board with the actual values for 2014;*
- on the review of anti-corruption policy and the fraud of the Company;*
- on the review of the information security policy of the Company;*
- approving of the documents regulating the internal activities of the Company, on a list established by the Board of Directors of the Company;*
- approving of the Company's development plan for 2015-2019;*
- considering the reports for the implementation of the development plan of the Company on 2015-2019;*
- making decisions on other issues within the competence of the Company's Board of Directors.*

Meetings of the Executive Board are held on a regular basis in accordance with the approved plan of work of the Executive Board for 2015.

In general, during the reporting period, the Board of Directors and its Committees are actively engaged with Sole Shareholder, trustee, executive authorities and all interested parties of corporate relations for effective solutions to the problems posed by the Company.

Committees of the Board of Directors of the Company

There are three Committees working under the Board of the Directors:

- 1) Committee on audit;
- 2) Committee on appointments and remunerations;
- 3) Committee on strategy and investments.

Committee on audit under the Board of Directors of the Company

The provision on the Committee on audit was approved by the Board of Directors of the Company dated April 9 2012 (Minutes No. 82).

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

- 1) establishment of an effective system of control over financial and economic activities of the Company (including the completeness and reliability of financial statements);
- 2) control of the reliability and efficiency of internal control and risk management, as well as the execution of corporate management documents;
- 3) monitoring the independence of the external and internal audit, as well as the process of ensuring compliance with the legislation of the Republic of Kazakhstan.

In 2015 there 8 in presentia meetings of the Committee on audit have taken place.

*Table on participation at the meetings of
the Committee on audit in 2015*

Full name	Position	Participation at the meetings (%)
Mahat Rashit Mukaramuly (19.12.2014 — 28.05.2015) (29.05.2015 — 01.07.2015)	Chairman of the Committee on audit, Member of the Committee on audit	100
Abduov Nurlan Kanatovich (29.05.2015 — 29.07.2015.)	Chairman of the Committee on audit	0
Larionov Dmitry Vladimirovich (since 29.09.2015)	Chairman of the Committee on audit	100
Issenzhulov Yerzhan Bahytovich (since 29.09.2015)	Member of the Committee on audit	100
Davletova Gulmira Mektepbayevna (since 29.09.2015)	Expert of the Committee on audit — expert without vote	90

At the meetings of Committee on Audit, special attention was paid to issues such as:

- approval of the work plan of the Committee on Audit for 2015;
- preliminary approval of the annual audit plan of the Internal Audit Service of the Company;
- preliminary approval of the internal audit reports;
- preliminary review of Remuneration Rules, performance assessment and bonuses for employees of Internal Audit Service of the Company;
- preliminary consideration of the size of the audit organization of payment services to audit the Company's financial statements;
- preliminary review and approval of the Action Plan to improve the system of internal control of the Company;
- preliminary approval of separate and consolidated financial statements of the Company for 2014;
- preliminary approval of the statement of amendments and additions to the corporate accounting policy of the Company;
- preliminary approval of certain internal documents of the risk management system;
- preliminary review and approval of the report on the Company's risks on a consolidated basis;
- making decisions on other issues within the competence of the Committee on Audit under the Board of Directors.

Committee on appointments and remunerations under the Board of Directors of the Company

The provision of the Committee on appointments and remuneration and the composition of the Committee on appointments and remuneration is approved by the decision of the Board of Directors dated July 4, 2012 (Minutes No. 86). The Committee on appointments and remuneration consists of three members - two independent directors and an expert.

Work of the Committee on appointments and remuneration aims to assist the Board of Directors of the Company through the development of recommendations on:

1) attracting qualified specialists to the Board of Directors, the Executive Board, to the position of Head of the Internal Audit Service and Corporate Secretary;

2) developing proposals for the Board of Directors on the determination of remuneration, independent directors and other members of the Board of Directors, members of the Board in accordance with the goals, objectives, the current status of the Company, and the level of remuneration similar in type and scope of activities.

In 2015, the Committee on appointments and remuneration has held 7 meetings (6 of them in presentia meetings and one meeting in absentia).

*Table of the participation at the meetings of
the Committee on appointments and remuneration in 2015*

Full name	Position	Participation at the meetings (%)
Mahat Rashit Mukaramuly (17.03.2014 — 1.07.2015)	Chairman of the Committee on appointments and remuneration	100
Bayseitov Bahytbek Rymbekovich (19.12.2014 — 28.09.2015)	Member of the Committee on appointments and remuneration	100
Issenzhulov Yerzhan Bahytovich (since 29.09.2015)	Chairman of the Committee on appointments and remuneration	100
Larionov Dmitry Vladimirovich (since 29.09.2015)	Member of the Committee on appointments and remuneration	100
Kaysenova Gulzhihan Kabdylkairovna (since 2012)	Expert of the Committee on appointments and remuneration without vote	70

At the meetings of the Committee on appointments and remuneration they are focused on the issues such as:

- approving the plan of work of the the Committee on appointments and remuneration for 2015;
- preliminary reviewing and approving of cards of Corporate Secretary goals and employees of his office for 2015;
- preliminary approving of maps of key indicators of activity the Chair and members of the Executive Board of the Company with the target values for 2015;
- on early termination of office and election of new members of the Board of Directors of subsidiaries of the Company, as well as the definition of a term, the size, conditions of remuneration and compensation of expenses for the execution of the duties of newly appointed members;
- preliminary approving of maps of key indicators of activity the Chair and members of the Executive Board with the actual values for 2014 and the non-payment of remuneration to the Chairman and members of the Executive Board on the results of 2014;
- preliminary approving of the rules of remuneration and reimbursement of expenses to independent directors of organizations, more than fifty percent of the voting shares of which belong to the ownership and/or management of trust companies;
- preliminary approving of amendments of the rules for the provision of social support to the Chairman and members of the Executive Board, employees of the Internal Audit Service and Corporate Secretary of the Company;
- on payment of remuneration to members of the Board of Directors of certain subsidiaries of the Company on the results of 2012 and 2013;
- preliminary approving of amendments of the Regulations on the Committee for appointments and remunerations of the Company;
- preliminary approving of amendments of the provision of the Corporate Secretary of the Company;
- making decisions on other issues within the competence of the Committee on Appointments and Remunerations of the Board of Directors.

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

Provision on the Committee on Strategy and Investment is approved by the decision of the Company's Board of Directors dated May 31, 2013 (Minutes No. 5). The Committee on Strategy and Investment consists of 4 people - three independent directors and an expert.

The main purpose of the Committee is to prepare and submit recommendations to the Board of Directors on matters to:

- 1) identify of strategic and priority areas of activity;
- 2) evaluate of the effectiveness of promising investment projects and their impact on increasing shareholder value;
- 3) monitor the implementation of strategic and investment projects of the Company;
- 4) make recommendations to the Board of Directors of the Company for the establishment of branches and opening of representative offices of the Company in the Republic of Kazakhstan and foreign countries;
- 5) effective management of assets of the Company.

In 2015 it carried out 4 in presentia meeting of the Committee on Strategy and Investment.

*Table of participation at the meetings of
the Committee on Strategy and Investment in 2015*

Full name	Position	Participation at the meetings (%)
Baysseitov Bahytbek Rymbekovich (17.03.2014 — 18.07.2014) (since 18.07.2014)	Member of the Committee on Strategy and Investment Chairman of the Committee on Strategy and Investment	100
Mahat Rashit Mukaramuly (since 19.12.2014)	Member of the Committee on Strategy and Investment	100
Abduov Nurlan Kanatovich (29.05.2015 — 29.07.2015)	Member of the Committee on Strategy and Investment	0
Issenzhulov Yerzhan Bahytovich (since 29.09.2015)	Member of the Committee on Strategy and Investment	100
Larionov Dmitry Vladimirovich (since 29.10.2015)	Member of the Committee on Strategy and Investment	100
Nurbay Chinghiz (since 25.02.2015)	Expert of the Committee on Strategy and Investment with vote	100

At the meetings of the Committee on strategy and investments the special attention was paid to issues such as:

- approving of the work plan of the Committee on strategy and investments for 2015;
- approving the Report on implementation of the restructuring plan of the assets of the Company for 2013-2014;
- approving of the Restructuring Plan the Company's assets in 2015-2016;
- preliminary consideration of the corrected Plan of the Company for 2015-2019;
- preliminary review on implementation of the Plan of the Company's reports in 2015-2019;
- preliminary review of the report on the implementation of the Development Strategy for 2013-2022 throughout 2014;
- preliminary approval of the dividend policy of the Company in relation to the subsidiaries;
- consideration of the report on the monitoring of investment projects of the Company for the 2nd half of 2014;
- consideration of the report on the monitoring of investment projects of the Company for the 1st half of 2015;
- making decisions on other issues within the competence of the Committee on strategy and investments of the Board of Directors of the Company.

Reports on Director's pay of the Board of Directors of the Company

The members of the Board of Directors, except for the independent directors do not receive separate compensation from the Company for the performance of their duties. The amount of remuneration of independent directors is established by the order of the trustee. Independent directors are paid the following remuneration in accordance with the rules of payment of remuneration and compensation of expenses of Independent Directors of «Samruk-Kazyna»:

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

The decision of the Sole Shareholder of the Company (represented by the Trustee, the Ministry of Defense of the Republic of Kazakhstan) payment of remuneration to members of the Board of Directors - independent directors on the basis of the work has been taken in 2015.

Internal audit service of the Company

By the decision of the Board of Directors of the Company dated May 11, 2007 the Internal Audit Service of the Company is established, whose main goal is to provide the Board of Directors with independent and objective information to ensure effective management of the Company, by assessing the internal control, risk management and corporate management.

The main objectives of the Internal Audit Service of the Company are as follows:

- 1) assessment and contribution to the improvement of corporate management in the Company;
- 2) assessment and contribution to the improvement of the internal control system;
- 3) assessment and contribution to the improvement of risk management system.

In order to comply with the principles of objectivity and independence of internal audit, the Internal audit service of the Company repaired and functionally accountable to the Board of Directors of the Company and supervised by the Committee on audit of the Company and is guided by the Regulations on Internal Audit Service of the Company and other normative documents regulating the activities of the Internal Audit Service of the Company.

Nowadays, the Internal Audit Service consists of 4 members – the head of the Internal Audit Service and three auditors:

1. Head - Madieva Aizhan Maratovna
2. Auditor - Қоныс Зжанар Кенесбайқызы;
3. Auditor - Dauletova Bahitzhan Maratovna;
4. Auditor - Sembaev Askar Kazhahimovich.

Report on activity of the Internal audit services of the Company for 2015

By the decision of the Company's Board of Directors dated October 28, 2014 (Minutes No.10) the annual audit plan of the Internal Audit Service of the Company for 2015 is approved. The annual audit plan is adjusted by the Company's Board of Directors on December 19, 2014 (Minutes No.12) March 31, 2015 (Minutes No.3) and 29 October 2015 (Minutes No.8).

Internal Audit Service of the Company in 2015 in accordance with the approved annual audit plan has performed 13 engagements in the central office and in the subsidiaries of the Company to the achievement of the full audit objectives.

The audit covered the following key business processes such as audit testing of internal controls processes of accounting and preparation of the consolidated financial statements of the Company; audit processes, in which a significant number of shortcomings of the Company for 2014 revealed the external audit; monitoring of the implementation of the Restructuring Plan of the Company's assets; performance assessment programs to reduce costs in the Company. Based on the results of audits of the Internal Audit Service there were recommendations issued aimed at improving the system of corporate management, internal control and risk management in the Company, to improve management within the framework of operational and strategic performance objectives.

Activities for implementation of the annual audit plan are fully implemented; a report on the activities of the Internal Audit Service of the Company for 2015 is reviewed by the Committee on audit of the Company's Board of Directors and by the Board of Directors.

Company's Internal Audit Service performs ongoing monitoring of the implementation of observations and recommendations issued with the report on the results of the Committee on audit.

The Company has established and operates a system to address the observations and implement the recommendations of the Internal Audit Service of the Company, external auditors and other checks, including JSC «Samruk-Kazyna» and government authorities through the formation of corrective actions with the hearing of implementing the plans of the results of the work on the Committee on audit of the Company's Board of Directors, followed by informing the Board of Directors of the Company.



KAZAKHSTAN ENGINEERING
NATIONAL COMPANY

Membership, short biographies of the members of the Executive Board of the Company



Membership, short biographies of the members of the Executive Board of the Company

Executive authority is accountable to the Board of Directors and maintains the daily activities of the organization; it is responsible for the implementation of the strategy, development plan and the decisions taken by the Board of Directors and Sole Shareholder.

The Board is a collegial executive body that manages the current activities in order to meet the objectives and implement the Company's strategy.

The activities of the Board are based on the principle of the best interests of the Sole Shareholder and the full accountability of the decisions of the Board of Directors.

The Board consists of 5 members - Chairman of the Executive Board, his deputies and the chief of staff.

Members of the Executive Board of the Company in 2015 are as follows:

IDRISSOV Yerlan Sapargalievich	The Chairman of the Executive Board since 26.02.2015; The Deputy Chairman of the Executive Board 29.08.2014 — 25.02.2015
BIZHANOV Dimash Nurakhmetovich	The Deputy Chairman of the Executive Board since 28.08.2012; Vice-President, member of the Executive Board 31.05.2011 — 27.08.2012;
MYNSHARIPOVA Saya Naymanbaykyzy	The Deputy Chairman of the Executive Board since 2.02.2015;
SULTANBEKOV Kanat Tanatarovich	The Deputy Chairman of the Executive Board since 26.02.2015;
BERGENEV Adylgazy Sadvokassovich	Chief of staff since 10.2010;
KAPAKOV Aibek Amirbekovich	The Deputy Chairman of the Executive Board 29.08.2014 — 29.01.2015;
MURATOV Yerlan Muratovich	The Deputy Chairman of the Executive Board 04.11.2013 — 29.01.2015.

As of December 31 2015 the Executive Board has 5 members:

IDRISSOV YERLAN SAPARGALIYEVICH

Chairman of the Executive Board



- Chairman of the Executive Board at «NC «Kazakhstan Engineering», JSC (since 26.02.2015);
 - Deputy Chairman of the Executive Board at «NC «Kazakhstan Engineering», JSC (08.29.2014-02.25.2015).
 - Executive Director at «NC «Kazakhstan Engineering», JSC (29.06.2010- 29.08.2014);
 - Vice-President, Member of the Board of «NC «Kazakhstan Engineering», JSC (16.02.2010-29.06.2010)
 - Director of Technical Policy Department and innovation at «NC «Kazakhstan Engineering», JSC (01.06.2005 - 16.02.2010).
- Year of birth - 1977
Higher education.
Does not own any shares of suppliers and competitors of the Company.

BIZHANOV DIMASH NURAKHMETOVICH

Bizhanov Dimash Nurakhmetovich,
Deputy Chairman of the Executive Board



- Deputy Chairman of the Board at «NC «Kazakhstan Engineering», JSC (since 11.20.2014);
 - Vice-President, Member of the Board at «NC «Kazakhstan Engineering», JSC (02.06.2011-27.08.2012)
 - General manager of the service projects at «NC «KazMunayGas», JSC (28.06.2010-01.06.2011)
 - Director of Asset Management Department service at «NC «KazMunayGas», JSC (01.04.2010- 27.06.2010);
 - Chief manager of the Department of the North-Caspian project at JSC «NC «KazMunayGas», JSC (22.06.2009 - 01.04.2010).
- Year of birth - 1967
Higher education.
Does not own any shares of suppliers and competitors of the Company.



MYNSHARIPOVA SAYA NAYMANBAYKYZY

Deputy Chairman of the Executive Board

- Deputy Chairman of the Board; Member of the Board at «NC «Kazakhstan Engineering», JSC (since 02.02.2015);
- Director of the Audit and Control Department of «National Welfare Fund «Samruk-Kazyna», JSC (2008 – 02.02.2015);
- Chief Accountant at «SEF Damu», JSC (September 2007 - October 2008);
- Chief Accountant at «National Innovation Fund», JSC (09.2003-08.2007).

Year of birth - 1970

Higher education.

Does not own any shares of suppliers and competitors of the Company.



SULTANBEKOV KANAT TANATAROVICH

Chairman of the Executive Board

- Deputy Chairman of the Board at «NC «Kazakhstan Engineering», JSC (since 26.02.2015);
- Deputy governor of Astana city (October 2009 - December 2014.);
- Head of the Department of passenger transport and motor roads of Astana city (5.2008- 10.2009);
- Deputy Governor of Almaty city (November 2007 - May 2008).

Year of birth - 1976

Higher education.

Does not own any shares of suppliers and competitors of the Company.



BERGENEV ADYLGAZY SADVOKASSOVICH

Chief of the staff, member of the Executive Board

- Chief of Staff, Member of the Executive Board at «NC «Kazakhstan Engineering», JSC (since 27.11.2015);
 - Chief of Staff at «NC «Kazakhstan Engineering», JSC (13.04.2015 – 26.11.2015);
 - Executive Director at «NC «Kazakhstan Engineering», JSC (17.03.2014 - 12.04.2015);
 - Chief of Staff, Member of the Executive Board at «NC «Kazakhstan Engineering», JSC (10.2010 - 16.03.2014);
 - Governor of East Kazakhstan region (May 2008 - April 2009.).
- Year of birth - 1958
Higher education.
Does not own any shares of suppliers and competitors of the Company.

By the decision of the Board of Directors of «NC «Kazakhstan Engineering», JSC dated January 29, 2015 (Minutes No.1) a new organizational structure of JSC» NC «Kazakhstan Engineering» with the standard number of 69 people is approved. By the same decision the new composition of the Board of «NC» Kazakhstan Engineering «, JSC is approved. Under the new structure, the members of the Executive Board - Deputy Chairman of the Executive Board is elected Bizhanov Dimash Nurahmetovich, Idrisov Yerlan Sapargalievich and Mynsharipova Saya Naymanbaykyzy with the term of powers of the newly elected members of the Board of the Company for 3 years. Also, by the same decision, the Board of Directors of «NC «Kazakhstan Engineering», JSC released from his post of Deputy Chairman of the Board of «NC «Kazakhstan Engineering» Kapakov Aibek Amirbekovich and Muratov Yerlan Muratovich.

By the decision of the Board of Directors of «NC «Kazakhstan Engineering», JSC dated February 25, 2015 Chairman of the Board of «NC «Kazakhstan Engineering», JSC Idrisov Yerlan Sapargalievich is appointed. By the same decision the Board of Directors of «NC «Kazakhstan Engineering», JSC Deputy Chairman of the Board of «NC «Kazakhstan Engineering», JSC Sultanbekov Kanat Tanatarovich is appointed.

By the decision of the Board of Directors of «NC «Kazakhstan Engineering», JSC dated November 27, 2015 (Minutes No.9) Chief of Staff of the Company, Bergenev Adylgazy Sadvokassovich is elected a member of the Executive Board.



Committees under the Executive Board of the Company

Under the Company's Executive Board there are three Committees and two Commissions. These collegial bodies operate and perform its functions in accordance with the provisions about them. During the reporting period, Committees and Commissions under the Executive Board of the Company have considered issues within their competence, and given the appropriate recommendations to the Executive Board of the Company.

Committee on risks

The Committee is an advisory body to the Executive Board of the Company and it is set up for preliminary consideration and preparation of recommendations to the Executive Board of the Company to make decisions on the risk management system of the Company.

The main tasks of the Committee are as follows:

- 1) to promote the company's Executive Board when making risk management decisions of the Company;
- 2) to organize and maintain an effective system of risk management;
- 3) to development of processes designed to identify, measure, monitor and control risks;
- 4) to prepare recommendations and proposals for monitoring the coordination of risk management in the Company and its subsidiaries/affiliated organizations.

Committee on investments and innovations

The Committee is a permanent joint advisory body to the Executive Board of the Company.

The main purpose of the Committee is to increase the efficiency of investment and innovation activities of companies and organizations, as well as the formation of a uniform policy of companies and organizations on the development of local content.

Credit Committee

The Committee is a permanent joint advisory body to the Executive Board of the Company.

The main purpose of the Committee is to provide timely and quality decision-making on issues related to the provision of credits (loans), financial assistance and guarantees, asset and liability management of the Company, to minimize risks associated with the attraction and placement of funds, increased profitability of the Company.

Budget Commission

The Commission is a permanent joint advisory body to the Executive Board of the Company.

The main objective of the Commission is to develop a common position of representatives of the Company in the management of subsidiaries and affiliates submitted for approval to the budgets, plans of development agencies, planning and implementation of investment projects within the framework of the relevant authorities, as well as providing timely and quality development of the draft budget of the Company for the relevant financial period and develop proposals for its adjustment and implementation.

Commission on SDO and military technical cooperation

The Commission is a permanent joint advisory body to the Executive Board of the Company.

The main objective of the Commission is the development and submission of proposals to the Executive Board of the Company to implement the military-technical policy of Kazakhstan, on the formation and implementation of the state defense order by the Company and its subsidiaries, affiliated organizations, on improving the scientific and production activities of the defense sector subsidiaries affiliates of the Company and on the development of military technical cooperation with foreign states.

Report on the activity of the Executive Board of the company

In 2015, the Company held 57 meetings of the Executive Board. Totally they considered 235 issues. Key issues of the Executive Board of the Company, considered in 2015.

In 2015, the Company's meetings of the Executive Board have paid special attention to issues such as:

- Decision-making on matters related to the general meeting of shareholders/participants of the SAO (subsidiary/affiliated organizations);
- Approval of the documents taken in order to organize the activities of the Company;
- The appointment of the heads of executive bodies of subsidiaries;
- The approval of and assistance to the Company's strategic projects such as the «Creation of a center for the production of electrooptical devices at the territory of the Republic of Kazakhstan,» «Production of helicopters at the territory of the Republic of Kazakhstan» and others;
- Preliminary review and approval of materials on the proposed to the Board of Directors and the Sole Shareholder.

In general, during the reporting period, the Executive Board of the Company cooperated with the Sole Shareholder and all interested parties to corporate relations for effective solutions to the problems posed by the Company.

Report on the Director's pay of the Executive Board of the Company

Terms of evaluation of executives, managers and employees of the Internal Audit Service, Corporate Secretary and employees of his office, as well as the remuneration of executives of «NC «Kazakhstan Engineering», JSC is developed in accordance with the legislation of the Republic of Kazakhstan, the policy assessment activities and the remuneration of executives of companies «Samruk-Kazyna», JSC, is approved by decision of the Executive Board of «Samruk-Kazyna», JSC dated April 9, 2013 (minutes No. 17/13), and determine the conditions and procedures for performance evaluation and remuneration of these workers of «NC «Kazakhstan engineering», JSC.

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

- Selection of motivational key performance indicators (KPI), setting the target values;
- Approval of motivational efficiency;
- Performance monitoring;
- The calculation and approval of actual performance.

Motivational KPIs (KPIs card) for managers developed by the Committee on Appointments and Remuneration, taking into account the Company's Board of Directors, with the optimum amount of KPIs (3-7), placement of weights and adequacy of targets and in the prescribed manner, to make a responsible structural division of the Company for approval by the Board of Directors Company not later than 31 March of the reporting year.

Remuneration over the results of activity (short-term and long-term remuneration) are paid according to the results of the work for the purpose of material reward for their achievements and improve the efficiency of work are not of a permanent nature and are not considered when calculating the average wage.

The Company's Board of Directors in accordance with the recommendations of the Appointments and Remuneration Committee of the Company Board of Directors may decide not to pay compensation as a result of activities under:

- 1) non-compliance with certain thresholds of corporate KPIs;
- 2) the final results of their functional KPIs is less than 50% (inclusively).

The main condition for the payment of remuneration on the basis of the year is the presence of consolidated total income for the year, calculated taking into account the planned amount for the payment of remuneration.

The issue on the KPIs of approval cards for Chairman and members of the Executive Board of the Company for 2015, as well as remuneration to the Chairman and members of the Executive Board on the results of 2015 it is planned to consider the September 15, 2016 at a meeting of the Board of Directors.

Major factors of the risk and the risk management system of the Company

The company attaches great importance to the proper functioning of the internal control and risk management as a key element of the implementation of the Company's development strategy.

The main objective of risk management of the Company - is to achieve the optimal level of risk ratios and profitability of the Company.

In 2015, the Company continued to improve risk management procedures. The Board of Directors of the Company approved the Risk Management Policy in the new version taking into account the recommendations from «Samruk-Kazyna», JSC.

The Company's risk management policy is aimed at maintaining the optimal structure of risk management to ensure an acceptable level of risk, and achieve better results of operations due to the identification, assessment, risk minimization and risk monitoring.

Internal control

The Company's activities in the framework of the internal control system is carried out in accordance with the Regulations on Internal Control of the Company, approved the new edition in June 2014 (the Company's Board of Directors decision dated 27 June 2014, Minutes No. 7).

Regulations on internal control system defines the concept, objectives and tasks of the internal control system, the principles of its functioning, the key areas and key components of internal control, internal control procedures in the implementation of the Company's activities, competence and responsibility of the subjects of the internal control for the implementation of internal control procedures and internal control systems evaluation in the Company.

The Regulations on Internal Control of the Board of Directors fixed the responsibility for internal control in the Company, and responsibility of the Executive Board - for the effective functioning of the Internal Control Service. At the same time the Company's Internal Audit Service performs as part of the continuous monitoring of the Company's internal control system and directly assesses the internal control system for

its compliance goals, objectives and specific criteria, and provides recommendations for improving the internal control system.

In accordance with the Regulations on the internal control system provides a unit, whose task is to improve the organization and functioning of the internal control system, including:

- The organization of functioning and improvement of the internal control system;
- Ensuring awareness of the Executive Board and the Board of Directors on the status of the internal control system in the Company and in the Group of Companies, as well as on significant variances in the processes of the internal control system;
- To provide guidance and practical assistance for the organization of the internal control system, as well as the implementation of monitoring the effectiveness of the internal control system in the subsidiary companies.

The Company has taken measures in accordance with the provisions of the internal control system in subsidiaries.

Internal Audit Service in 2014 evaluated the effectiveness of the internal control system.

The audit was conducted in accordance with the «Methodology for evaluating the effectiveness of the internal control systems of subsidiaries and affiliated companies of «Samruk-Kazyna», JSC. Based on the assessment of the Internal Audit of the Company there were issued 22 recommendations aimed at improving the system of internal control in the Company.

In addition, the Internal Audit Service of the Company is carried out assessment of the internal control system during the audit of individual business processes.

In order to improve the Company's internal control system, with a view to removing inconsistencies identified by the Internal Audit Service during the evaluation of the internal control system, the company has developed an action plan for improvement of the internal control system of the Company for 2015 - a corrective action plan (hereinafter - the Plan), approved by Decision of the Board of Directors dated March 31, 2015 (minutes No.3).

In accordance with the Plan in the reporting year, 20 measures are planned, of which 19 fulfilled the activities, performance of one measure is postponed to 2016.

Risk management

The main objective of risk management of the Company is to achieve the optimal level of risk ratios and profitability of the Company.

In 2015, the Company continues to focus on improving the risk management system as a key element in the effective implementation of the Company's development strategy. The Company approved the Risk Management Policy, Rules for identification and assessment of risks; rules of financial risk management, risk assessment, rules of investment projects/ The methodology is implemented accounting risks, being the base of realized risk group companies. The Risk map also is approved in 2015; the risk register for 2015 and action plan for the management of critical risks for 2015, key risk indicators and tolerance levels for each risk for 2015, the risk-appetite in 2015 are approved. The Company's Board of Directors on a quarterly basis informs the Board of Directors of the Company about the risk activity.

Under the Executive Board of the Company operates on the Risk Committee, which in 2015 has held 15 meetings and considered 23 issues.

The Company's Board quarterly hears the report on the activities of the Risk Committee.

Today, all processes in the Company use a single practice of risk management, which assumes financial risk management (including credit, market, currency risk, liquidity risk and interest rate risk) and operational risk.

Financial risk management involves determining risk limits and controls to ensure that exposure do not go beyond these limits. Operational risk management is to ensure the proper functioning of the internal processes and procedures to minimize the exposure of the Company's other internal and external risk factors.

Risk management as a key component of the corporate governance of the Company and its subsidiaries is aimed at timely identification and adoption of administrative measures to reduce the level of risk that may adversely affect the value and reputation of the Company and the Group of Companies of the Company.

Risk management at servicing the loans and bonds, loses of liquidity and investment risk of SDO of loaned assets, given by the Company

In order to prevent the facts of means failure to service loans and bonds, inefficient management of cash flows, the Company regularly monitors revenues. Monitoring results are reviewed on a quarterly basis to the Executive Board, the Board of Directors of the Company. Operating income of the Company allow to fully ensure the maintenance costs for the payment of bounds issued by the Company's bonds.

In addition, in the framework of the following measures of financial stability have been taken as:

- 1) approved action plan to stabilize the financial and economic activities of separate organizations of the Group of Companies;
- 2) approved by the management of bank accounts Regulation subsidiaries and affiliates of the Company in a limited mode;
- 3) approved the Rules of issuing and monitoring loans, financial assistance and guarantees of the Company;
- 4) promptly repaid the Company's domestic bonds in November 2015;
- 5) approved the Action Plan for the Company's debt portfolio management.

Over the issued bonds the Company regularly publishes the information on corporate and other key events on the KASE (Kazakhstan's Stock Exchange).

Risk management related to realization of the Transformation program

The Company has approved the road map for the Transformation Program within the Transformation of the Fund. In order to implement the road map and manage the risks associated with the implementation of transformation programs the Working Group for the development and implementation of the transformation program of the Company is formed, which held 4 meetings.

By the Order of the Chairman of the Executive Board of the Company dated May 21, 2015 No. 29 fixed persons (at the level of Vice-Chairman of the Executive Board and Chief of Staff of the Company), responsible for the implementation of the Roadmap for transforming the Company.

The contract with PI «Corporate University «Samruk-Kazyna» for training employees Program of the Company is a part of the transformation.

In accordance with the organizational structure of the Company, approved by the Company's Board of Directors decision dated 30 June 2015 (Minutes No. 6) the Transformation service is founded.

Roadmap for Transformation of «NC «Kazakhstan Engineering», JSC, approved by the decision of the Board of the Fund dated December 9, 2014 (Minutes No. 55/14) provides for the implementation of 10 measures in 2015 on the improvement of processes, technologies and human resources.

Risk management at non-execution or inappropriate execution of the Plan of restructuring and reorganizing of the assets of the Group of Companies (privatization, amalgamation, demerger, etc.)

As a part of the resolution of the Government of the Republic of Kazakhstan «On some issues of privatization» dated March 30, 2015 No. 280 of the Company approved the Company's restructuring plan for 2015-2016 (the Company's Board of Directors decision dated 30 June 2015, Minutes No. 6).

Sectoral Commission for the sale of assets and facilities of the Company is created and held 6 meetings. The web portal of the State Property Registry and in the newspapers «Kazakhstanskaya Pravda» and «Yegemen Kazakhstan» ("Kazakhstan's truth" in Russian and Kazakh editions) announced bids by electronic auction of the Company's assets.

On 6 January, 27 January, 13 February and 7 April 2015 held electronic auction (English method) on the implementation of the Company's assets are recognized as not taken place due to lack of registered participants.

On 7 April, 8 September, 30 September and 13 November 2015 held electronic auctions (by the Dutch method) on the implementation of the Company's assets, which are not recognized as valid in the absence of the required number of registered participants.

The Company's letters of September 28, 2015 No. 10-23 / 1034 and November 9, 2015 No.10-23 / 1174 to «Samruk-Kazyna», JSC made proposals to amend the list of assets of the Company to be transferred to the competitive environment in accordance with the decision of the Government of the Republic of Kazakhstan dated March 31, 2014 No. 280 «On some issues of privatization».

There were meetings of the Fund on the implementation of the Fund's assets in the framework of the regulations of the Republic of Kazakhstan dated March 31, 2014 No. 280 «On some issues of privatization», in which the Company has made proposals to improve the mechanisms for the implementation of illiquid assets.

There were meetings of public bodies on the formation of the list of the Company's assets to be transferred to the competitive environment in 2016-2020.

On December 30, 2015 by the decision of the Government of the Republic of Kazakhstan No.1141 «On some issues of privatization in 2016-2020» defines new lists of assets of «Samruk-Kazyna», JSC, including the Company be transferred to the competitive environment, as well as reorganization and liquidation in the coming period.

Currency risk management

Companies in attracting Eurobonds in 2013 for leveling exchange risks provides a natural hedge - the structural balance of assets and liabilities with a view to cover the losses arising from exchange rate changes in the profit derived from the same changes in other balance sheet items.

In addition, the results of negotiations with large customers (JSC «NC «KazMunayGas», JSC «NC» Kazakhstan Temir Zholy», JSC «Samruk Energo»), law-enforcement agencies of the Republic of Kazakhstan reached an agreement to increase it in 2015, the volume of orders and sales prices due to the introduction of floating exchange rate of the national currency.

Revised pricing agreements product sales based on the adjustment in exchange rates; introduced treasury operations (conversion operations and corporate dealings) that allow them to make the conversion at the market price. To maintain monitoring the currency position on a permanent basis and is recognized in the Report on the Company's risks.

Credit risk management

This risk is associated with obligations (active and passive balance sheet items) with the banks - contractors or third parties outside the Group. The implementation of the credit risk is determined due to the onset of factors such as non-compliance with the limits placement of funds in banks, the poor quality of collateral, etc. In order to manage credit risk and to ensure financial stability the risk owners in 2015 adopted the following measures as:

- 1) The operating revenues of the Company allow ensuring full service costs for the payment of coupons issued by the Company of bonds;
- 2) The work with the rating agencies is carried out to confirm the rating of the Company;
- 3) On transactions with banks - counterparties of the Company there were approved limits;
- 4) Maintained monitoring of temporarily free funds (monthly presented to «Samruk - Kazyna», JSC) and monitoring operations with counterparty banks.

The Company has established a Credit Committee, which in 2015 held 26 meetings, on 39 issues. The Credit Committee operates in accordance with the internal credit policy of «Samruk-Kazyna», JSC, the Rules of issuing and monitoring loans, financial assistance and guarantees of the Company and the Regulation on the Company's credit committee.

Risk management for non-maintaining the established labor conditions

This risk is operational risk and describes the approach of industrial accidents. The possible occurrence of this risk is caused by factors such as errors of staff to comply with safety requirements, the lack of mechanisms for updating the knowledge of workers on the applicable law on a permanent basis, failure to comply with the legislation of the Republic of Kazakhstan in the process of implementation.

In order to prevent accidents at work operating on occupational safety and health units in the organizations of the Group of Companies approved training schedules and briefing for staff.

In 2014 it approved the Regulations on the procedure of training, instruction and examination for occupational safety and health and the establishment of the examination committee. On an ongoing basis, training of employees of the Company and subsidiaries of the Group of Companies on «Safety and Health» safety briefings are conducted in the workplace. In 2015, in the structure of the Company are established services of occupational health and safety, safety techniques and Environmental protection techniques.

Risk management of investment projects (the loss of money invested in investment projects, increased cost of the project and untimely commissioning, technological backwardness and low competitiveness of their products)

The possible emergence of risks caused by factors such as unreasonable determination of the economic and market strategy priorities and the related priorities of different types of innovation that can contribute to achieving the objectives of the Company, of poor quality and untimely preparation of financial and economic feasibility study of the project.

In order to reduce the risk of the emergence of investment projects in the Company following the work carried out in 2015:

- The Board of Directors of the Company decided that the implementation and financing of investment projects of the Company to be carried out after their approval by the Board of Directors of the Company;
- The Board of Directors of the Company reviewed the monitoring reports on investment projects for 2014 and the 1st half of 2015;
- The Board of Directors of the Company reviewed the information on the implementation of investment projects:

1) «The creation of helicopters production at the territory of the Republic of Kazakhstan» (adjusted direction) development funds;

2) The «Creation of assembly production of MAZ trucks based on “Semipalatinsk engineering plant», JSC;

3) to be adjusted FEO project «Establishment of the engineering - maintenance, repair and upgrading of heavy equipment for military and civilian use on the basis of JSC «Semey engineering» (a positive conclusion from the Ministry of National Economy of the Republic of Kazakhstan dated February 29, 2015);

4) to be adjusted FEO project «Establishment of the center for the production of electrooptical devices on the territory of the Republic of Kazakhstan.»

The Company has formed Investment and Innovation Committee (hereinafter - IIC) approved by the review of Regulation, approval of investment projects of the Company.

In 2015, the IIC conducted three meetings, which reviewed 5 issues:

1) «On consideration of innovative solutions Investment Committee of JSC «NC «Kazakhstan Engineering» dated April 3, 2014 (Minutes No. 17) on the issue «Approval of the implementation of the investment project «Creation of assembly production of MAZ trucks based on JSC «Semipalatinsk engineering plant».

2) «On approval of the Report on the monitoring of investment projects of JSC «NC «Kazakhstan Engineering» in 2014 «.

3) «On approval of the Master Development Plan of JSC «NC «Kazakhstan Engineering» up to 2022».

4) «Review of the monitoring report for the 1st half of 2015».

5) «On approval of the investment project «Organization of investment casting foundry in Astana».

The organizational structure of the Company, approved by the decision of the Board of Directors dated 30 June 2015 (Minutes No. 6), formed by the Department of investment activity.



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SUSTAINED DEVELOPMENT OF THE COMPANY

- Corporate social responsibility of the Company
- Organization of social partnership at subsidiary and affiliated organizations of the Company
- Sponsors’ and charitable support of the Company
- HR policy of the Company
- Occupational health and safety. Environmental protection
- Major tasks on provision of ecological sustainability and safety



Corporate social responsibility of the Company

The growth of long-term value of the Company and its assets is not possible without taking into account the interests of all stakeholders, including the public interest. The Company in accordance with the Development Strategy 2013-2022 aims to be a model employer and a leader in the field of industrial safety and environmental protection.

In this regard, for the implementation of the directions of development, the Company aims to increase the standards of social responsibility in the Company's Group of Companies through:

- 1) regulation of social and labor relations based on the principle of social partnership.
- 2) formation of the training system.

By the decision of the Board of Directors dated November 28, 2013 (Minutes No. 14) approved the policy in the field of corporate social responsibility of the Company and its subsidiaries.

In order to ensure sustainable development will focus on the following priority areas in the field of corporate social responsibility as:

- 1) effective regulation of social and labor relations based on the principle of social partnership;
- 2) formation of an effective system of training and development;
- 3) environmental sustainability and safety in the workplace;
- 4) definition, development and implementation of a common policy in the field of social projects;
- 5) creation of a unified communications strategy.

In its activities, the Group of the Companies is aware of and takes responsibility to all stakeholders (internal and external), including:

- 1) employees of the Company and the Company's group of organizations;
- 2) the Company to subsidiaries and dependent companies of the Company;
- 3) investors, suppliers and consumers of goods, works and services;
- 4) public authorities;
- 5) non-commercial organizations and other legal entities;
- 6) local communities.

The process of interaction of the Company and its subsidiaries with stakeholders is based on the principles of respect for the rights of all interested parties.

Activity of the Group of Companies in the area of corporate social responsibility should contribute to the following objectives:

- 1) the development of its own staff will not only avoid the turnover, but also to attract the best professionals in the market;
- 2) the growth of labor productivity;
- 3) improving the image and reputation of the growth;
- 4) the ability to attract investment capital on favorable terms;
- 5) efficient management of risks arising in the course of interaction with stakeholders;
- 6) maintaining social stability in the society as a whole;
- 7) the stable and sustainable development of the Group of companies in the long term perspective.

As a part of the corporate social responsibility of the Company in 2015 on an ongoing basis, the monitoring of social and labor conflicts, introduction and promotion of mediation instruments in the group of the Company.

General assessment of social situation

In general, the group of Companies have fixed steadily favorable situation. On an annual basis we study rating of social stability in the Company, whose figure over 3 years remained practically unchanged (in 2013 - 71%, in 2014 - 72%, in 2015 - 71%), which is according to the established scale of «above average» that shows of preserving stability in difficult conditions and the global economic crisis.

There is a positive trend, in three of the eight affiliated organizations and within 2013-2015, expressed very high ESL - JSC «SRI «Gidropribor», JSC «PZTM », JSC «Plant named after S.M. Kirov».

Classification of the achievements and the problems

Throughout 2015 the enterprises of the Group of Companies has reached as follows:

- Maintaining a high level of satisfaction with the security staff of the labor process;
- Enhancement of the satisfaction of social assistance;
- Reduction of staff turnover.

However, it should be noted that there are alarming zones that require special handling and special prevention:

- The preservation of the high proportion of workers to unsatisfied wages;
- The lag in growth of wages of workers at enterprises of the Company on the growth of wages in the industry.

Organization of social partnership at subsidiary and affiliated organizations of the Company

В марте 2014 года заключено трехстороннее Отраслевое соглашение в отрасли машиностроения
In March 2014 a tripartite agreement in the industry branch of engineering between the Ministry of Industry and New Technologies of the Republic of Kazakhstan, the Company and the public association «Union of workers of mechanical engineering of the Republic of Kazakhstan», and the National Chamber of Entrepreneurs of Kazakhstan has been done.

This agreement is aimed at achieving the following main objectives:

- Maintenance of stable work of the Organizations at the mechanical engineering industry;
- Creation of the conditions for productive labor, improvement of the living standards for workers of mechanical engineering, training and retraining of workers;
- Determination of the industrial minimum standard of remuneration for engineering organizations and workers' compensation payments, identification of measures to protect the legitimate rights and interests of workers;
- Development of social partnership based on mutual trust, information sharing and collaboration.

The Company and the subsidiaries of the Company (JSC «Petrovavlovsk Heavy Engineering Plant», JSC «Plant named after S.M. Kirov», JSC «Munaymash», JSC «Semey Engineering Plant», JSC «Semey engineering», JSC «Scientific Research Institute «Gidropribor», JSC "Instrument engineering plant "Omega", JSC "Ural Plant « Zenith», JSC «811 repair plant KI», JSC «Tynys») are affiliates of Public association «Labor union of workers of mechanical engineering of the Republic of Kazakhstan» - primary labor union organizations.

The number of employees at these enterprises is more than 4 thousand people, the union membership



is more than 75% of them.

The primary labor union organizations operate on the basis of the Regulations on the branch of Public association «Labor union of workers of mechanical engineering of the Republic of Kazakhstan.» The primary labor union organizations are headed by the chairmen of labor union committees, elected by the union members on the basis of power of attorney of the Public Association «Labor union of workers of mechanical engineering of the Republic of Kazakhstan.»

In order to implement the sectoral agreements there were concluded collective agreements between employers and employees of these organizations in 2014-2016.

The monitoring of implementation of the collective agreement is done with the terms of a permanent collective agreement commission consisting of an equal number of representatives of employers and workers.

The parties shall report annually on the implementation of the commitments made at the meeting (conference) of employees.

On a quarterly basis the monitoring of social and labor conflicts is done. Throughout 2015, the Company and its subsidiaries are not logged in the past.

Social rights and guarantees established by collective agreements and to the Company's internal documents are executed in full.

Due to changes in the labor legislation of the Republic of Kazakhstan in 2015 (changes will take effect from 1 January 2016) conducted outreach in the workforce of subsidiaries.

Also on an ongoing basis by promoting the use of tools of mediation (pre-trial settlement of disputes and conflicts). In 2015 in the pool of mediators of «Samruk-Kazyna» on behalf of JSC «NC «Kazakhstan Engineering» credited Z.A. Kasymov (employee of JSC «Plant named after S.M. Kirov», Petropavlovsk), as general manager of the Administrative Department of the Company; N.S. Kizieva has completed training on «Mediation in the social and labor relations».

Sponsors' and charitable support of the Company

As part of this trend in 2015, the total consolidated volume of charitable assistance totaled KZT 23 255 000 - under support of pensioners registered in the Organization, and the veterans of the Great Patriotic War and persons equated to them, as well as the campaign called «Road to school».

HR policy of the Company

One of the key success factors in the Group of Companies is human resources. Efficient organizational structure is created for more successful management and development of human resources.

Selection of experts, corresponding to qualification requirements and have the necessary knowledge, skills, business and personal qualities is carried out in a timely and systematic manner.

As a part of the motivation and encouragement of employees on a permanent basis it is working to attract and retain high-performance employees, as well as increase the level of knowledge and skills of employees.

The personnel policy of the Company is focused on the effective implementation of the Human Resources Development Strategy of the Company for 2013-2022 with a strong corporate culture,

provides for a common approach in dealing with personnel within the best corporate practices of the Company and subsidiaries of the Company.

The main objective of the HR policy of the Company is to enhance the human resources, human resource management through the creation of a control system efficiency of the Company aimed to maximize profits and provide leadership in a competitive environment based on economic incentives and social guarantees, and promoting the harmonious combination of the interests of both the employer and the employee and the development of their relations in the benefit of the Company.

The HR management system is based on a rational and informed the planning of human resources, the use of modern technology and HR-effective motivational mechanisms to ensure efficient production and solve strategic problems in a professional manner.

The main conceptual problems for the implementation of the HR policy of the Company are as follows:

- Ensuring the implementation of HR policy in a single format on the Company and the subsidiaries of the Company;
- The further promotion of the project on development and implementation of professional standards that set requirements for the content and working conditions, qualifications and competencies of workers in different skill levels;
- Further development of an integrated system of human resources planning, taking into account the needs of the business areas and their rational distribution and efficient use;
- Increasing professionalism of employees of the Company and the subsidiaries of the Company through the development of the corporate system of continuous education, improvement of corporate learning system based on professional standards;
- Reduction of the remuneration system in line with the complexity and level of work performed;
- Ensuring social protection and improving the working conditions of employees of the Company and the subsidiaries of the Company.

The implementation of the tasks is to ensure an optimal balance the updating and enforcement of the quantitative and qualitative composition in accordance with the business needs and requirements of the current legislation, and the state of the labor market.

The organizations identified as pilot sites for the implementation of the dual training system, from the Company in the experiment mode includes these four companies: JSC «PZTM», JSC «Tynys», JSC «811 repair plant KI» and JSC «Semey engineering».

Along with the above, given that the announced decision of the Government No. 1093 dated October 15, 2014 the Roadmap of dual education system provides for an annual extension of the scope of the dual form of education for the country's other industries. The company carries out preparatory work for the introduction of elements of the dual training system in the 5 other subsidiaries of the Company with common human resources of 2062 people.

In particular, the JSC «Ural Plant «Zenith» for the production of shipbuilding products of JSC «Plant named after S.M. Kirov», the company for the production of means of railway automation, remote control, communications and safety systems for railway transport, oil and gas industry and equipment for the digital television of «Semipalatinsk engineering plant», main activity is engineering, JSC «Munaymash» which since 2012 within the framework of the state program «Productivity - 2020» is successfully implementing a unique innovative project on manufacture of products for the oil industry, JSC «SRI «Gidroprigor».

The dual training in the above four companies introduced by the next most popular specialties: «Mechanical Engineering», «Turner», «Locksmith», «Milling», «Machining», «Mechatronics», «Control and measuring devices and equipment in the industry», «The technology of polymer processing», «Welding



work», «Electrical and electromechanical equipment», «Electro-gas welder», «Electrical components for power grids and electrical equipment», «maintenance, repair and operation of road transport».

Students of partners-education institutions pass an industrial and technological practice with the appointment of teachers-instructors from among qualified professionals, organized professional development courses for teachers of special subjects and trainers.

Duration of practices at the enterprises at JSC «Tynys» is 1 month, the JSC «PZTM» - from 1 to 2 months, «811 repair plant KI» - 3 months, JSC «Semey engineering» - 1 to 3 months.

The number of industrial training instructors of JSC «Tynys» is 4 people, PZTM - 15 people, in JSC «811 repair plant KI» and JSC «Semey engineering» on the actual number of students arrived.

In 2015, the Company worked to establish cooperation with leading polytechnic universities in the country, signed memorandums with KNTU named after K. Satpayev and Karaganda State Technical University. As part of the memorandum and the State Industrial and Innovation Development Program (SIIDP-2) 14 subsidiaries of the Company's employees received state educational grants for training in a master's degree on a specialty «Engineering».

Also, the interaction is being done with the Nazarbayev Intellectual Schools to carry out professional orientation work with high school students.

Successful examples of the implementation of the dual training system cover on the web resources of the Company and its subsidiaries.



Occupational health and safety. Environmental protection

The company carries out systematic measures to improve safety in the workplace. Subsidiaries of the company carry out its obligations, including:

- Ensuring the appropriate temperature in the workplace in the autumn-winter period. Arrangements for the shops and departments for the autumn-winter period, according to the schedule run by 1 October each year;
- Ensure sufficient illumination of workplaces;
- Analysis of the causes of occupational accidents and measures to prevent it;
- Preventive medical examinations;
- The issuance to employees of subsidiary organizations of special clothing, footwear and personal protective equipment;
- Issue in the workplace related to hazardous working conditions, milk and other food products on the established norms;
- Liability insurance for damage caused to life and health of workers in the performance of job duties;
- Constant monitoring of compliance with labor protection requirements;
- Provision of workshops, infirmary necessary medicines for emergency plant workers;
- Quarterly inventory of sources of pollution and to take measures to improve the environmental situation.

Subsidiary of the Company is working on the development of their modernization plans for the development of new products, increase productivity; diversify production, energy efficiency, energy saving development.

In the reporting period, accidents at work are not fixed. The Company will take all necessary precautionary measures to avoid such situations in the future.

Major tasks on provision of ecological sustainability and safety

The main objectives of environmental sustainability and safety are:

- Respect for the environment;
- Creation of favorable, healthy and safe environment for the children of employees of organizations, prevention of occupational injuries and diseases;
- Compliance with the rules and standards in the field of occupational health and safety;
- Energy efficiency activities;
- Introduction of a reporting system.

Environmental sustainability is achieved by investing in the improvement of the environmental characteristics of the business.

The Company is committed to uphold the principles of maximum respect for the environment and sustainable use of natural resources contributes to the prevention of negative impacts on the environment, it takes initiatives aimed at increasing responsibility for the environment, it contributes to the development and diffusion of environmentally friendly and energy-saving technologies, environmental monitoring open and provides environmental information. In 2015, the SAO of the Company on violations of environmental safety were not found.

The environmental management system includes:

- Collection and evaluation of adequate and timely information regarding the impact of their activities on the environment, health and safety;
- Establishment of measurable goals to improve the environmental performance and resource management;
- Regular monitoring and verification of progress in achieving the objectives for the protection of the environment, health and safety.

Particular attention will be given to energy efficiency, resource conservation and use of alternative energy sources at the Company's facilities, improving the culture of safe behavior of staff and compliance with safety at work.





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ACTIVITY OF KEY SUBSIDIARY AND AFFILIATED
ORGANIZATIONS OF THE COMPANY



“Tynys”, JSC



JSC «Tynys», formerly known as the factory of oxygen-breathing apparatus, founded in 1959. Is the only company (tracing copyright holder) for the production of 45 types of aeronautical products, previously developed at design bureaus Aggregate Works «Science», of the Moscow engineering plant «Zvezda», Tomilino city, CB of Engineering Plant named after A.I. Mikoyan, Moscow.

In 2005 JSC «Tynys» was awarded by the Government of the Republic of Kazakhstan with “For Achievements in Quality» award.

Production capacities of JSC «Tynys» are focused on:

- The production of a variety of body armor protection classes – 12 000 sets/year;
- Production of PE pipes – 12 000 tons/year;
- Production of fire extinguishers – 25 000 units/year;
- Lost foam casting - 1000/year;
- Geotextile production - 500 tons/year;
- Manufacture of specialized products for different types of aircraft up to 1000 sets/year.

There are all necessary licenses and certificates for production.

The quality management system is introduced and operates in accordance with ISO 9001:2008.

Name	Production value (thous. KZT)	Revenues. TOTAL (thous. KZT)	including:	Total income (thous. KZT)	Labor capacity, thous. KZT/person
			Product sales revenue (thous. KZT)		
2012 fact	4 652 426	4 823 054	4 660 940	658 668	7 202
2013 fact	5 583 012	5 839 329	5 771 931	528 255	8 198
2014 fact	6 673 160	6 785 308	6 671 712	688 691	8 278
2015 fact	4 937 954	5 650 098	5 000 989	497 603	6 470



"Petropavlovsk plant of heavy engineering", JSC

JSC «Petropavlovsk plant of heavy engineering» is a leading manufacturer of Kazakh oil and gas, energy and railway equipment and features a multidisciplinary production capacity with the presence of all the technological processes necessary for the production of these products in mechanical engineering. In 2011, JSC «Petropavlovsk plant of heavy engineering» celebrated the 50th anniversary release of the first product.

In 2015 JSC «Petropavlovsk plant of heavy engineering» was awarded the Prize of the President of the Republic of Kazakhstan «Altyn Sapa» (Golden Quality) as the best company for production purposes in the category of large enterprises.

For 30 years JSC «Petropavlovsk plant of heavy engineering» was a part of the Ministry of Defense Industry of the USSR.

As a part of the JSC «Petropavlovsk plant of heavy engineering» there were 19 production plants and sites, which involved about 2 000 units of technological equipment, there is a design and technology center, which employs more than 100 skilled engineers and designers. Developed and put into production 11 oil products equipment, more than 40 types of petrochemical equipment, as well as gamma-ray products for the energy and chemical complexes.

In JSC «Petropavlovsk plant of heavy engineering» has the production of oil and gas equipment, Equipment for oil and gas refining, power and chemical industry, railway equipment and special products.

Production capacities of JSC «Petropavlovsk plant of heavy engineering» are focused on the production of:

- Mobile modular drilling rigs, hoisting capacity of 125 tons - 5 pcs./year.
- Lifting equipment for the overhaul and repair of underground oil and gas wells, and the type of APRS and PAP capacity from 40 to 100 tons, truck tractor lift capacity of 40 tons - 50 units/year;
- Vehicles with special steam unit AS-204 capacity up to 1600 kg/hr, a pressure of 10 MPa and cementing units such as ASC (ASTS- 500 ASTS- 320) with pressure up to 50 MPa - 50 units/year;
- Tank capacity of 10m³ and 12m³ - 50 units/year;
- Special units reconstruction ACP - 50 units/year;
- Acid units ASK-500 - 30 pcs/year.
- Tools for the overhaul and repair of underground wells - 3000 pcs/year;
- Heat exchangers, tube bundles, the sections to the air coolers, reboilers, separators - 100 pcs/year;
- Travel tools for the repair of the upper structure of the railways, tamping units - 2 000 pcs/year;
- Missile systems of volley fire «broad spectrum» (a modern mobile multi-functional computerized missile volley fire system with a satellite navigation system);
- High-precision missiles to shoot with MLRS «broad spectrum» at ranges up to 40 km up to 150 km can significantly extend the range of tasks performed by the fighting;
- Upgraded 23 mm twin anti-aircraft installation ZU-23-2 (to deal with the typical means of air attack around the clock at distances up to 6000 meters, an automated single and consecutive start type anti-

aircraft missiles «Iglá- S»);

- Modernized anti-aircraft missile system «Strela-10M» (for direct cover objects and forces in the mobile forms of battle and on the march from the blows of modern means of air attack by day and by night in a setting of optical and thermal noise);

- Technical means of protection, «Night-12» (for the equipment protected objects such as storage facilities and special facilities with perimeter not more than 2,4 km).

There are all necessary licenses and certificates for production. The quality management system is introduced and operates in accordance with ISO 9001:2008.

Name	Production value (thous. KZT)	Revenues. TOTAL (thous. KZT)	including:	Total income (thous. KZT)	Labor capacity, thous. KZT/person
			Product sales revenue (thous. KZT)		
2012 fact	5 108 200	5 737 000	5 670 365	229 425	4 493
2013 fact	5 570 012	5 674 835	5 597 850	326 671	4 843
2014 fact	4 400 002	4 093 534	4 015 158	136 408	3 721
2015 fact	4 081 934	4 050 510	3 863 415	10 846	3 791

“Ural plant «Zenith”, JSC



JSC «Ural Plant «Zenith» is created on the basis of the evacuated in 1941 from Leningrad plant «Dvigatel». During the war the plant produced special naval armament. For services to provide the Army and Navy during the Great Patriotic War JSC «Ural Plant «Zenith» was the only one among the enterprises of Kazakhstan awarded with the first degree Order of the Patriotic War.

The main activity of JSC «Ural Plant «Zenith» was the construction of boats and ships - that was the beginning of the birth of the Republic of Kazakhstan new industries - shipbuilding since 1993. This became possible due to the presence of the plant relevant technical and manufacturing capabilities, intellectual and human resources. During this time, the mass production of boats and ships was managed with a displacement of 240 tons.

Current products:

- Shipbuilding;
- Products for the oil and gas industry;
- Other civil products.

In the future it is also planned to produce specialized sea vessels to a dry weight of 600 tons (multipurpose supply vessels, floating laboratory, with shallow draft tugs, shipping vessels on a rotational shift, search and rescue and firefighting vessels).

There are all necessary licenses and certificates for production.
The quality management system is introduced and operates in accordance with ISO 9001:2008.

Name	Production value (thous. KZT)	Revenues. TOTAL (thous. KZT)	including:	Total income (thous. KZT)	Labor capacity, thous. KZT/person
			Product sales revenue (thous. KZT)		
2012 fact	4 682 732	6 758 734	6 741 681	549 164	5 135
2013 fact	5 223 529	5 243 294	5 224 778	332 406	5 528
2014 fact	5 292 991	5 336 215	5 281 358	317 725	5 823
2015 fact	3 237 530	3 363 023	3 247 745	140 891	3 653

"Munaymash", JSC



JSC «Munaymash» was established on the basis of the Taganrog factory «Krasny gidropress», evacuated to Petropavlovsk in November 1941.

JSC «Munaymash» specializes in the production of oil and gas production (sucker rod pumps and accessories to them - 7500 units/year.). The products manufactured by the original technology and has high accuracy, corrosion resistance to aggressive liquids and gases, high wear resistance. At the operational and technical characteristics of the pumps are on level with the best world standards. The production of products are designed to meet the requirements of oil-producing companies, developed in the course of operation of analog products, and can be modified based on customer requirements.

As a part of the investment project «Modernization of machining production of oil industry products» as the investment involved means in the form of state support: a long-term lease financing through its participation in the program «Productivity - 2020».

The large-scale modernization has been carried out, introduced the latest metal-working machinery production «NakamuraTomi» (Japan) and established a cross-cutting computer-aided design and production management system that meets the highest international standards.

There are all necessary licenses and certificates for production.

The quality management system is introduced and operates in accordance with ISO 9001:2008.

Внедрена и функционирует система менеджмента качества ISO9001:2008.

Name	Production value (thous. KZT)	Revenues. TOTAL (thous. KZT)	including:	Total income (thous. KZT)	Labor capacity, thous. KZT/person
			Product sales revenue (thous. KZT)		
2012 fact	1 685 834	2 407 746	1 669 931	80 877	12 925
2013 fact	2 357 027	3 213 835	3 174 628	183 740	15 109
2014 fact	2 790 259	3 472 059	3 193 291	210 307	20 211
2015 fact	2 250 912	2 394 351	2 351 261	148 184	15 469



“KazEng Electronics”, JSC

JSC «KazEng Electronics» (earlier - the National Center for Electronics and Communications of the Republic of Kazakhstan) was established in 1994 on the basis of scientific and technical complex polygon «Sary-Shagan», as well as enterprises and organizations of radio engineering profile.

The main activities of JSC «KazEng Electronics» are the modernization and repair of weapons, military and special equipment, the production of modern means of communication and electronics manufacturing, assembly production of computer equipment.

There are all necessary licenses and certificates for production.

Name	Production value (thous. KZT)	Revenues. TOTAL (thous. KZT)	including:	Total income (thous. KZT)	Labor capacity, thous. KZT/person
			Product sales revenue (thous. KZT)		
2012 fact	2 447 489	2 326 995	2 326 242	5 172	24 974
2013 fact	1 789 390	1 842 440	1 789 391	5 451	12 601
2014 fact	643 116	689 187	643 117	9 830	8 462
2015 fact	780 170	804 866	760 014	61 973	15 834



"Plant named after S.M. Kirov"

JSC «Plant named after S.M. Kirov» was founded in 1928 with specialization in radio production. In 1941 the plant was evacuated to Petropavlovsk.

The main activity of JSC « Plant named after S.M. Kirov » is to design and manufacture, install, commission, maintain and repair communications equipment, railway automation, safety systems for the needs of the Ministry of Defense of the Republic of Kazakhstan, railways, oil and gas complex, technical equipment for digital television and special funds.

Production capacities of JSC « Plant named after S.M. Kirov» are focused on:

- Manufacture of electrical products, systems and security systems for the railway and oil and gas industries (complex locomotive device security KLUB-U, locomotive radio RVS-1, control units of pump jacks of different versions) - 2 000 pcs./year;

- Technical organization of digital television («Otau» satellite set-top boxes) - one million pieces/year.

There are all necessary licenses and certificates for production.

The quality management system is introduced and operates in accordance with ISO 9001:2008.

Name	Production value (thous. KZT)	Revenues. TOTAL (thous. KZT)	including:	Total income (thous. KZT)	Labor capacity, thous. KZT/person
			Product sales revenue (thous. KZT)		
2012 fact	6 504 981	6 166 916	6 114 875	329 317	10 164
2013 fact	8 520 237	8 295 669	8 249 825	473 577	12 456
2014 fact	6 709 207	6 987 225	6 944 772	405 708	11 711
2015 fact	6 734 048	6 928 934	5 980 459	715 600	10 223

“Plant of mechanical engineering named after S.M. Kirov”, JSC



JSC «Plant of mechanical engineering named after S.M. Kirov» was created in 1942 on the basis of the evacuated out of the city of Makhachkala plant number 182 (now plant «Dagdizel»).

Production capacities of JSC « Plant of mechanical engineering named after S.M. Kirov» are focused on:

- Modernization, refurbishment torpedoes with thermal engine (articles 53- 65K, S2510, E274 and their modifications) - 100 pcs./year;
- Manufacture of marine hydraulics and automation marine boilers burning (Hydropneumatic piston and diaphragm, solenoid valves and manually operated valve switches, etc.) - conditionally hydraulics 4-5 sets per year (4-5 vessels boats.); 1-2 sets of combustion of automation in the year (1-2 manning the ship in the year). By producing products of the small ship’s hydraulics - 2400 units./year, for the production of products of large ships hydraulics - up to 1200 units/year;
- Manufacture of parts for the railway industry, products for the mining and oil and gas industry; in monetary terms from 250 to 1 000 million tenge/year;
- Production of engineering products for general industrial use (different kinds of casting, steel, heat treatment, electroplating:
 - The colored casting - up to 300 tons per year;
 - A steel casting - up to 300 tons per year;
 - For iron casting - up to 160 tons per year;
 - Casting investment casting - 100 tons per year;
 - On steel forgings - up to 250 tons per year;
 - On steel Stamping - up to 250 tons per year.

It offers accredited sanitary and industrial metrology and laboratory test center, engineering and technology bureau.

There are all necessary licenses and certificates for production.

The quality management system is introduced and operates in accordance with ISO 9001:2008.

Name	Production value (thous. KZT)	Revenues. TOTAL (thous. KZT)	including:	Total income (thous. KZT)	Labor capacity, thous. KZT/person
			Product sales revenue (thous. KZT)		
2012 fact	740 750	747 057	564 964	(311 192)	2 218
2013 fact	527 526	881 798	806 097	(333 204)	1 570
2014 fact	505 331	651 474	482 234	(433 981)	1 899
2015 fact	528 079	646 989	476 151	(213 545)	1 928



"SRI "Gidropribor", JSC

JSC «SRI «Gidropribor» is created in Uralsk in 1972 on the basis of a special design Engineering Plant named after K. Voroshilov as the Bureau of the Ural branch of the Leningrad Central Research Institute «Gidropribor» of the Ministry of Shipbuilding Industry of the USSR for research, development and production of robotic tools for underwater use of search, rescue and special underwater engineering works.

Currently, the main activities of JSC «SRI «Gidropribor» are focused on the research, design, manufacturing and engineering in the field of shipbuilding, mobile robotics, as well as in the production of equipment for the oil and gas sector.

To carry out these works at JSC «SRI «Gidropribor» has all the necessary licenses and certificates for production.

In 2012, JSC «SRI «Gidropribor» was accredited by the Ministry of Education and Science of the Republic of Kazakhstan and received a certificate as a subject of scientific and (or) scientific and technical activities.

The quality management system is introduced and operates in accordance with ISO 9001:2008.

Name	Production value (thous. KZT)	Revenues. TOTAL (thous. KZT)	including:	Total income (thous. KZT)	Labor capacity, thous. KZT/person
			Product sales revenue (thous. KZT)		
2012 fact	377 756	381 603	377 756	4 503	2 974
2013 fact	472 646	476 398	472 646	18 385	3 376
2014 fact	638 546	636 307	612 547	33 055	4 641
2015 fact	1 240 121	1 287 929	1 240 121	75 228	8 159



"811 Automotive equipment maintenance plant KE", JSC

JSC «811 Automotive equipment maintenance plant KI» was created in Yereimentau on 1 July 1976 in order to provide overhaul and repair of motor vehicles regulated Turkestan and West Siberian military districts of the USSR.

During the period of about 40 years of «811 Automotive equipment maintenance plant KI» has accumulated extensive experience in repair and refurbishment of equipment. Production of «811 Automotive equipment maintenance plant KI» has earned a good reputation.

JSC «811 Automotive equipment maintenance plant KI» specializes in the overhaul, upgrading, refurbishing and maintenance of freight car equipment (MT-LB, BRDM, cars MAZ, Ural, KrAZ, KamAZ) - 200 pcs/year..

There are all necessary licenses and certificates.

The quality management system is introduced and operates in accordance with ISO 9001:2008.

Name	Production value (thous. KZT)	Revenues. TOTAL (thous. KZT)	including:	Total income (thous. KZT)	Labor capacity, thous. KZT/person
			Product sales revenue (thous. KZT)		
2012 fact	399 874	402 402	399 604	2 148	3 278
2013 fact	394 544	399 169	394 387	11 209	2 989
2014 fact	469 003	478 540	468 783	41 748	4 223
2015 fact	512 863	605 404	512 469	73 155	4 271



“Semipalatinsk engineering plant», JSC

JSC “Semipalatinsk engineering plant» was founded in 1969 as a branch of Rubtsovsk Engineering Plant (REP) in accordance with the order of the Ministry of Defense Industry of the USSR.

Production capacities of JSC « Semipalatinsk engineering plant « are focused on the production of:

- Tracked conveyor - tractors and spare parts - 30 pcs./year.
- Spare parts for rolling stock - 3000 pcs./year,;
- Rigging kits for armored vehicles - 200 units/year,;
- Trailers - 50 units/year.
- The rubber pads - 20 000 pcs/year.

There are all necessary licenses and certificates for production.

The quality management system is introduced and operates in accordance with ISO 9001:2008.

Name	Production value (thous. KZT)	Revenues. TOTAL (thous. KZT)	including:	Total income (thous. KZT)	Labor capacity, thous. KZT/person
			Product sales revenue (thous. KZT)		
2012 fact	1 466 020	1 815 813	1 807 056	182 961	10 445
2013 fact	1 898 148	856 322	843 963	6 870	8 628
2014 fact	1 910 772	1 247 838	1 206 519	69 644	4 826
2015 fact	1 306 002	1 055 186	1 000 274	- 61 216	5 782



"Semey Engineering", JSC

JSC «Semey engineering» is created through the reorganization of the Republican State Enterprise «Armored repair plant», founded on July 2, 1976.

It is the only specialized company in the Central Asian region, producing works and services in major overhaul and modernization of armored vehicles.

JSC «Semey engineering» specializes in the overhaul and modernization of weapons and military equipment and the manufacture of conversion technology (BTR-70 (upgraded), T-72B (modernized), combat wheeled vehicle - reconnaissance (BKM-SR-P), armored repair evacuation transport vehicle (BRETМ), wheeled armored repair and recovery vehicle (BKREM), infantry fighting vehicle (IFV-1). The main consumers of the company products are the law enforcement agencies of the Republic of Kazakhstan.

There are all necessary licenses and certificates for production.

The quality management system is introduced and operates in accordance with ISO 9001:2008.

Name	Production value (thous. KZT)	Revenues. TOTAL (thous. KZT)	including:	Total income (thous. KZT)	Labor capacity, thous. KZT/person
			Product sales revenue (thous. KZT)		
2012 fact	6 017 757	6 101 937	6 031 823	489 424	11 506
2013 fact	6 422 978	7 096 793	6 535 300	1 307 857	15 666
2014 fact	10 327 545	8 822 389	8 559 325	2 873 388	13 586
2015 fact	2 272 431	787 695	513 234	-976 184	905



"Instrument engineering plant "Omega", JSC

JSC "Instrument engineering plant "Omega" was founded in 1972 and was a part of the USSR Ministry of the shipbuilding industry, specialized in the production of systems and complexes for controlling ship's machinery, internal ship communications equipment, precision mechanics products of ship instrument.

JSC "Instrument engineering plant "Omega" has established the following types of production:

- Stockpiling;

- Tool;
- Metalworking;
- Installation and assembly;
- Manufacture of plastic and rubber products;
- Production facilities for producing drinking water.

It is organized by the manufacture and supply of a wide range of spare parts for rolling stock Kazakhstan railway, parts and components for rolling stock.

JSC "Instrument engineering plant "Omega" specializes in the production of railway equipment, parts and components for rolling stock, special products and dual-use goods, agricultural and industrial production.

There are all necessary licenses and certificates for production.

The quality management system is introduced and operates in accordance with ISO 9001:2008.

Name	Production value (thous. KZT)	Revenues. TOTAL (thous. KZT)	including:	Total income (thous. KZT)	Labor capacity, thous. KZT/person
			Product sales revenue (thous. KZT)		
2012 fact	628 326	1 044 596	624 921	237 924	3 510
2013 fact	615 118	644 136	617 760	1 795	2 674
2014 fact	278 407	252 642	230 614	(88 526)	1 349
2015 fact	170 996	228 761	189 065	(86 197)	1 119



"SRI «Kazakhstan engineering», LLP

LLP «SRI «Kazakhstan Engineering» was established on the basis of LLP «Unified Center for the introduction of weapons control systems» and is accredited as a subject of scientific and technical activities; obtained a license to carry out development and production, repair of ammunition, weapons and military equipment, spare parts, components and devices to them; special materials, equipment for their production, including installation, commissioning, upgrading, installation, storage, repair and service.

Due to the vast market and the increasing demand it is decided to develop the engineering direction in format of Engineering, procurement and construction contracts, which include:

- Development of the sphere of engineering services in the domestic export-oriented market;
- Implementation (development and transfer) of new technologies;
- Improving the quality of services in the field of engineering;
- Development of their productive capacities.

Name	Production value (thous. KZT)	Revenues. TOTAL (thous. KZT)	including:	Total income (thous. KZT)	Labor capacity, thous. KZT/person
			Product sales revenue (thous. KZT)		
2012 fact	153 036	153 335	149 501	(1 335)	4 372
2013 fact	234 692	237 271	234 857	(36 340)	3 353
2014 fact	148 404	150 520	148 404	(70 520)	3 905
2015 fact	273 789	400 313	273 789	102 948	7 205

"Aviation industry of Kazakhstan", LLP



LLP «Aviation industry of Kazakhstan» is created in 2012 to implement the project, which is conducted in the following areas:

- Service and assembly range aircraft company «Cessna Aircraft Company»;
- Maintenance and repair of Russian helicopters;
- Maintenance and repair of aircraft of tactical aviation;
- Servicing of aircraft of military transport aviation.

In October 2015 LLP «Aviation industry of Kazakhstan» and Ukrainian state company for export and import of military and special purpose «Ukrspetsexport» signed an agreement on cooperation in the aviation sphere.

LLP «Aviation industry of Kazakhstan» maintains the project "Creation of Aviation and Technology Center in Astana», it is building a strategic investment project. Commissioning is scheduled for the second quarter of 2016.

Name	Production value (thous. KZT)	Revenues. TOTAL (thous. KZT)	including:	Total income (thous. KZT)	Labor capacity, thous. KZT/person
			Product sales revenue (thous. KZT)		
2013 fact	-	517	-	(49 609)	-
2014 fact	-	141 530	139 175	(2 312)	6 433
2015 fact	-	2 063 826	2 050 334	85 005	85 993



“Kazakhstan Aselsan engineering”, LLP

LLP «Kazakhstan Aselsan Engineering» was established on 18 April 2011.

The founders of the joint venture are: JSC «NC «Kazakhstan Engineering» (50%), the Turkish company Aselsan (49%) and the Committee of Defense Industry of Turkey (1%).

The activity of LLP «Kazakhstan Aselsan Engineering» is the production of electro-optical devices (devices day and night vision, thermal imaging cameras, scopes, and so on), based on high-tech achievements. Now also provides technical support, maintenance, training and RTD.

In 2013, it carried out the opening for production of the next electro-optical equipment factory 4-fold and 6-fold night vision sights (portable and modular system of night vision sight with the help of focus imaging technology enables nocturnal observation After the installation of sight for small arms, he literally. It allows you to «see» at night).

LLP «Kazakhstan Aselsan Engineering» has signed a Memorandum of Understanding with the LLP «Eurocopter Kazakhstan Engineering», under which the parties are willing to explore the possibility of installation in EU-145 helicopters produced by LLP «Eurocopter Kazakhstan Engineering», electro-optical equipment.

LLP «Kazakhstan Aselsan Engineering» was awarded a diploma in the nomination «Leader of Innovation» in the framework of the VI International investment forum Astana Invest 2015.

Introduced and functioning and quality management system in aviation, the environment, occupational health and safety ISO9001: 2008, ISO14001, AGAP-160, AGAP-2110, OHSAS18001, AS9100.

“Eurocopter Kazakhstan Engineering”, LLP



LLP «Eurocopter Kazakhstan Engineering» was established in December 2010. The aim of the project is the development of modern high-tech helicopter ecosystem in Kazakhstan.

The founders of LLP «Eurocopter Kazakhstan Engineering» formed on a parity basis, are JSC «NC «Kazakhstan Engineering» and a wholly owned subsidiary of EADS - Eurocopter (France - Germany).

The main activities are:

- Assembly, sale, maintenance of helicopters ES-145 in the region;
- Training: flying and technical personnel of potential customers.

LLP «Eurocopter Kazakhstan Engineering» is equipped with workshops for mechanical maintenance, repair sheet metal, repair of electrical and avionics, repair of composite materials and blades, repair workshop engines, hydraulic equipment, facilities for maintenance and painting, an autonomous boiler room, storage rooms.

"Kazakhstan Paramount Engineering", LLP



LLP «Kazakhstan Paramount Engineering» is created on June 2, 2014.

The founders of the joint venture are: LLP «Kazakhstan Engineering Distribution» (50%) and the company «Paramount Group Limited» (South Africa) (50%).

The activity of LLP «Kazakhstan Paramount Engineering» is the production of armored wheeled vehicles and their maintenance.

Current products:

- Armored wheeled vehicles (BKM) «Arlan 4x4»;
- Armored wheeled vehicles (BKM) «Nomad 4x4»;
- Armored personnel carriers (APCs) «Barys 6x6, 8x8.»
- Service maintenance for BKMs and APCs.

In November 2015 opening of the plant carried out with the participation of the President of the Republic of Kazakhstan - Supreme Commander of the Armed Forces of the Republic of Kazakhstan NA Nazarbayev.

"KAMAZ-Engineering", JSC



JSC «KAMAZ-Engineering» was established on May 31, 2005. The shareholders of JSC «KAMAZ Engineering» are JSC «NC» Kazakhstan Engineering «(25%) and OJSC «KAMAZ» (Russia) (75%).

JSC «KAMAZ-Engineering» - is the first in Kazakhstan plant to assemble trucks and special equipment on KAMAZ vehicles. It is a leader in the production of trucks in the Republic of Kazakhstan. Since the inception of JSC «KAMAZ-Engineering» has been produced for more than ten thousand vehicles and machinery, which find their application in many sectors of the economy, including in law enforcement agencies, the Committee for Emergency Situations of the Ministry of Internal Affairs, road construction, agriculture. The lineup consists of about 30 types of equipment special and dual purpose.

In July 2015 JSC «KAMAZ-Engineering» is recognized as the nominee of the competition «The award of development - 2015» in nomination «The best export project.»

There are all necessary licenses and certificates for production.

The quality management system is introduced and operates in accordance with ISO 9001:2008.

“ZIKSTO” JSC



JSC «ZIKSTO» is created by the transformation of the state enterprise JSC «Engineering Plant named after V.V. Kuibyshev».

The shareholders of JSC «ZIKSTO» are JSC «NC «Kazakhstan Engineering» (42.13%) and LLP «TransRemMash», Russia (54.51%).

JSC «ZIKSTO» specializes in the production of freight cars, covered hopper cars for grain, container, capital repairs of cars and component parts, overhaul and other types of repair of cars and component parts, the manufacture of products for the oil and gas, energy, general industrial goods and consumer goods.

Production Company: railroad platforms (fitting platforms, innovative gondola cars, hopper cars, four-axle all-metal cars, boxcars universal) - 1 200-1 500 pcs/year; The Marine ground mines with passport and export shape - 100-150 units/year.

There are all necessary licenses and certificates for production.

The quality management system is introduced and operates in accordance with ISO 9001:2008.

Plans and aims of the Company for the future periods

It is planned to increase labor productivity in 2016 to a level of KZT 13.8 Mn for the employee. Productivity on the results of 2015 is KZT 12.6 Mn per employee (the amount of the Company's products produced by group/planned (actual) number for the period).

A subsidiary of JSC «NC «Kazakhstan Engineering»- LLP «Aviation industry of Kazakhstan» completes the construction of a strategic investment project «Creation of aviation technical center in Astana». The commissioning is scheduled for the second quarter of 2016.

Throughout 2016-2017 the Company plans to implement the Governmental decision of the Republic of Kazakhstan dated 30.12.2015, No. 1141 «On some issues of privatization in the 2016-2020» (hereinafter - the Decree No.1141). As part of the planned sale, liquidation and reorganization of 17 subsidiaries, affiliated companies and grandchild Companies included in Decree No.1141 and specific decision of the Board of «Samruk-Kazyna», JSC dated 29.01.2016, No.02/16, as well as the implementation of additional 4 assets of the Company in accordance with the restructuring plan assets of the Company for 2016, approved by the decision of the Company Board of Directors dated 20.01.2016 (minutes No.1).

In 2016, the company planned to set up R&D center based on the Company's subsidiary Company LLP «SRI «Kazakhstan Engineering». The main objective is the creation of a communication platform that combines the idea of creators and innovators, a unique experience, the results of scientific and technical activity and scientific and technological base of the enterprise of the Company, the Republic enterprises, research institutes, universities and other organizations to meet the challenges of creation and introduction of innovative products in under the «one window».

On the basis of LLP «Korgau engineering» planned to create a center of the Industrial Enterprises and service competence center for ERP automation technology and PLM, which will provide the possibility of teamwork of designers and engineers to create products and improve production processes.

It is planned to modernize and update the Company's production and creation of new jobs in the following areas:

- Replacement of outdated equipment through the acquisition of high-tech equipment, specialized vehicles and machinery;
- Technology transfer;
- Reconstruction, overhaul of production facilities and equipment, change parts of layout, optimization of in-plant traffic flow, construction of new facilities;
- Automation of production, the acquisition of modern equipment and software.



KAZAKHSTAN ENGINEERING
NATIONAL COMPANY

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015





KAZAKHSTAN ENGINEERING
NATIONAL COMPANY

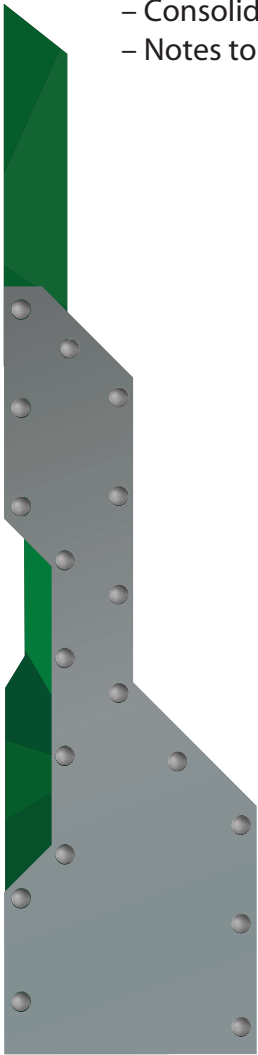
JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Joint Stock Company Kazakhstan Engineering National Company and its subsidiaries (collectively – the “Group”), which comprise the consolidated statement of financial position as at 31 December 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

Consolidated financial statements for the year ended 31 December 2015

ASSETS

	Notes	31 December 2015	31 December 2014
NON-CURRENT ASSETS:			
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
		<hr/>	<hr/>
Total non-current assets		31 559 171	24 831 329
CURRENT ASSETS:			
Inventory	11	18 321 723	3 766 488
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
		<hr/>	<hr/>
		81 927 279	63 728 785
Assets classified as held for sale	16	592 755	593 458
		<hr/>	<hr/>
Total current assets		82 520 034	64 322 243
		<hr/>	<hr/>
TOTAL ASSETS		114 079 205	89 153 572
EQUITY AND LIABILITIES			
EQUITY:			
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
		<hr/>	<hr/>
Equity attributable to Parent of the Company		23 990 990	32 477 073
Non-controlling interests	19	656 018	691 530
		<hr/>	<hr/>
Total equity		24 647 008	33 168 603
NON-CURRENT LIABILITIES:			
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
		<hr/>	<hr/>
Total non-current liabilities		2 027 898	38 417 312
		<hr/>	<hr/>

Consolidated financial statements for the year ended 31 December 2015

CURRENT LIABILITIES:	Notes	2015	2014
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	<u>2 790 001</u>	<u>1 901 506</u>
Total current liabilities		<u>87 404 299</u>	<u>17 567 657</u>
TOTAL EQUITY AND LIABILITIES		<u><u>114 079 205</u></u>	<u><u>89 153 572</u></u>

Consolidated financial statements for the year ended 31 December 2015

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)
Financial income	29	6 093 250	1 863 522
Financial 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>
(LOSS)/PROFIT FOR THE YEAR		(8 266 418)	917 398
Attributable to:			
Parent of the Company		(8 337 487)	816 380
Non-controlling interests		71 069	101 018
Other comprehensive loss			
<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		<u>-</u>	<u>(1,260)</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(8 266 418)	916 138
Attributable to:			
Parent of the Company		(8 337 487)	815 191
Non-controlling interests	19	<u>71 069</u>	<u>100 947</u>
		<u>(8 266 418)</u>	<u>916 138</u>

OPERATING ACTIVITY:	Notes	2015	2014
(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)
INVESTING ACTIVITY:			
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		81783	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)
Изъятие краткосрочных финансовые инвестиций		62 433 524	61 000 439
Maturing of short-term investments		17 644 141	(8 045 836)

Consolidated financial statements for the year ended 31 December 2015

FINANCING ACTIVITY:

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		<u>(217 815)</u>	<u>(693 637)</u>
Net cash (used in)/generated by financing activity		<u>(9 980 045)</u>	<u>8 544 711</u>
CHANGE IN CASH AND CASH EQUIVALENTS, net		8 454 134	(867 899)
CASH AND CASH EQUIVALENTS, at the beginning of the year	15	<u>10 451 088</u>	<u>10 758 902</u>
Effects of exchange rate changes on the balance of cash held in foreign currencies		<u>280 792</u>	<u>560 085</u>
CASH AND CASH EQUIVALENTS, at the end of the year	15	<u><u>19 186 014</u></u>	<u><u>10 451 088</u></u>

Consolidated financial statements for the year ended 31 December 2015

	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	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	2 4647 008

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.

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 «Financial Instruments»	1 January 2018
IFRS 15 «Revenue from Contracts with Customers»	1 January 2018
IFRS 16 «Leases»	1 January 2019
Amendments to IAS 1 Disclosure Initiative	1 January 2016
Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception	Date will be determined by IASB
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 2018.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance with IFRS

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

Basis of measurement

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

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

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

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

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

Functional and presentation currency

These consolidated financial statements are presented in Kazakhstani tenge ("tenge"), which is the

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

Foreign currency transactions

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

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

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

Going concern basis

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

As at 31 December 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.

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

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

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

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

Non-current assets held for sale

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

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets

and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

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

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

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

Property, plant and equipment

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

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

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

Group of assets	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.

Recognition of financial instruments

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

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

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

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

Financial assets

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

Cash and cash equivalents

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

Short-term financial investments

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

Trade accounts receivable

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

Loans and other receivables

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

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

Other financial assets

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

Impairment of financial assets

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

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

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

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

Financial liabilities and equity instruments

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

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

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

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

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

Trade and other accounts payable

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

Loans and borrowings

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

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

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

Offsets

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

Financial assets and liabilities at fair value through profit or loss

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

Embedded derivatives

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

Derecognition of financial assets and liabilities

Financial assets

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

- expired rights to receive cash flows from the asset;

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

If the Group has transferred its rights to receive cash flows from the asset and neither passed nor kept all the risks and rewards of the asset, nor transferred control over the asset, the asset is recognized to the extent that the Group continues to participate in the asset. Continuance of participation that takes the form of guarantee over the transferred asset is measured at the lower of the original carrying value of the asset and the maximum amount of compensation that may be required from the Group as a settlement.

Financial liabilities

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

Revenue recognition

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

Sale of goods

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

Rendering of services

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

Construction contracts

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

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

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

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

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.

Current tax

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

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the

extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

Current and deferred tax for the year

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

Provisions

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

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Critical judgements in applying accounting policies

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

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

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

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

At 31 December 2014	As previously reported	Reclassifications	As reclassified
Non-current assets			
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
Total non-current assets	24 831 329	-	24 831 329
Current liabilities			
Other current liabilities	2 389 246	(487 740)	1 901 506
Advances received from related parties	-	487 740	487 740
Total current liabilities	17 567 657	-	17 567 657

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

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

	As previously reported	Reclassifications	As reclassified
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
2014			
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	11 329 944
Civil purposes products	8 191 191	10 791 774
	<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).

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>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>

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery, equipment and vehicles	Other assets	Construction in progress	Total
Initial or deemed cost:						
At 1 January 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 2014	519 795	8 575 600	10 120 001	1 124 723	6 184 599	26 524 718
Accumulated depreciation and impairment:						
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)
Carrying value:						
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).

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%
SRI Kazakhstan Engineering LLP (former The united center of armament controlling systems introduction)	Design and development of new types of special products for the defence industry	Kazakhstan	100%	100%
Kazakhstan Aviation Industry LLP	Maintenance and support of aviation technics	Kazakhstan	100%	100%
JV Korgau Engineering LLP	Production and supply of personal protective equipment for human respiratory syste.	Kazakhstan	100%	-

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

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

Name of subsidiary	Proportion of ownership interests held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
	31 December 2015	31 December 2014	31 December 2015	31 December 2015	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
	2015	2014
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
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

9. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Name	Principal activity	Country	2015		2014	
			Carrying value	Share	Carrying value	Share
Associates:						
JSC KAMAZ-engineering	Manufacture and sale of buses, cars, special-purpose equipment and its spare parts	Kazakhstan	625 588	25.00%	661 025	25.00%
Other			16 250	22.07%-49.00%	-	22.07%-49.00%
Total investments in associates			641 838		661 025	
Joint ventures:						
Eurocopter Kazakhstan engineering LLP	Manufacture and technical maintenance of helicopters	Казахстан	2 775 622	50.00%	2 878 084	50.00%
Thales Kazakhstan engineering LLP	Development, manufacture and sale of electronic equipment, systems, software and provision of related services; manufacture, sale and technical maintenance of radio and communication equipment for defence services	Казахстан	-	50.00%	-	50.00%
Kazakhstan ASELSAN engineering LLP	Manufacture of electronic and optical devices	Казахстан	2 946 249	50.00%	3 178 977	50.00%
Total investments in joint ventures			5 721 871		6 057 061	

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:

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Associates	2015	2014
At 1 January	661,0	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)
At 31 December	641 838	661 025
Joint ventures		
At 1 January	6,05	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)
At 31 December	5 721 871	6 057 061

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
Cash and cash equivalents	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)
Current financial liabilities (less trade and other payables and provisions)	-	-	-	(956 861)
Non-current liabilities	(52 406)	-	(173 716)	(59 379)
Net assets	5 551 244	5 756 168	5 402 648	5 887 172

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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	-	-	244 925	235 391
Carrying amount of the Group's interest in joint ventures	2 775 622	2 878 084	2 946 249	3 178 977
	Eurocopter Kazakhstan engineering LLP		Kazakhstan ASELSAN engineering LLP	
	2015	2014	2015	2014
Revenue	90 224	12 551 353	9 405 227	3 898 309
(Loss)/profit and total comprehensive (loss)/income for the year	(204 924)	779 262	(465 456)	(216 252)
Share of (loss)/profit in joint ventures	(102 462)	389 631	(232 728)	(108 126)

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
	2 110 275	1 243 886

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
Less: allowance for obsolete inventories	18 566 645 (244 922)	14 079 901 (313 413)
	18 321 723	13 766 488

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

	31 декабря 2015 г.	31 декабря 2014 г.
Allowance for obsolete inventories at the beginning of the year	(313 413)	(369,3)
Accrued during the year (Note 26)	(114 718)	(41 735)
Written-off against previously created allowance	183 209	97 660
Allowance for obsolete inventories at the end of the year	(244 922)	(313 413)

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
	3 285 333	4 703 392
Less: allowance for doubtful debts from third parties	(259 390)	(257 045)
	3 025 943	4 446 347

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	168 952	9 647
doubtful	(259 390)	(257 045)

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	539	-
	3 025 943	4 446 347

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	269 136	414 871
	9 365 642	4 339 070
	-	(19 067)
Less: fair value adjustment (Note 35)	(186 787)	(253 905)
Less: allowance for doubtful debts	9 178 855	4 066 098

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:

	31 December 2015	31 December 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	8 915	12 300
Allowance for doubtful debts at the end of the year	(186 787)	(253 905)

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	368 585	1 932 749

14. SHORT-TERM FINANCIAL INVESTMENTS

Name	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
		30 508 197		28 796 081
Less: long-term portion		(4,479)		(900)

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	-
	30 503 718	28 795 181

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	-
	19 186 014	10 451 088

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
	19 186 014	10 451 088

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.

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	32014
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	656 018	691 530

20. DEBT SECURITIES AND LOANS

Local bonds issued at a price of:	Maturity	Coupon rate	31 December 2015	31 December 2015
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			68 786 056	46 665 347

Less: current portion of debt securities and loans	(68 786 056)	(10 409 721)
Non-current portion of debt securities and loans	-	36 255 626

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
	3 248 977	2 429 652

Торговая кредиторская задолженность выражена в следующих валютах:

	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
	3 248 977	2 429 652

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
	2 350 304	1 567 875

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
	2 790 001	1 901 506

Movement in provisions is presented as follows:

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

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	10 376 654	10 913 783
	63 516 498	38 488 086

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).

25. COST OF SALES

	2015	2014
Cost of defense products for resale	35 273 957	-
Cost of manufactured goods and services	22 420 340	28 697 195
	57 694 297	28 697 195

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	256 583	444 536

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	923 458	690 126
	4 539 744	4 405 877

27. SELLING EXPENSES

	2015 г.	2014 г.
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
	854 918	1 047 964

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
	6 093 250	1 863 522

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
	2 782 339	2 457 483

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)
Income tax (benefit)/expense	(1 530 239)	947 516

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	(9 796 657)	1 864 914
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	-	36 828
	(1 530 239)	947 516

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

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	At 1 January 2015	At 1 January 2015	At 1 January 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	(724 487)	(547 081)	(1 271 568)
	61 923	1 857 911	1 919 834

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

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.

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).

	31 December 2015	Признано в прибылях и убытках
Borrowed funds	69 766 214	47 765 706
Cash and cash equivalents, short-term investments and restricted cash	(49 953 554)	(39 777 534)
Net debt	19 812 660	7 988 172
Equity	24 647 008	33 168 606
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.

Exposure to currency risk

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

Financial assets:	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
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	-
Financial liabilities:						
Debt securities issued	(68 036 056)	(36 380 080)	-	-	-	-
Trade accounts payable	(544 017)	(408 148)	(213 957)	(631 864)	(101 078)	(80 212)
Net effect	(38 397 765)	(6 405 139)	334 797	(206 903)	(92 278)	(75 911)

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.

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

Financial assets:	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
	3 025 943	4 446 347

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	2 982 320	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
	3 285 333	4 703 392

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.

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.

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

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2014	Interest	1-6 months	6 months – 1 year	1-5 years	More than 5 years	Total
Non-interest bearing:						
Trade accounts payable		2 429 652	-	-	-	2 429 652
Other liabilities		309 834	357 953	65 316	221 625	954 728
Interest bearing:						
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

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.

2015	Interest rate	1 month – 1 year	1-5 years	More than 5 years	Unknown period	Total
Interest bearing:						
Short-term financial investments	8.97%	33 239 723	-	-	-	33 239 723
Short-term deposits	4.6%-9.2%	90 535	-	-	-	90 535
Non-interest bearing:						
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

2014	Interest rate	1 month – 1 year	1-5 years	More than 5 years	Unknown period	Total
Interest bearing:						
Short-term financial investments	5%	30 810 844	-	-	-	30 810 844
Non-interest bearing:						
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.

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
Assets				
Loans to a related party	-	-	1 457 297	1 457 297
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
	31 096 473	31 096 473	30 845 936	30 845 936
Liabilities				
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
	67 965 156	69 536 329	46 635 198	47 544 081

Fair value hierarchy as at 31 December 2015

	31 December 2015			
	Level 1	Level 2	Level 3	Total
Financial assets				
Short-term financial investments	-	30 503 718	-	30 503 718
Non-financial assets				
Assets classified as held for sale	-	-	592 755	592 755
Financial liabilities				
Loans	-	750 000	-	750 000
Debt securities issued	66 464 883	-	-	66 464 883
Finance lease obligations	-	750 273	-	750 273
Financial assets				
Loans to a related party	-	1 457 364	-	1 457 364
Short-term financial investments	-	28 795 181	-	28 795 181
Non-financial assets				
Assets classified as held for sale			593 458	593 458
Financial liabilities				
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
	2 200 582	2 737 925

Dividends receivable (Note 13)

	31 December 2015	31 December 2014
MBM-Kirovets LLP	41 365	-
JSC ZIKSTO	15 755	18 095
	57 120	18 095

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	-

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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
	1 003 798	1 138 124

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
	55 533	51 565

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)
	-	1 457 297

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).

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	-
	9 771 916	487 740

Dividends to the Shareholder (Note 17)

	31 December 2015	31 December 2014
Accrued for the period	140 336	652 286

Revenue (Note 24)

	31 December 2015	31 December 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
	57 649 510	32 360 097

Expenditures on services rendered and goods acquired

	31 December 2015	31 December 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
	1 204 788	3 038 156

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
	4 000 329	124 511

Finance costs (Note 30)

	2015	2014
JSC Samruk-Energy	248 673	185 565
	248 673	185 565

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.



KAZAKHSTAN ENGINEERING
NATIONAL COMPANY

There are the following definitions and abbreviations used in the Annual report:

1. **RK** — the Republic of Kazakhstan
2. **“NC “Kazakhstan engineering”, JSC, the Company** — Joint Stock Company “National Company “Kazakhstan engineering”
3. **“Samruk-Kazyna”, JSC, the Fund** — Joint Stock Company “National Welfare Fund “Samruk-Kazyna”
4. **JSC** — Joint Stock Company
5. **SDO** — State Defense Order
6. **The Group of Companies** — The Company, subsidiary organizations of the Company, with more than 50% of vote stocks (shares of participation) owned by the Company
7. **SAO** — Subsidiary and affiliated organizations
8. **KPIs** — Key Performance Indicators
9. **IFRS** — International Financial Reporting Standards
10. **MEMR RK** — the Ministry of energy and mineral resources
11. **MNE RK** — the Ministry of National Economy
12. **VAT** — Value added tax
13. **SRI** — Scientific research institute
14. **HEI** — Higher Education Institution
15. **LLP** — Limited Liability Partnership
16. **KADEX** — Kazakhstan Defense Exhibition

Units of measurement:

1. **KZT Mn** — million tenge
2. **KZT Bn** — billion tenge
3. **thous. KZT** — thousand tenge