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## MESSAGE OF THE CHAIRMAN OF BOARD OF DIRECTORS



Chairman of the Board of Directors  
S.N. Gromov

«Kazakh Engineering National Company» JSC (hereinafter referred to as «NC «Kazakh Engineering» or Company) was established to improve military-industrial complex management system of the Republic of Kazakhstan.

Sole shareholder of «Kazakh Engineering National Company» JSC is «National Welfare Fund «Samruk-Kazyna» JSC (hereinafter referred to as «Samruk-Kazyna» JSC); 100% shares of «Samruk-Kazyna» JSC is owned by the Government of the Republic of Kazakhstan.

Since 2010 «Kazakh Engineering National Company» JSC is beneficial ownership of the Ministry of Defense of the Republic of Kazakhstan.

Currently the Company shall solve issues on timely and qualitative implementation of state defense order, assistance in technical and technological modernization of Armed Forces of the Republic of Kazakhstan, other forces and military formations, development of national engineering, implementation of state forced industrial and innovative development program draft for 2010—2014, assistance in increase of Kazakh content share

in production of goods, works and services, training of qualified engineering and technical personnel able to work under modern conditions.

Supported by the Ministry of Defense of the Republic of Kazakhstan which is the general consumer of military products, majority of enterprises included to the Company's structure have been considered as the executives of state defense order on supply of weapons and military equipment of domestic manufacture.

Moreover, in 2012 changes were made in some legislative acts stipulating for the approval of state defense order for three-year period, increase of prepayment under state defense order agreements to 75%, priority of the executives' selection of state defense order of enterprises transferring modern technologies on advanced technology product output.

Similarly, in this dynamic mode, civil product manufacture modernization Procedures are successfully implemented under supervision of «Samruk-Kazyna» JSC. So, in 2009—2012 number of agreements concluded with Organizations of Fund Group was increased by 3 times and constituted approximately 17 billion tenge.

This permitted to improve financial and manufacturing situation in enterprises of military-industrial complex of the Republic of Kazakhstan, achieve high economic indicators, stabilize social situation of personnel.

The Company actively participates in the development of international military and technical co-operation. Currently, the Company has established relations with leading manufacturing companies from more than 20 countries.

This activity has resulted in implementation of large mutually beneficial investment projects with international transnational companies such as «Eurocopter» (France, Germany), «Aselsan» (Turkey), «Indra» (Spain), «Thales» (France) on output of new types of products (helicopters, bullet-proof vests, radio stations, etc.).

Modernization of existing industries («Munaimach» JSC, «Tynys» JSC, «Semey Engineering» JSC, etc.) on output of military and civil products is under completion with participation of foreign partners.

At the same time, enterprises of the Company implement some large projects in the field of electrical energy and oil-and-gas sector. Considering binding requirements of international banks financing engineering support projects, the Company shall establish and develop a new activity — Engineering which volume shall be 7 billion tenge in 2013.

The Company, its subsidiary and affiliated organization make significant contributions into social and economic modernization of the country. Along with the development of proper production, military enterprises make great contributions into the development of regions, giving workplaces and paying taxes into the local budget. Volume of these deductions of enterprise group of the Company constituted more than 10 billion tenge in 2012.

In order to develop an export potential, the Company has activated its advertising and exhibition activity.

So, enterprises of the company participate in international exhibition KADEX sponsored by the Ministry of Defense of the Republic of Kazakhstan.

Long-term memorandums to the amount of 2 billion USD were concluded up to 2020 in result of exhibition KADEX—2012.

One of the principal non-financial factors of competitiveness increase of the Company is a quality of corporate management which assists in perception level increase of the Company by shareholders and investors, its market value and reduction of loan capital cost.

The Company has recently made a significant work on improvement of corporate management practice. Among its key moments associated with the most progress of the Company, are formalization and practice of work of Board of Directors, risk management, protection of confidential information, disclosure of Company information, establishment of committees of the Board of Directors and other important aspects.

In 2012, by order of the Sole Shareholder, «Kazakh Engineering National Company» JSC for the first time made a diagnostics of corporate management; at that, rating of its compliance level with the requirements of

the best world practice constituted 44%. Work in this direction goes on and, in future, large enterprises will be considered firstly. The important stage of this activity in the current year is the Company strategy development for 2013—2020 in order to determine strategic objectives and tasks for decennial period in accordance with the message of the President of the Republic of Kazakhstan «Strategy «Kazakhstan — 2050: New Political Course of Successful State». This work is built on the principles of introduction of the best standards of corporate management, maximization of long-term cost of managed assets, increase of their competitiveness in world markets and with due regard to the priorities of state policy in military technical, industrially innovative, socially economic and other fields of activities of the Ministry of Defense of the Republic of Kazakhstan and «Samruk-Kazyna» JSC.

In the fulfillment of the order of the President of the Republic of Kazakhstan on full partnership of state and business in the solution of economic and social problems, as well as recognizing social responsibility of business on the provision of maximum profits for the Kazakh people, the Company assumes voluntary obligations on socially responsible participation in life of its employees and society in a whole.

Moreover, in 2013, the Company plans to join the Global Agreement initiated by UN and calling business circles to follow basic principles in the field of the observance of human rights, standards of labor relations and environmental protection, In a whole, activity of the Company has a positive dynamics and great opportunities for further growth.

Building economic policy, modernizing production, we shall follow the most advanced trends in world economy. Fall behind these trends means to expose itself to vulnerability in issues of comprehensive assurance of national security. Ambitious scale of our measures on the establishment of new industries and modernization of existing enterprises confirms the seriousness of our intentions.

Today, without any exhaustion of reserves and increasing economic forces of the country, our task is establish economic potential able to provide the Sovereignty of Kazakhstan, respect of partners and stable peace.



## MESSAGE OF THE CHAIRMAN OF MANAGEMENT BOARD



Chairman  
of Management Board  
B.S. Smagulov

«Kazakh Engineering National Company» JSC is a holding structure providing for integrated financial, industrial and technological policy in the largest enterprises of military-industrial complex of the Republic of Kazakhstan and industrial sectors of military products, products of dual purpose and civil engineering.

«Kazakh Engineering National Company» JSC includes 27 industrial, servicing and specialized research enterprises in seven regions of Kazakhstan.

Principal types of their specialization are production and repair of weapons and military equipment, output of products and delivery of services in oil-and-gas, railway, agro-industrial and fuel-energy complexes. Stably developing industrial, technical and financial potential of included enterprises, «Kazakh Engineering National Company» JSC gives employment to 6 thousand persons in regions of its presence.

The Company was established on the basis of Resolution of the Government of the Republic of Kazakhstan #244 "On Issues of Military — Industrial Complex of the Republic of Kazakhstan" of 13 March 2003 by inclusion of enterprises of military industry of the Ministry of Defense

of the Republic of Kazakhstan. The Company celebrates its 10th anniversary in 2013. Right strategic Solutions and effective management allowed us to achieve high performance Indicators and demonstrate excellent financial results in accounting year.

For the last 10 years, assets of the Company increased from 6 billion tenge to 46 billion tenge or by 7.7 times. Increase of assets up to 66 billion tenge is planned in 2013.

2012 was completed with consolidated profit approximately 4.5 billion tenge.

The Company reinvests the obtained profits to the development of production. Volume of investments for the last 10 years increased from 0.236 billion tenge to 7.4 billion tenge in 2012 or by 31 times.

Exhibition KADEX—2012 was held in 2012 with participation of the Company; weapons and military equipment of Land forces and Naval forces of the Republic of Kazakhstan, Air Defense Means and Systems, special-purpose means and property, IT technologies, communication means and systems, rear and technical property were demonstrated in this exhibition.

Military and dual-purpose products, made in 253 military enterprises including 83 domestic and 170 foreign companies from 23 countries, were presented in eight indoor pavilions and outdoor areas.

The Company obtained a credit rating of international rating agency Moody's at the level «Ba2» («stable») for the first time in 2012. The company entered the domestic bond market (KASE) within the frameworks of the first bond program to the amount of 30 billion tenge. «Kazakh Engineering National Company» JSC is the only engineering corporation in Kazakhstan with international credit rating.

Achievements of «Kazakh Engineering National Company» JSC are the logical result of support by the Ministry of Defense of the Republic of Kazakhstan and the Sole Shareholder of the Company — «Samruk-Kazyna» JSC and fruitful work of personnel at all levels.

Efforts of the Company in 2013 and consecutive years will be directed to the formation of leading positions in

engineering sector which shall play a role of locomotives of accelerated diversification of sector and shall be able to compete with similar foreign companies and companies from CIS countries.

Activity of sector's leader shall meet such criteria as operational effectiveness, productivity and profitability, high financial stability, high innovative development level, transparent and optimal structures of assets.

Forming sector's leader, the Company acting through the Board of Directors of our subsidiary and affiliated organizations will implement tasks such as increase of corporate management level, asset structure optimization, implementation of effective dividend policy, strict control and monitoring of key performance indicators of subsidiary and affiliated organizations of the Company, debt and risk management, innovative activity stimulation.

Successes of accounting year demonstrate that we have all necessary preconditions for further stable growth and achievement of all objectives. In future we will continue to work effectively for the benefit of the country and shareholder meeting the highest industrial, environmental and social standards in our activity.

Currently the Company bears little resemblance to itself at the moment of establishment: ownership structure, circle of operations, technological possibilities have been changed.

But its social importance, involvement in public development process have remained unchanged.

Management and personnel of the Company hopes that, implementing our mission, we will assist in the development and prosperity of all parties interacting with us.

At the end we would like to thank the corporate center of the Company and subsidiary and affiliated organizations for their professionalism, partners — for their mutually beneficial and fruitful co-operation.

I wish you many new professional victories for the benefit of our country!



## ANALYSIS OF ENGINEERING SECTOR OF KAZAKHSTAN

Currently engineering complex of Kazakhstan includes 13 subsectors: railway, oil-and-gas, mining and metallurgy, motor vehicle industry, agriculture, electrical equipment, energetics, machine tool industry, household appliances, component basis, construction, shipbuilding, instrument engineering.

Number of products made in Kazakhstan in the domestic market of engineering products is about 13%, the rest 87% of country's demand are covered by foreign (generally, Russian) supplies.

Existing in Kazakhstan demand for engineering products is satisfied by import, which annual volume exceeds production volume by 3 times that means a great potential for domestic production development.

Motor vehicles, machine tools, products of oil-and-gas, mining and metallurgical engineering, household appliances and agricultural equipment take 40% in import structure.

Recently there is a stable tendency of import reduction and export increase of engineering products (components, electrical technologies, electrical equipment, motor vehicles).

Moreover, due to joining of Kazakhstan to the Customs Union and WTO in the future, significant opportunities for increase of product export are opened.

«Kazakh Engineering National Company» JSC is the principal executive of state military order.

Taking into consideration an offset policy implemented by the Ministry of Defense of the Republic of Kazakhstan, rate of orders for the production and maintenance of weapons and military equipment on the territory of the country for the Company's enterprises will be increased annually.

In order to secure a reliable defense capacity of the state able to resist potential threats, the Strategic Plan-2020 has the following tasks: implement Armed Forces modernization programs to 2015 and provide 80% of state defense order with domestic production to 2020.

Development of military-industrial complex significantly affects the development of state in a whole, its security and authority in international community.

Military-industrial complex assists in the fulfillment of investments to advanced technologies, fundamental and applied science, elementary basis promoting their development. Military-industrial complex of Kazakhstan is mainly represented by Company group integrating almost all functioning military-industrial complex of the country.

However, some military enterprises of the Company have kept an experience of knowledge-intensive industry development, experience in research and development works, implementation of new types of industries and conducting of state weapons and military equipment tests, as well as enlarge nomenclature and increase volumes of manufactured military and dual-purpose products.

Within the frameworks of diversification of the Kazakh economy and reduction of dependence on raw material export, the government of the country lays emphasis on the industrial sector and engineering sector, taking into consideration a world practice, shall become a locomotive of further growth of real sector.

The principal tasks of engineering sector of Kazakhstan is the reduction of import dependence in strategic sectors of economy, maximal satisfaction of domestic market needs and enlargement of export by the increase of product output with high added value.

Policy of the state support of engineering sector is based on the following principles:

- inclusion of engineering enterprises into Industrialization Map and program "Productivity 2020";
- establishment of attractive terms and conditions for direct investments, granting of tax exemptions;
- development of innovations, for this purpose 4 design engineering departments were established:

transport and agricultural engineering and mining-metallurgical and oil-and-gas equipment;

- implementation of technical regulations;
- provision of qualified human resources.

Thanks to the state forced industrially innovative development program and Kazakh engineering development program for 2010 — 2014, engineering sector of Kazakhstan demonstrates stable annual growth of production volumes.



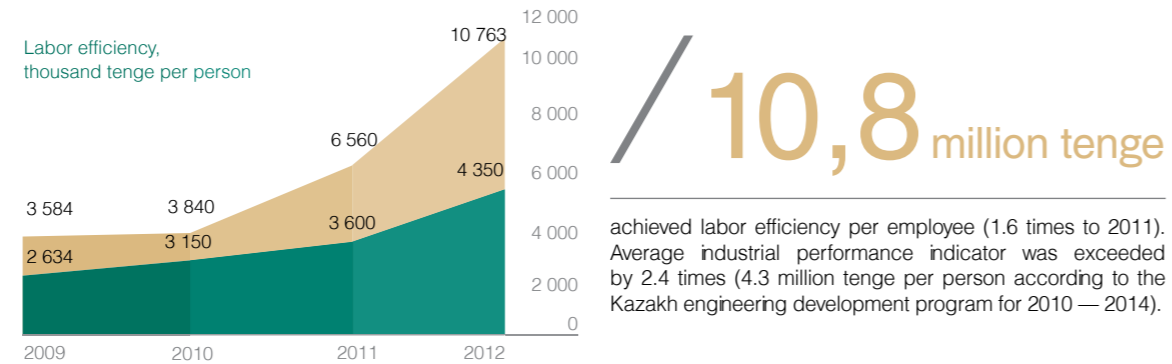


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«KAZAKH ENGINEERING  
NATIONAL COMPANY» JSC  
IN FIGURES AND FACTS IN 2012

## “KAZAKH ENGINEERING NATIONAL COMPANY” JSC IN FIGURES AND FACTS IN 2012

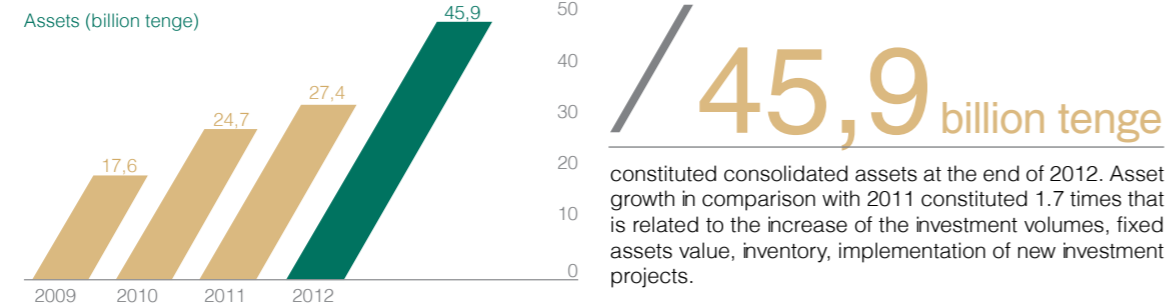
In a whole, the principal performance and financial indicator plans for 2012 were implemented by the Company according to the objectives and tasks set by the President, Government of the Republic of Kazakhstan, Sole Shareholder and trust manager.



**10,8 million tenge**

achieved labor efficiency per employee (1.6 times to 2011). Average industrial performance indicator was exceeded by 2.4 times (4.3 million tenge per person according to the Kazakh engineering development program for 2010 — 2014).

on engineering of the Republic of Kazakhstan / on the Company



**45,9 billion tenge**

constituted consolidated assets at the end of 2012. Asset growth in comparison with 2011 constituted 1.7 times that is related to the increase of the investment volumes, fixed assets value, inventory, implementation of new investment projects.

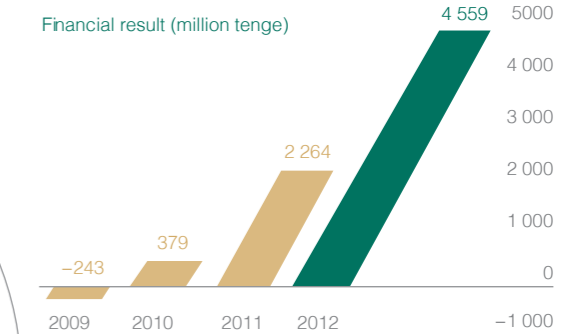
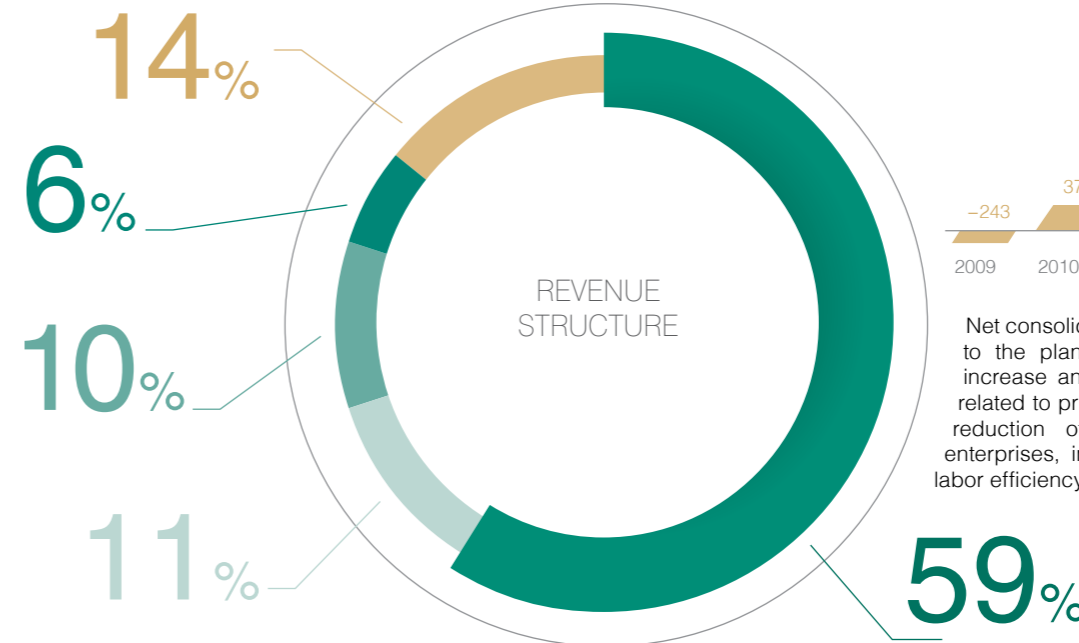
Indicators	2009	2010	2011	2012	changes of 2012 in comparison with 2009
Production volume according to the group (billion tenge)	18,5	19,1	33,5	60,6	3,2 times
Assets (billion tenge)	17,6	24,7	27,4	45,9	2,6 times
Financial result (million tenge) *	-243	379	2 264	4 559	12 times in comparison with 2010
Development costs (investments) (million tenge)	385	897	2 044	9 651	25 times
Labor efficiency (thousand tenge per person)	3 584	3 840	6 560	10 763	3 times
Average monthly salary (thousand tenge)	55,4	70,5	86,9	135,5	2,4 times

\* - financial result = net income before the minority interest deduction



PERSONNEL TURNOVER IS 14% UPON PLANNED 15%. IT SHALL BE 12% IN 2013.

special products / oil-and-gas / railway / other / service



Net consolidated profit was 4.5 billion tenge (258% to the plan, growth was 101% to 2011). Profit increase and planned target overachievement is related to prime cost reduction of output products, reduction of general costs, modernization of enterprises, increase of sales volume, increase of labor efficiency, etc.



## PERFORMANCE INDICATORS

**/ 28,7 billion tenge**    **/ 8%**

Production volume of special products and dual-purpose products for 2012 in the Company group (according to participation interest method) constituted 28.7 billion tenge in comparison with planned 27.2 billion tenge (106% to plan). There was a twofold increase in comparison with 2011.

Share of export products in the volume of sales in 2012 constituted 8% of the total volume of sales that 14% higher than the indicator of the last year. Execution of this indicator in 2012 was 100%.

**/ 22,1 billion tenge**    **/ 18%**

Production volume of civil products constituted 22.1 billion tenge in comparison with planned 21.9 billion tenge that constituted 101% to the plan (growth by 33% to 2011). Increase of the production volume is associated with growth of number of agreements within State Defense Order and agreements with national companies, large organizations of the Republic of Kazakhstan and increase of export.

Rate of Kazakh content in the procurement of goods, works and services constituted 18% in average in 2012 that is at the level of planned target.

**/ 52 billion tenge**    **/ 9,8 billion tenge**

Sales volume of products and services in the Company achieved 52 billion tenge in comparison with planned 38.3 billion tenge, execution of plan constituted 136% (growth by 55% to 2011). Increase of sales volume is associated with increase of sales of special products by 65% and civil products by 18%, services by 239% in comparison with indicators of 2011.

Sales volume of services constitutes 9.8 billion tenge that 49% higher than planned target for 2012 and 3.2 times higher than in 2011.

**/ 9,3%**

Profitability of activity achieved 9.3% (plan — 4.7%). In 2011 this indicator was 6.7%. Increase of profitability is associated with increase of net consolidated profits.

**/ 9,07%**

EBITDA margin constitutes 9.07% (plan — 6.3%), that higher than planned target by 2.8% and 1.6% higher than planned target in 2011.

**/ 17,8%**

ROACE constitutes 17.8% (plan — 12.7%) that higher than planned target by 5.1% and 5.1% higher than indicator in 2011.

**/ 23,7%**

Return on equity constitutes 23.7% (plan — 12%) that higher than planned target by 11.7%.

higher by **11,7%**

overachievement of these targets is associated with growth of actual net consolidated profits for 2012







## KEY EVENTS AND ACHIEVEMENTS IN 2012 WITHIN THE IMPLEMENTATION OF THE DEVELOPMENT PLAN AND DEVELOPMENT STRATEGY OF THE COMPANY

- 1 Supported by the Ministry of Defense of the Republic of Kazakhstan, we could increase turnover of State Defense Order implemented by enterprises of the Company.
- 2 Changes were made in Law of the Republic of Kazakhstan «On State Defense Order» stipulating for the approval of State Defense Order for three year period. Also, by making of changes, prepayment under State Defense Order Agreements was increased to 75% that assists in stabilization of the financial situation in enterprises of the Company.
- 3 The Company implements new technologies to the production processes and modernizes assets within the implementation of its long-term strategy. The Company established large joint ventures companies with international TNC «Thales» (France), «Eurocopter» (France, Germany), «Aselsan» (Turkey), «Indra» (Spain). Total volume of attracted investments constitutes 256 million Euro; technology transfer constitutes not less than 100 million Euro; it is planned to localize a production from 30% to 50% and establish 1036 new workplaces.  
  
Helicopter construction plant was opened in Astana in 2012 jointly with the company «Eurocopter» (France, Germany) and with participation of the President of the Republic of Kazakhstan. Moreover, production of radio-electronic equipment was established (joint venture with «Thales», France). Full modernization of the production of JSC «Munaimach» was fulfilled (Petropavlovsk city).
- 4 International exhibition KADEX—2012 was conducted in May 2012 with participation of the President of the Republic of Kazakhstan N.A. Nazarbayev. In the result of this exhibition, the Company signed long-term cooperation agreements up to 2020 with leading world companies to the total amount of approximately 2 billion USD.
- 5 The Company for the first time obtained a credit rating from international rating agency «Moody's» at the level «Ba2». Due to obtained rating, within the first bond program to the amount of 30 billion tenge, the Company entered the domestic bond market (KASE). This permitted to refinance «expensive» credits of the Company's enterprises, rebuild floating capital of enterprises and assist in the increase of activity profitability and implementation of new investment projects.

IN 2012 THE COMPANY ACHIEVED INDICATORS SET IN THE DEVELOPMENT STRATEGY TO 2020:

Indicators	To 2012	To 2015	To 2020	Fact of 2012
Proceeds of the Company's enterprises, MUSD	97	143	500	347
EBITDA, MUSD	6	11	45	31
Share in engineering, %	0,70%	1,89%	10,0%	16%*

\*Engineering, service included







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ABOUT THE COMPANY







# PRINCIPAL ACTIVITIES, OBJECTIVES AND TASKS

## MISSION OF THE COMPANY

Mission of the Company is to assure a participation in the implementation of the state policy in the field of development, production and selling of military products, dual-purpose products and civil products; development and implementation of programs of development and production of military and dual-purpose products for meeting of domestic demands and export.

### VISION OF THE COMPANY

To 2020 the Company will be presented as:

- effective engineering holding combining some industrial enterprises which products are in high demand in target markets;
- leader of engineering service market in the Republic of Kazakhstan, one of the leaders in the markets of Russia and Central Asia, significant player in the markets of Middle East, Africa and South East Asia;
- enterprises of the Company group manufacture engineering products and deliver services in the field of engineering in the following economic sectors: extraction and processing of oil and gas, electrical power engineering, mining and metallurgical industry, transport and logistic infrastructure, agriculture and food industry, industrial construction, military-industrial complex;
- the Company is the center of competences in the field of high technologies, generally recognized expert in sectors of its specialization.

2) Development of new industries, modernization and technical re-equipment of weapons and military technology production, implementation of modern technologies for the production of the competitive, science-intensive products.

3) Establishment and development of new industry — Engineering directed to complex engineering services, including: designing, development of FS, equipment procurement, construction, assembly and adjustment project management, personnel training and fund raising.

4) Geographical expansion of the Company group into international markets.

Strategic focus is engineering and manufacture of complex engineering products through:

- division of assets of the Company into two groups: industrial and engineering;
- formation of three sectorial divisions on the basis of engineering enterprises of the Company:
  - 1) division of oil-and-gas engineering;
  - 2) division of railway engineering and
  - 3) division of military engineering.

## DEVELOPMENT STRATEGY

### PRINCIPAL STRATEGIC DIRECTIONS

To fulfill the mission, the Company shall act according to the following principal strategic directions:

1) Restructuring of assets of the Company enterprise group in order to establish a new asset structure for the provision of stable growth of the Company group value and its investment attractiveness.

The entire validity period of the strategy is divided into 3 stages:

- 1) Restructuring of corporate portfolio and management structure of the Company;
- 2) Modernization and renewal of industry and increase of labor efficiency, establishment and development of new direction — engineering (to 2015);
- 3) Geographical expansion of the Company (to 2020).

Paragraph No.	Name of enterprise	Business profile
1.	«Petrodavlovsk Heavy Engineering Plant» JSC	Manufacture of equipment for drilling and complete overhaul of wells, equipment for oil processing plants and petrochemical industries, track tools and mechanical equipment for repair and maintenance of railway lines.
2.	«Uralsk plant «Zenit» JSC	Boats and ships; designing and manufacture of steel structures, spare parts, etc. for oil-and-gas complex.
3.	«Munaimach» JSC	Oil well pumps for oil-and-gas sector, consumer goods.
4.	«Plant named after S.M. Kirov» JSC	Navigation systems, radio stations, control panels for railway complex, control blocks and automated devices for oil-and-gas complex, etc.
5.	«KazEngElectronics» JSC	Modernization and capital overhaul of weapons, dual-purpose products, manufacture of modern communication means and radio electronic products, assembly of computer equipment.
6.	«Instrument Engineering Plant «Omega» JSC	Water purification plant, railway products, digital ATS and component parts, phone systems, consumer goods, etc.
7.	«Scientific Research Institute «HydroPribor»	Design and research works, manufacture of sea and river boats, ships, vessels and other watercrafts and underwater vehicles, land and air robots and boats, equipment for underwater survey and repair of pipelines, derricks and underwater objects.
8.	«Semipalatinsk Engineering Plant» JSC	Crawler transporters — tractors on base unit GT-T, its modification and spare parts, railway products.
9.	«Engineering Plant named after S.M. Kirov» JSC	Naval underwater weapons, hydraulic products and burning automation products for sea vehicles, pneumatic perforators for mining industry, spare parts of railway complex.
10.	«832 Automotive Equipment Repair Plant» JSC	Repair of automotive equipment.
11.	«Aircraft Repair Plant No.405» JSC	Technical maintenance and repair of planes and helicopters.
12.	«Kazakhstan Engineering-Kuzet» LLP	Security activity..
13.	«Kazakh Aviation Industry» LLP	Manufacture and maintenance of aviation technologies.
14.	«Thales Kazakhstan Engineering» LLP	Development, manufacture and sales of electronic equipment, systems and/or software and delivery of associated services, manufacture, sales and technical maintenance of radio and communication equipment for military market.
15.	«Semey Engineering» JSC	Repair of weapons and military equipment, capital overhaul of various engines.





16.	«Tynys» JSC	Aeronautical products, fire-fighting equipment, medical equipment, production of thermally insulated pipes.
17.	«811 Motor-repair Plant KE» JSC	Repair of freight automotive and track vehicles, engines and units, their modernization and re-equipment of automotive vehicles.
18.	«Zicsto» JSC	Repair of freight railway wagons, repair of wheel pairs with element replacement.
19.	«KAMAZ-Engineering» JSC	Manufacture and sales of autobuses, cars, special vehicles and their spare parts.
20.	«Kazakhstan Engineering Distribution» LLP	Sales of output products of component part enterprises, attraction of investments, participation in state programs and tenders for supply of equipment.
21.	«Kazakhstan Aselsan Engineering» LLP	Manufacture of electronic and optical devices.
22.	«Kaz-ST Engineering Bastau» LLP	Investment holding activity and delivery of military and engineering services (joint venture with «SingaporeTechnologiesEngineering»).
23.	«Aircraft Plant No.406 GA» JSC	Technical maintenance and repair of planes and helicopters.
24.	«Scientific Research Institute «Kazakhstan Engineering» LLP	Development and assimilation of new types of special products for military-industrial enterprises with application of automated weapon command systems.
25.	«Eurocopter Kazakhstan Engineering» LLP	Manufacture and maintenance of helicopters.
26.	«Indra Kazakhstan Engineering» LLP	Manufacture and technical maintenance of military radio electronic systems.
27.	«Semey Kamaz Engineering» LLP	Assembly of automotive vehicles.

The following key performance indicators of the Company up to 2020 were determined:

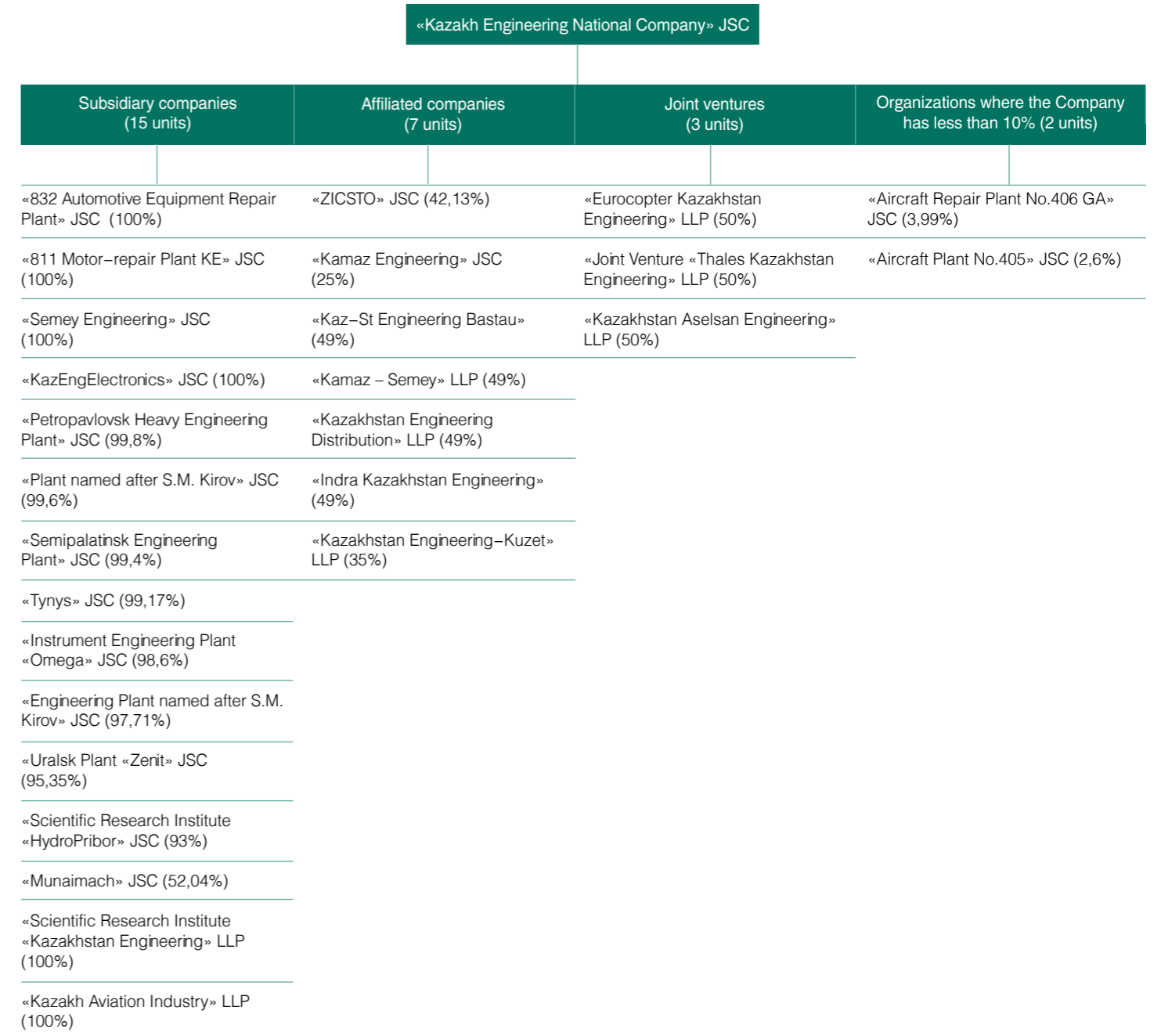
- a) proceeds — 500 million USD,
- b) EBITDA — 45 million USD,
- c) share in engineering — 10%.

#### ASSET STRUCTURE OF THE COMPANY

Company group includes 27 enterprises.

Enterprises of the Company release products and deliver services for oil-and-gas, railway, energetic, military-industrial complex and in the field of radio electronics, agriculture and release of consumer goods.

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



## INVESTMENT ACTIVITY

Development investments will be significantly increased due to the general turnover growth of the Company and attraction of credit resources of the Fund. The Company will reinvest all obtained profits and will create a foundation for future growth.

Investment budget of the Company constituted 6.5 billion tenge in 2012 that 4.96 billion tenge higher than in 2011.

In its investment policy, the Company is focused on the establishment of joint ventures with transnational companies.

Currently joint ventures with Eurocopter (France, Germany), Thales (France), Aselsan (Turkey) and Indra (Spain) have been established.

Civil and military aviation technology assembly, repair and technical maintenance center establishment projects and unmanned aerial vehicle industry engineering are under implementation.

Technical supervision outsourcing transfer projects, projects for maintenance and repair of military equipment of Armed Forces of the Republic of Kazakhstan, dockyard and ship repairing yard construction projects are under elaboration.

Total amount of investments attracted to projects joint with transnational companies constitutes more than 250 million Euro.

These investments shall assure industrial localization of imported equipment at the level of 30–50% and technology transfer to the amount of 100 million Euro and establishment of not less than 1000 new workplaces.

### IMPLEMENTED AND PLANNED INVESTMENT PROJECTS

Two investment projects were placed into operation in accounting 2012:

- establishment of enterprise for production, supply and technical maintenance of helicopters EC145 jointly with the company «Eurocopter»;
- modernization of mechanical processing production of oil industry products of «Munaimach» JSC.

Investment activity of the Company is fulfilled in accordance with the Development Strategy of the Company for 2011—2020.

Investment assets are assigned for the following 2 types of large investment projects:

1. Investment projects on modernization of existing enterprises of the Company for increase of industrial capacities:

- production modernization of «Semey Engineering» JSC for modernization and capital overhaul of armored vehicles;
- modernization of mechanical processing production of oil industry products of «Munaimach» JSC;
- production modernization of «Plant named after S.M. Kirov» JSC;
- increase of industrial capacities of «Petrovsk Heavy Engineering Plant» JSC by upgrading and enlargement of production.

2. New investment innovative projects jointly with foreign partners:

- establishment of enterprise for production, supply and technical maintenance of helicopters EC145 jointly with the company «Eurocopter»;
- establishment of electronic and optical device production center in the Republic of Kazakhstan (jointly with Turkish company «Aselsan»);
- establishment of aviation technical center in Astana city for assembly, repair and technical maintenance of planes Cessna Caravan, frontline, military transport, civil aviation technologies, unmanned aerial vehicles, repair of helicopters jointly with the companies «Cessna Aircraft Company» (USA), «558 Aviation Repair Plant» «OJSC» (Belarus), «Airbus–military» (Spain);
- establishment of new highly technological production of long–range radar systems and radio electronic countermeasures and intelligence (jointly with Spanish company «Indra Systems S.A.»).



It should be noted that the establishment of joint ventures with foreign partners is fulfilled on a parity basis fifty–fifty.

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

Investments to the investment projects are fulfilled by the Kazakh party at the expense of assets of the Republican Budget, Fund (borrowed assets reimbursed by the further capitalization of the Company through the Ministry of Defense of the Republic of Kazakhstan with the Company's shareholding transfer to the Fund) and owned assets due to the bond program. Financing of joint investment projects is fulfilled in accordance with share participation of the parties.

### FINANCIAL SUPPORT

The Company received borrowed assets from the Fund to the amount of 5 000 million tenge in the 1st quarter of 2012 for implementation of 2 investment projects:

- establishment of electronic and optical device production center in the Republic of Kazakhstan (jointly with the Turkish company «Aselsan»);
- production modernization of «Semey Engineering» JSC for modernization and capital overhaul of armored vehicles.

Information on state guarantees and any state liabilities assumed by the Company is divulged in accordance with IFRS.





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CORPORATE  
MANAGEMENT







CORPORATE MANAGEMENT IN THE COMPANY IS BASED ON THE PRINCIPLE OF PROTECTION AND RESPECT OF RIGHTS AND LEGAL INTERESTS OF THE SOLE SHAREHOLDER AND ASSISTS IN THE EFFECTIVE ACTIVITY OF THE COMPANY, INCLUDING EFFICIENCY GROWTH FOR OPERATIONAL ASSETS OF THE COMPANY

# CORPORATE MANAGEMENT

## PRINCIPLES AND REPORT ON CORPORATE MANAGEMENT

Corporate management of the Company means combination of processes assuring management and control of the Company's activity, including relations between the Sole Shareholder, discretionary manager represented by the Ministry of Defense of the Republic of Kazakhstan, Board of Directors, Management Board and interested persons on behalf of the Sole Shareholder, Company and its subsidiary and affiliated companies.

Rights of the Sole Shareholder and property right disposal procedures are indicated in the articles of association of the Company.

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

Interaction of the Company with the Fund is fulfilled in accordance with the Conception of power distribution of joint-stock company bodies which voting shares are owned by the Fund.

The Company considers the development of corporate management as means of increasing activity efficiency of the Company, its value, reputation, capital cost reduction.

Basic principles of corporate management of the Company are:

- principle of protection of rights and interests of the Sole Shareholder;
- principle of the effective management of the Company by the Sole Shareholder, Board of Directors and Management Board;
- principles of transparency, objectivity and timeliness of information divulgence on the activity of the Company;
- principles of legality and ethics;
- principles of the effective dividend policy;
- principle of the effective HR policy;

- regulation policy of corporate conflicts and conflicts of interest;
- principle of responsibility.

# 44%

with rating of compliance of corporate management level of the Company with the requirements of the best world practice according to KPMG

Corporate management in the Company is based on the principle of protection and respect of rights and legal interests of the Sole Shareholder and assists in the effective activity of the Company, including efficiency growth of operational assets of the Company.

Corporate management provides the Sole Shareholder with real possibility to fulfill its rights related to the participation in the Company's management.

The Sole Shareholder has a right to apply to state authorities for protection of its rights and legal interests in case, if bodies of the Company act in conflict with regulations of Legislation and Articles of Association, in order determined in Legislation.

The Company ensures the effective participation of the Sole Shareholder and discretionary manager in making of key decisions of corporate management such as appointment and election of members of the Board of Directors.



The Company follows the Code of Corporate Management for systematization of corporate management, ensuring of activity transparency and confirmation of the Company's readiness to follow standards of good corporate management by means of:

- responsible, fair and effective management;
- effective work of the Board of Directors and Management Board acting in the interests of the Sole Shareholder, Discretionary manager and the Company;
- proper disclosure of information and transparency as well as effective risk management system and internal control system.

In 2012, the company «KPMG Tax and Advisory» (hereinafter referred to as KPMG) conducted a diagnostics of corporate management of the Company by order of the Fund.

Diagnostics was made in accordance with Method of corporate management diagnostics in companies of the Fund's group approved by the Management Board of the Fund.

In accordance with this method, the important tasks of the Fund as the Sole Shareholder is to establish a qualitative corporate management system.

One of the key steps within the frameworks of this direction was an annual diagnostics of corporate management system of the companies of the Fund's group using a proper Method of corporate management system diagnostics of the companies of the Fund's group.

The objective of this method is to determine rating of compliance with the best practice of corporate management and shall be an instrument for the continuous monitoring of corporate management improvement process in the companies of the Fund.

Rating of compliance of corporate management level of the Company with the requirements of the best world practice is 44% according to KPMG.

In accordance with the report on compliance of corporate management level with the best world practice, a significant work on the improvement of corporate management practice has been recently done. Among key aspects of corporate management whereby the Company has achieved the maximum progress, are:

- formalization and practice of work of the Board of Directors;

- formalization and practice in the field of corporate information protection;
- formalization and practice in the field of corporate social responsibility;
- formalization in the sphere of risk management;
- formalization of the requirements to the transparency and disclosure of general information on the Company;
- formalization and processes in the field of the external and internal audit.

Improvement of documents in the field of corporate management is made on the regular basis; the Company fulfills exchange of experience inside of the Fund's group and its subsidiary and affiliated organizations, unification of documents in the field of corporate management in subsidiary and affiliated organizations of the Company.

One of the elements of corporate management improvement is implementation of evaluation and motivation system of the activity of managerial personnel, executive personnel and administrative employees of the Company.

For these purposes, key performance indicators (KPI) were developed and approved for managerial and executive personnel of the Company for 2012 on the basis of the Fund's Policy regulating remuneration of managerial and executive personnel according to the results of work in the certain year.

Order of interaction as to ensuring of activity of the Company's representatives in the Boards of Directors and Supervision Boards of Associations and Partnerships of the Company groups was approved by the decision of the Management Board.

Rules of selection of independent directors of organizations with more than 50% of voting shares owned by the Company on the right of property or discretionary management were approved by the Board of Directors of the Company.

In 2012, the independent directors of the Company participated in the meeting of the Chairman of Board of the Fund with independent directors organized by the Fund where important issues associated with the activity of the Board of Directors and committees of the Board of Directors, measures on the increased involvement of the Board of Directors to the Company management processes were discussed.

Among the positive tendencies of corporate management development of the Company, its subsidiary and affiliated organizations are delegation of powers to the subsidiary organizations of the Company, appointment of corporate secretaries, work strengthening of Internal Audit Services.



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



**GROMOV SERGEY NIKOLAEVICH**

**Chairman of the Board of Directors**  
Deputy Minister of Defense of the Republic of Kazakhstan  
(from September 2011 — up to the present).

Secretary of Public Democratic Party «Nur Otan» – manager of Central Administrative Office, Astana city (November 2008 — September 2011).

Year of birth — 1959.

Higher — education.

He has no shares of suppliers and competitors of the Company.



**ZHANZHUMENOV TALGAT ZHENISSOVICH**

**Member of the Board of Directors**  
Deputy Minister of Defense of the Republic of Kazakhstan  
(from March 2010 — up to the present).

Support Commander of Armed Forces of the Republic of Kazakhstan  
(November 2008 — March 2010).

Year of birth — 1968.

Higher — education.

He has no shares of suppliers or competitors of the Company.

The Board of Directors consists of 9 members, including 3 independent directors as of January 01, 2013.



**RAU ALBERT PAVLOVICH**

**Member of the Board of Directors**  
First Vice-Minister of Industry and New Technologies of the Republic of Kazakhstan  
(from March 2010 — up to the present).

Akim of Akmola region  
(January 2008 — March 2010).

Year of birth — 1960.

Higher — education.

He has no shares of suppliers and competitors of the Company.



**SALIMGEREYEV MALIK ZHANABAYEVICH**

**Member of the Board of Directors,**  
**Chairman of the Fund in the Board of Directors**  
Managing Director of «Samruk-Kazyna» JSC  
(from January 2012 — up to the present).

Oil-and-Gas Asset Management Director of «Samruk-Kazyna» JSC  
(April 2010 — January 2012).

Director of Oil Industry Development Department of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan (October 2007 — April 2010).

Year of birth — 1960.

Higher education, Candidate of Geological and Mineralogical Sciences.

He has no shares of suppliers and competitors of the Company.





**GALIYEV VLADISLAV GERMANOVICH**

Member of the Board of Directors  
Deputy Chairman of Agency for Construction,  
Housing and Utilities of the Republic of Kazakhstan  
(from November 2011 — up to the present).

President of «Kazakh VodokanalProject» JSC  
(December 2008 — November 2011).

Year of birth — 1969.

Higher — education.

He has no shares of suppliers and competitors  
of the Company.



**KALUGIN OLEG ANATOLYEVICH**

Member of the Board of Directors, independent director  
Independent legal adviser  
(from July 2011 — up to the present).

Deputy Director of «Altai Polymetals» LLP  
(August 2008 — July 2011).

Year of birth — 1968.

Higher — education.

He has no shares of suppliers and competitors  
of the Company.



**KAZEYEV YEVGENIY IVANOVICH**

Member of the Board of Directors, independent director  
General Director of «AlmatyEnergoService»  
(from 2000 — up to the present).

Year of birth — 1964.

Higher — education.

He has no shares of suppliers and competitors  
of the Company.



**AUBAKIROV KANYSH KAIDAROVICH**

Member of the Board of Directors, independent director  
First Vice–President of Football Federation  
of the Republic of Kazakhstan  
(from December 2011 — up to the present).

President – member of the Board of Directors of  
«Kazakhstan GNS Center»  
(October 2009 — January 2012).

Year of birth — 1966.

Higher — education.

He has no shares of suppliers and competitors  
of the Company.







#### SMAGULOV BOLAT SOVETOVICH

Member of the Board of Directors  
President of  
«Kazakhstan Engineering National Company» JSC  
(from August 2010 — up to the present).

President of «Kazakh State and  
Private Partnership Center» JSC  
(September 2008 — August 2010).

Year of birth — 1964.

Higher — education.

He has no shares of suppliers and competitors  
of the Company.

#### COMMITTEES OF THE BOARD OF DIRECTORS

There are 2 committees attached to the Board of Directors of the Company: Audit Committee of the Board of Directors and Appointment and Remuneration Committee of the Board of Directors.

#### AUDIT COMMITTEE

Audit Committee acts in the interests of the shareholder and its work is to assist the Board of Directors of the Company by elaboration of recommendations on:

- the establishment of the effective financial and economic control system of the Company (including completeness and reliability control of the financial statements);
- reliability and efficiency control of risk management and internal control systems; corporate management document implementation control;
- external and internal audit independence control; RK legislation enforcement control.

#### APPOINTMENT AND REMUNERATION COMMITTEE

Work of the Appointment and Remuneration Committee is to assist the Board of Directors of the Company by elaboration of recommendations on:

- the involvement of qualified specialists to the Board of Directors, Management Board, position of the Internal audit service manager and corporate secretary;
- the formation of suggestions for the Board of Directors on determination of remuneration for independent directors and other members of the Board of Directors, directors of the Management Board in accordance with objectives, tasks, current situation of the Company and remuneration level in the similar companies.



#### AUDIT COMMITTEE

Full name	Position	Date of establishment	Participation in meetings (in %)
Kalugin Oleg Anatolyevich	<ul style="list-style-type: none"> <li>• Chairman of Audit Committee</li> <li>• Independent legal adviser</li> </ul>	July 04, 2012	100
Kazeyev Yevgeniy Ivanovich	<ul style="list-style-type: none"> <li>• Member of Audit Committee «AlmatyErgoService» LLP</li> <li>• General Director</li> </ul>	July 04, 2012	100
Mynsharipova Saya Naymanbaykyzy	<ul style="list-style-type: none"> <li>• Expert «Samruk–Kazyna» JSC</li> <li>• Director of Audit and Control Department</li> </ul>	July 04, 2012	100

#### PARTICIPATION IN THE MEETING OF THE BOARD OF DIRECTORS IN 2012

Full name, position	Participation in the meetings of the Board of Directors (in %)	Full name, position	Participation in the meetings of the Board of Directors (in %)
Gromov Sergey Nikolaevich Chairman of the Board of Directors	100	Zhanzhumenov Talgat Zherissovich Member of the Board of Directors	83
Rau Albert Pavlovich Member of the Board of Directors	89	Salimgereyev Malik Zhanabayevich Member of the Board of Directors	100
Galiyev Vladislav Germanovich Member of the Board of Directors	83	Kalugin Oleg Anatolyevich Member of the Board of Directors, independent director	89
Kazeyev Yevgeniy Ivanovich Member of the Board of Directors, independent director	72	Aubakirov Kanysh Kaidarovich Member of the Board of Directors, independent director	72
Smagulov Bolat Sovetovich Member of the Board of Directors	100		

## APPOINTMENT AND REMUNERATION COMMITTEE

Full name	Position	Date of establishment	Participation in meetings (in %)
Kazeyev Yevgeniy Ivanovich	<ul style="list-style-type: none"> <li>Chairman of the Appointment and Remuneration Committee</li> <li>«AlmatyEnergService» LLP, General Director</li> </ul>	July 04, 2012	100
Aubakirov Kanysh Kaidarovich	<ul style="list-style-type: none"> <li>Member of the Appointment and Remuneration Committee</li> <li>First Vice-President of the Football Federation of the RK</li> </ul>	July 04, 2012	100
Kaissenova Gulzhikhan Kabyldairovna	<ul style="list-style-type: none"> <li>Expert «Samruk-Kazyna» JSC</li> <li>Chief Manager of HR Management Department</li> </ul>	July 04, 2012	100

4 meetings in presentia of audit committee and 1 meeting in absentia of appointment and remuneration committee had been held since the date of establishment of committees in 2012.

Issues such as status determination of the Internal Audit Service, model documents in the field of organization of the Internal Audit Service, determination of remuneration rate of audit company, approval of the internal control system efficiency assessment method and others.

## INTERNAL AUDIT SERVICE

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

of the internal audit, the Internal Audit Service of the Company is functionally subject and accountable to the Board of Directors and supervised by the Audit Committee of the Company.

The Internal Audit Service in its activity follows the Provision on the Internal Audit Service of "Kazakh Engineering National Company" JSC and other statutory documents regulating activity of the Internal Audit Service and approved by the decision of the Board of Directors of the Company.

In 2012, the Board of Directors of the Company accepted some internal documents for introduction of risk-oriented approach to the activity of the Internal Audit Service of the Company, including: Method of activity efficiency assessment of the Internal Audit Service and its manager, Method of the internal control system efficiency assessment of «Kazakh Engineering National Company» JSC, Method of corporate risk management system efficiency assessment of «Kazakh Engineering National Company» JSC, Strategic Plan of the Internal Audit Service of «Kazakh Engineering National Company» JSC

for 2013–2015, Method of budgeting of the Internal Audit Service of «Kazakh Engineering National Company» JSC and others.

In 2012, the Internal Audit Service of the Company completely Fulfilled audit engagements specified in the Annual Audit Plan and approved by the decisions of the Board of Directors of the Company of 9 December 2011 (minutes No.77).

Audit covered such key business processes as budgeting, audit of product manufacture and sales, audit of product manufacture costs (prime cost), implementation of the investment projects, contractual obligation conclusion and execution procedures, internal control system assessment, capital construction.

Risk management system efficiency assessment was made in accordance with the approved methods.

According to the results of audits, the Internal Audit Service in accordance with imposed tasks, recommendations for the improvement of corporate management, internal management and risk management systems of the Company, improvement of management efficiency within operational and strategic objectives of the Company's activity were given.

## REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

Members of the Board of Directors, except for independent directors, fulfill their activity on free-of-charge basis. Rate of remuneration for independent directors is fixed by the order of the discretionary manager.

Independent directors are paid the following remunerations:  
1) Fixed remuneration.  
2) Extra remuneration for participation in the meetings of committees of the Board of Directors.

The decision to pay remuneration to independent directors of the Company for 2012 to the total amount of 5 400 000 tenge and extra remuneration to the members of the Board of Directors for participation in meetings in presentia of the Committees of the Board of Directors to the total amount 500 000 tenge was made by the order of the Minister of Defense of the Republic of Kazakhstan No.799 of 31 October 2012 in accordance with subparagraph 5) of paragraph 1 of article 36 of Law of the Republic of Kazakhstan «On Joint-Stock Companies», subparagraph 8) of paragraph 33 of article 10 of Articles of Association of the Company and Rules

of Remuneration Payment and Cost Compensation to the independent directors of the Fund's Companies approved by the decision of the Management Board of the Fund No.55/09 of 22 May 2012.

Functional obligations of the members of the Board of Directors were specified within the frameworks of Law of the Republic of Kazakhstan «On Joint-Stock Companies», Articles of Association of the Company and Provision on the Board of Directors.

## REPORT ON ACTIVITY OF BOARD OF DIRECTORS

18 meetings of the Board of Directors of the Company, 9 meetings in presentia and 9 meetings in absentia, were held in 2012. 87 issues were considered by the members of the Board of Directors of the Company.

## KEY ISSUES OF THE BOARD OF DIRECTORS CONSIDERED IN 2012

Strategic and current issues on activities covered by the Company's competence were considered at the meetings of the Board of Directors.

List of issues and decisions on them are indicated in corresponding minutes of the meetings of the Board of Directors.

Meetings in presentia of the Board of Directors were held on the regular basis in accordance with the approved work schedule of the Board of Directors in 2012. The following issues were considered at the meetings of the Board of Directors in 2012:

- formation of personal for audit committee and appointment And remuneration committee of the Board of Directors;
- program on domestic bond issue and conditions of the first issue of bonds within the frameworks of the first bond program;
- transactions in which settlement the Company has its interest and others.

In a whole, the Board of Directors and its committees actively interacted with the Sole Shareholder, discretionary manager, executive body and all interested parties of corporate relations for the effective solution of issues of the Company.







## MEMBERS OF THE BOARD AND THEIR BIOGRAPHIES



**SMAGULOV BOLAT SOVETOVICH**  
Chairman of Board

Chairman of Board,  
"Kazakhstan Engineering National Company" JSC  
(since August, 2010 — present time).

Chairman of Board,  
JSC "Kazakhstan Center for Public Private  
Partnership"  
(September, 2008 — August, 2010).

Year of birth — 1964.

Higher — education.

Does not hold shares of supplier and competitor  
companies.



**SARSEMBAYEV ADLBEK ZEINULLAYEVICH**  
Member of Board

Vice-Chairman of Board,  
"Kazakhstan Engineering National Company" JSC  
(since June, 2011 — present time).

Managing Director,  
"Kazakhstan Engineering National Company" JSC  
(August, 2010 — June, 2011).

Year of birth — 1978.

Higher — education.

Does not hold shares of supplier and competitor  
companies.



**TILEBALDINOV KAIRAT RAKHATOVICH**  
Member of Board

Vice-Chairman of Board,  
"Kazakhstan Engineering National Company" JSC  
(since April, 2012 — present time).  
Vice-Chairman of Committee for Trade of the Ministry  
of Economic Development and Trade of the RK  
(October, 2011 — April, 2012).  
Chairman of Board, JSC "Kazakhstan Center  
for Public Private Partnership"  
(August, 2010 — October, 2011).  
Vice-Head of the Bureau for PPP,  
UN Economic Commission for Europe  
(August, 2010 — October, 2011).  
Vice-Chairman of Board, JSC "Kazakhstan Center  
for Public Private Partnership"  
(September, 2008 — August, 2010).

Year of birth — 1975.

Higher — education.

Does not hold shares of supplier and competitor  
companies.



**BIZHANOV DIMASH NURAKHMETOVICH**  
Member of Board

Vice-Chairman of Board,  
"Kazakhstan Engineering National Company" JSC  
(since June, 2011 — present time).  
General Manager for Service Projects,  
JSC National Company "KazMunaiGas"  
(June, 2010 — June, 2011).  
Director of Department of Service  
Assets Management, JSC NC "KazMunaiGas"  
(April, 2010 — June, 2010).  
Chief Manager of Department, North Caspian  
Project of JSC NC "KazMunaiGas"  
(June, 2009 — April, 2010).

Year of birth — 1967.

Higher — education.

Does not hold shares of supplier and competitor  
companies.





**TILEBALDINOV KAIRAT RAKHATOVICH**

Organization and control over operation of Department # 2 (production and technical development of the «Air» and «Sea» areas), including coordination and control over implementation of new projects (Aviation Technical Center (ATC), Ship repair / Shipbuilding facilities in the Kazakhstan sector of the Caspian Sea KSCS, Shore-based Missile Complex (SMC), etc.

**BIZHANOV DIMASH NURAKHMETOVICH**

Organization and control over operation of Department # 2 (production and technical development of the «Engineering» area), including coordination of activities of «Research and Development Institute» LLP and SACs in the field of scientific research, development and engineering, including implementation of new projects (in conjunction with Cassidian and others), in the field of nanotechnology, robotics, cyber security and engineering.

**SARSEMBAYEV ADLBEK ZEINULLAYEVICH**

Organization and control over operation of Department # 1 (production and technical development of the «Earth» and «Electronics» areas), including coordination and control over implementation of new projects (joint production of personal protective equipment, joint production of optoelectronic devices and others).

**BERGENEV ADYLGAZY SADVOKASSOVICH**

Financial, economic, logistic and other supply to the Company, including.

**BERGENEV ADYLGAZY SADVOKASSOVICH**  
Member of Board

Chief of Staff,  
«KAZAKH ENGINEERING NATIONAL COMPANY» JSC  
(since October, 2010 — present time).

Akim of East Kazakhstan Province  
(May, 2008 — April, 2009).

Year of birth — 1958.

Higher — education.

Does not hold shares of supplier and competitor companies.

## REPORT ON THE ACTIVITIES OF THE BOARD

### BOARD COMMITTEES

**Risk Committee**

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

The Committee's main objectives include the followings:

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

**Investment and Innovation Committee**

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

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

**Credit Committee**

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

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

### REMUNERATIONS TO THE BOARD MEMBERS

Regulations for evaluation of workforce productivity and remuneration of senior officials, Head of the Internal Auditing Service and Corporate Secretary of «Kazakhstan Engineering» NC JSC were developed in accordance with legislation of the Republic of Kazakhstan and Policy for evaluation of workforce productivity and remuneration of senior officials and managers, heads of Internal Auditing Services and Corporate Secretaries of Companies belonging to the Group «Samruk-Kazyna», approved by the Resolution of Board of JSC «Samruk-Kazyna» dated April 9, 2013 (protocol # 17/13). They establish the conditions and procedure for evaluation of workforce productivity and remuneration of said employees of JSC «NC «Kazakhstan Engineering».

Procedure for evaluation of workforce productivity of senior officials consists of the following steps:

- selection of motivational KPIs (indicators included in the employees compensation system to focus their efforts on achieving the priority purposes in this reporting period), setting target values;
- approval of motivational KPIs;
- workforce productivity monitoring;
- calculation and approval of actual workforce productivity.

Motivational KPIs (KPI cards) for senior officials shall be developed by the Nomination and Remuneration Committee of the Company Board, optimal number of KPIs (3–7), distribution of weights and adequacy of the target values shall be agreed with it and submitted by the responsible division to the Board of Directors of the Company for approval in accordance with the established procedure no later than March 31 of the reporting year.

Remunerations on the results of activities (short-term and long-term remunerations) shall be paid depending on the results of work as material incentive for achievements and to increase efficiency, they are not of permanent nature and are not considered when calculating the average salary.





The Board of Directors of the Company following the recommendations of Nomination and Remuneration Committee of the Board of Directors, is entitled to make a decision not to pay remuneration on the results of activities, in the case of:

- non-achievement of threshold values of individual corporate KPIs;
- final results of implementation of functional KPIs being lower than or equal to 50%.

The main condition for payment remuneration on the results of the year is the availability of consolidated total income for the year, calculated taking into account the amount of remuneration planned to pay.

Those employees are entitled to receive remuneration on the results of the year who have actually worked for at least five (5) months during the reporting period, depending on the results of approved KPIs implementation for the reporting year, as well as newly hired workers for which the KPI cards are approved in the period before August 1 of the reporting year.

According to the Decision of the Board of Directors of the Company dated 31st January, 2013, pursuant to subparagraph 12) of paragraph 37, Article 11 of the Company Charter and Regulations for Payment Remuneration to the senior officers of the Company on the results of the year, approved by the Board of Directors on December 25, 2012, the KPI cards were approved for the Chairman of Board and Vice-Chairmen showing actual values for the year 2011, and the remuneration was paid in accordance with them. In 2012, 45 meetings of the Board of the Company were held. 197 issues were considered in total.

#### KEY ISSUES, CONSIDERED BY THE BOARD OF THE COMPANY IN 2012

The Board of the Company considered at its meetings both strategic issues and current operations within its competence.

List of issues and decisions made on them are reflected in the relevant minutes of meetings of the Board of the Company.

In praesentia meetings of the Board of the Company were held regularly.

# 197

issues were considered  
at 45 meetings of the Board of the Company  
for the year 2012

In 2012, the Company Board meetings paid special attention to the issues, such as:

- creation and personal formation of Credit Committee, Investment and Innovation Committee of the Company;
- approval and facilitation of implementation of the Company's strategic projects, such as «Modernization of production facilities at JSC «Semey Engineering», «Creation of Aviation Technical Center in Astana» and others.

In general, over the reporting period, the Company's Board interacted with the Sole Shareholder, Trustee Manager, Executive Body and all interested parties involved in corporate relations to effectively solve the performance targets of the Company.

#### INTERNAL CONTROL SYSTEM. RISK MANAGEMENT

The company attaches great importance to the proper risk management as a key element in the implementation of the Company's development strategy. The main objective of risk management of the Company is to achieve optimal level of risk and return ratio in the Company's activities.

In 2012, the Company continued to improve risk management procedures, the Board of Directors of the Company approved the following documents regarding the Risk Management system:

- 1) Concept of corporate risk management system.
- 2) Risk Management Policy.
- 3) Regulations for credit risk management for corporate counterparties.

- 4) Regulations for currency risk management.
- 5) Regulations for liquidity risk management.
- 6) Regulations for risks identification and evaluation.
- 7) Regulations for operational risks evaluation and management.
- 8) Regulations for interest rate risk management.

The Company's Risk Management Policy is aimed at maintaining optimal structure of risk management to ensure acceptable level of risk and achieve higher performance on the basis of identification, assessment, minimizing risks and monitoring risks.

In 2012, the Board of Directors, for the first time, established for the Company:

- 1) Operational risks evaluation rules.
- 2) Regulations for currency, credit, interest rate and liquidity risk management.

Today, all processes in the Company apply a uniform risk management practice, which provide for management of financial risks (including credit, market, currency risks, liquidity risk and interest rate risks) and operational risks. Financial risk management involves identification of risk limits and control to ensure that the risk of potential losses does not go beyond these limits.

Operational risk management involves ensuring proper functioning of internal processes and procedures to minimize the Company's exposure to other internal and external risk factors.

Risk management as a key component of the corporate governance system of the Company and its subsidiary organizations aimed at timely identification and implementation of management measures to reduce the level of risks which may adversely affect the value of and reputation of the Company and the businesses belonging to the Group of Companies.

The main financial risks include the followings:

- credit risk, arising in the event of failure by the Company or its subsidiaries and affiliates to perform their contractual obligations to suppliers;
- liquidity risk.

The main operational risks may include the followings:

- risk of wrong choice of technologies involved and ineffective implementation of innovations;
- market risk associated with increased competition at the Company's markets;
- production risk associated with the possibility of technical problems in the Company's enterprises, as well as lack of customer's orders;
- risk of increase in raw material price;
- social risks associated with dissatisfaction of staff or limited capacity of tools to optimize operations of enterprises belonging to the Company's Group.

The strategic risks may include the followings:

- reducing opportunities for mutual integration of assets of the Company, absence of synergistic effect of their sale, which is possible in the case of weak corporate center;
- extra broad diversification, which can cause loss of control;
- low level of operational efficiency and marginality;
- poor quality and investment attractiveness of assets;
- shortage of qualified staff;
- high degree of depreciation of fixed assets along with insufficient investment in their upgrading or in the absence of system of monitoring;
- absence of strategic vision of the main areas of development and production facilities technical modernization plan may lead to the loss of Company's strategic objectives and decrease in development effectiveness;
- absence of balanced range of products satisfying the needs of domestic market.

#### RISK MANAGEMENT: ORGANIZATIONAL STRUCTURE

The structure of the risk management system of the Company is presented by risk management in several levels

and involves the following agencies and departments of the Company:

Board of Directors, Audit Committee of the Board of Directors, Board, Risk Committee of the Board, structural unit responsible for risk management, Internal Auditing Service, other units – owners of risks.

The Board of Directors plays a key role in control over the system of corporate risk management and performs the following functions:

- setting goals (short-term and long-term) of the Company;
- approval of the Concept of the Company;
- approval of the Company's risk management policies;
- approval of the regulation and procedures for risk management of the Company;
- approval of the level of responsibility for monitoring and control over risks of the Company;
- analysis of external auditor's opinion to improve internal control and risk management and results of audits, conducted by the Internal Auditing Service;
- approval of the register, risk map and critical risk management action plan of the Company;
- approval of matrix of risks and controls;
- approval of key risk indicators;
- approval of risk reports;
- review of reports on the effectiveness of risk management system;
- definition of the and deadlines for submission to the Board of Directors of financial and managerial reports, providing the possibility to analyze and evaluate the financial performance of the Company;
- definition of level of holding capacity and risk appetite of the Company;
- monitoring of activities through Committees of the Board of Directors.

Its area of responsibility also includes approval of operations exposing a significant part of capital at risk.

For detailed analysis of issues related to risk management system, the Auditing Committee functions under the Board of Directors; it monitors the reliability and effectiveness of the risk management system.

The Board of the Company ensures the integrity and functionality of the risk management system through the following functions:

- implementation of the Concept and Risk Management Policy of the organization;
- organization of effective risk management system, allowing to identify and evaluate potential risks;
- submission of reports to the Board of Directors and the Shareholder of the Company, pursuant to the approved regulatory documents;
- ensuring compliance with the provisions of this Policy by the structural units of the Organization;
- approval of the organizational structure of the Organization, which is responsive to the needs and provides adequate control and risk reduction;
- reviewing reports on risk management in the companies of the Group and taking appropriate measures within its competence;
- approval of response measures and methods for risk management in the Organization and some measures to be taken in the companies of the Group under the regulatory documents approved by the Board of Directors;
- improvement of internal procedures and regulations in the field of risk management.

The Risk Committee operates in the Company, which is the advisory and consultative body under the Board of the Company, created for preliminary consideration and making recommendations to the Board of the Company to make decisions on the Company's risk management.

The main functions of the Committee include: preliminary approval of draft internal documents and measures of the Company related to risk management system, participation in development and accomplishment of action plans/programs to implement and improve risk

management system, analysis of monitoring results and effectiveness of the risk management system, as well as development of recommendations to improvement it, etc.

All Managing Directors and Directors of Departments are members of the Risk Committee; Managing Director in charge for the structural unit responsible for the Company's risk management system heads the Committee.







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SUSTAINABLE  
DEVELOPMENT







## SUSTAINABLE DEVELOPMENT

To provide growth of long-term value of the Company and its assets, it is necessary to consider interests of all stakeholders, including social interests. In line with its development strategy, the Company aims at being a model employer and leader in the field of industrial safety and environmental protection.

In this regard, to implement this area of development, the Company sets a goal to improve standards of social responsibility in the enterprises of the Company through:

- 1) Regulation of labor relations under the principle of social partnership.
- 2) Building of staff training system.
- 3) Development of a unique corporate culture, allowing to stimulate growth of performance and innovative activities.
- 4) Transition to the "green" economy.

### CORPORATE SOCIAL RESPONSIBILITY

Recognizing the principles of the UN Global Compact, in full compliance with the laws, the Company declares its commitment to the following CSR (Corporate Social Responsibility) principles:

#### in the field of human rights:

- support and respect to the protection of internationally proclaimed human rights;
- ensuring non-involvement in human rights violations;

#### in the field of labor relations:

- support to freedom of association and actual recognition of right to organize and bargain collectively;
- elimination of all forms of forced and compulsory labor;
- elimination of child labor in full;
- elimination of discrimination in employment and occupation;
- ensuring the safety and health of workers, implementation of health programs and provision of social support to the employees;
- creation of effective system for motivation and social support to the employees, training and development of staff;

- formation and development of personnel reserve;
- development of corporate culture;
- implementation of the principle of social;

#### in the field of environmental protection:

- support to the approach to environmental issues, based on the principles of precaution and prevention of negative impacts on the environment;
- making initiatives aimed at increase of responsibility for the environment;
- assistance to development and distribution of environmentally sound technologies;

support to initiatives related to use of alternative energy sources, energy reduction and energy efficiency;

#### in the field of fight against corruption:

- resistance to all forms of corruption and other illegal acts, including extortion and bribery;
- implementation of anti-bribery measures (in accordance with law);
- adherence to the principles of fair competition;
- countering money laundering;

#### in the field of interaction with the society:

- ensuring the principles of transparency, fairness and availability of any information to the public, except for confidential one;
- engaging in dialogue with all interested parties and effective interaction base on the balance of interests;
- facilitation/ensuring the implementation of state programs;
- provision of sponsorship and charity, holding charitable events;

- ensuring timeliness, relevance and effectiveness of the projects under implementation;
- maintain reputation of a responsible taxpayer, contributing to the strengthening of the financial stability of the Republic of Kazakhstan;

#### in the field of observance of investors' rights, rights of Kazakhstan producers of goods, works and services, suppliers and consumers of goods, works and services:

- compliance with terms and conditions of contracts;
- continuous improvement of standards of services to consumers/customers and quality of services provided by the Company;
- compliance with prohibition on use of insider trading information;
- ensuring security.

### STAFF DEVELOPMENT AND PROFESSIONAL TRAINING

One of the key factors of success in the group of the Company is its human resources.

An effective organizational structure is created for more successful management and development of human resources.

Selection of specialists, meeting appropriate qualification requirements and having necessary expertise, skills, business and personal qualities, is carried out in a timely and systematic manner.

The work on attracting and retention of highly effective Employees, as well as improvement of knowledge and skills of employees is carried out on permanent basis to motivate the workers and give them incentives.

To create an effective system of training and education of employees, acquisition of professional knowledge and skills, the education and training work is carried out on special technical majors.

In general, the Company group has developed 16 professional standards for various working professions.

In order to develop the human resource capacity, we practice industrial personnel training, implying improvement of skills and professional retraining of workers.

At the end of vocational training in special courses, employees are awarded the professional qualification, besides, 900 employees have improved their qualifications and 550 people raised their qualifying categories.

In considering issues related to raising qualifying categories or promotion at work, a successful completion by the employees of vocational training, their secondary education and completion of higher or secondary vocational schools are taken into account.

In general, in the group of enterprises of the Company, as of January 1, 2013 percentage of certified specialists of financial and economic block according to management reporting system was 24%.

We perform analysis of the labor market, prepare forecasts of staffing needs of the Organization for short, medium and long term in accordance with the strategies, select qualified personnel that meet the requirements.

Investments in professional training and development must be correspondent to the scale of strategic objectives of the group of the Company.

Those employees enjoy advantages in career growth, who try and successfully complete their training, as well as those having practical experience in grassroots production units.

The incentives are created for the employees to continuously update and transfer their knowledge to colleagues. The mentoring system is introduced.

Decision of the Board of the Company approved the Policy in the field of salaries and bonuses to administrative and managerial staff of the legal entities, more than fifty percent of voting shares (shares of participation) in which are owned by the Company.

The Policy provides for additional payment (extra charge) not exceeding 10% of fixed official salary for mentoring (guiding young professionals, trainees and reservists in accordance with internal documents of the Company).

The Company is taking active measures to improve social situation. Thus, in 2012, the average monthly salary of the employees increased by 55% and reached 135.5 thousand tenge (average salary of workers in processing industry in Kazakhstan is 106 thousand tenge). The spending on social programs are increasing, hostel are provided for workers. Turnover of employees is reducing and return of qualified personnel and engineers is observed.



## INDUSTRIAL SAFETY AND HEALTH

The Company conducts systematic activities to improve industrial safety. The enterprises of the Company fulfill their obligations, including:

- provision of normal temperature in the working places in the autumn–winter period. Activities on preparation of workshops and units for the autumn–winter period are completed according to the schedule, by October 1, annually;
- providing sufficient lighting of the working places;
- making analysis of causes of occupational injuries and measures to prevent them;
- conducting preventive medical examinations;
- provision of factory workers with overalls, shoes, and personal protective equipment;
- distribution of milk and other foods according to established standards at the workplaces related to harmful working conditions;
- insurance of liability for damage caused to life and health of employees in the course of workforce productivity of their jobs;
- continuous monitoring of compliance with the occupational safety requirements;
- providing workshops and first aid posts with necessary medicines to provide emergency relief to workers;
- quarterly inventory of sources of pollution to the environment and taking measures to improve the environmental situation.

## ENVIRONMENTAL PROTECTION

In order to protect the environment, the Company conducts active work on promoting energy efficiency (within the Framework of «green economy»), as well as plans to participate in Expo 2017. One of the main areas of growth in competitiveness of the country, its technological industrial upgrading, ensuring energy and environmental security are energy conservation and energy efficiency. State program of industrial and innovative development of Kazakhstan for 2010—2014 sets the targets on reducing energy intensity of gross domestic product of the country by at least 10 percent to 2015.

Thereby, energy saving was attributed to strategic tasks of the state, being the main method of providing both energy and environmental security.

The strategic goal of energy saving is to increase energy efficiency in all sectors and all regions of the country as a whole.

**The main measures taken by the Company in view of energy efficiency:**

- 1) Modernization of industry to reduce energy consumption per unit of production.
- 2) Implementation of innovative technologies to improve energy efficiency.
- 3) Creating financial conditions for modernization of the enterprises.
- 4) Ensuring sufficient staffing in the field of energy conservation.
- 5) Interaction between science and industries to modernize equipment and create resource– effective manufacturing.

In order to improve environmental situation sources of pollutions to the environment were monitored during the year and measures were taken to reduce emissions.

Besides, the Programs (plans) of actions to protect the environment were developed at the enterprises of the Company.

**The main tasks to ensure environmental sustainability and safety are as follows:**

- respect for the environment;
- creating of favorable, healthy and safe environment for the employees, prevention of occupational injuries and diseases;
- compliance with regulations and standards in the field of industrial safety and health;
- increase of energy efficiency of operations;
- implementation of the reporting system.

Environmental sustainability is achieved through investing in improving the environmental performance of the business.

The Company strives to comply with principles of maximum respect of environment and rational use of natural

resources, contributes to the prevention of negative impact on the environment, taking initiatives aimed at increasing responsibility for the environment, promotes development and distribution of environmentally clean and energy efficient technologies, conducts environmental monitoring and open provision of environmental information.

**The environmental management system will include:**

- 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 indicators and rational use of resources;
- regular monitoring and control of progress towards the goals of protection of environment, health and safety.

Particular attention will be paid to increasing energy efficiency, resource conservation and use of alternative energy sources in the Company's enterprises, to improving culture of the staff safe behavior and compliance with occupational health and safety requirement.

## ORGANIZATION OF SOCIAL PARTNERSHIP IN THE SUBSIDIARIES OF THE COMPANY

On February 5, 2011, a tripartite Industrial Agreement on mechanical engineering was concluded between the Ministry of Industry and New Technologies, the Company and the public association «Trade Union of Mechanical Engineering Employees of the Republic of Kazakhstan» for the years 2011—2013.

**This agreement aims at solution of the following main tasks:**

- development of social partnership based on mutual trust, information sharing and cooperation;
- ensuring stable operation of enterprises;
- creating conditions for workforce productivity;
- definition of regime for work and leisure;
- wages and salaries (Tariff Agreement);
- gender and youth policy;
- industrial health and safety;
- social security, benefits and compensations;

- definition of the minimum industry standard of salary;
- definition of measures to protect the legitimate rights and interests of employees;
- creating conditions for the trade union activities.

Branches of the Public Association «Trade Union of Mechanical Engineering Employees of the Republic of Kazakhstan» operate in the following subsidiaries of the Company: JSC «PZTM», JSC «Kirov Plant», JSC «Munaymash», JSC «Semipalatinsk Machine Building Plant», JSC «Semey Engineering», JSC «Research and Development Institute «Hydropribor», JSC «PZ «Omega», JSC «UZ «Zenith», JSC «811 Repair Plant KI», JSC «Tynys».

Number of employees in these enterprises is 4144, 75% of them are members of the Trade Union. Primary trade union organizations operate on the basis of Regulations on the branch of the Public Association «Trade Union of Mechanical Engineering Employees of the Republic of Kazakhstan».

This primary trade union organizations are headed by trade union committee chairpersons, elected by the members of trade union and on the basis of power of attorney issued by the Public Association «Trade Union of Mechanical Engineering Employees of the Republic of Kazakhstan».

Control over compliance with the terms and conditions of the collective agreement is provided by permanent commission for collective agreement control, consisting of an equal number of representatives of Employers and employees.

Parties shall report annually on the implementation of commitments at the meeting (conference) of employees.





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ACTIVITIES OF SUBSIDIARIES  
AND AFFILIATED  
ORGANIZATIONS



### JSC «TYNYS»

JSC «Tynys» was formerly known as Plant of Oxygen-Respiratory Equipment, it was founded in 1959.

This is the only enterprise (tracing copyright holder) producing 45 kinds of aeronautical products, previously developed by the Design Bureau (CB) of the Aggregate Plant «Nauka», Moscow, CB of Mechanical Engineering Plant «Zvezda» in Tomilino, CB of Machine-Building Plant named after A.I. Mikoyan in Moscow.

On the results of 2005, the company was awarded by the Prize of the Government of the Republic of Kazakhstan «For Achievements in Quality».

The main types of products are:

- life supporting equipment for the aviation engineering and aeronautical automation;

- aeronautical products for civilian and military aircraft and helicopters of types: AN, IL, TU, YAK, BE, SU, MIG, MI, KA, Ansat;

- polyethylene pipes and fittings and other products.

In Q4 2012, the company started implementation of the investment project «Production of bullet-proof vests».

In 2013, the Company plans to implement two investment projects: «Mastering of foundry on gasified models» and «Production of bullet-proof vests».

There are all licenses and certificates in place necessary to organize the production.

Quality management system ISO 9001:2008 is implemented and employed.

Name of the enterprise	Volume of output	Total revenue	Including: income from sale of products	Income — total:	Workforce productivity, ths. tenge/person
2011 — actual	3 631 138	3 986 376	3 809 073	657 497	6 239
2012 — actual	4 652 426	4 798 457	4 660 940	658 668	7 017

### JSC «PETROPAVLOVSK PLANT FOR HEAVY MACHINE BUILDING»

JSC «Petropavlovsk Plant For Heavy Machine Building» is a leading company in Kazakhstan producing oil and gas, energy and railway equipment, and possessing all multidisciplinary production facilities with all technological processes available required for production of these products in mechanical engineering. In 2011, the company celebrated 50th anniversary of its first production.

For 30 years, the company belonged to the USSR Ministry of Defense Industry and specialized in the production of complete missile systems and of meteorological rockets.

The company has 19 workshops and production sites, which employ about 2,000 units of technological equipment, there is a Project Design and Technology Center, which employs more than one hundred qualified engineers and designers.

11 kinds of oil equipment, more than 40 kinds of petrochemical equipment as well as gamma-products for the energy and chemical complexes were developed and put into production.

The enterprise launched production of oil and gas equipment, oil and gas refinery equipment, for energy and chemical industries, railway equipment, special products.

In 2012, the company made a lot of work to develop and master new products, range of heat exchange and energy equipment produced was extended.

There are all licenses and certificates in place necessary to organize the production.

Quality management system ISO 9001:2008 is implemented and employed.



Name of the enterprise	Volume of output	Total revenue	Including: income from sale of products	Income — total:	Workforce productivity, ths. tenge/person
2011 — actual	3 005 700	2 857 312	2 774 172	2 153	2 804
2012 — actual	5 108 200	5 739 349	5 670 365	229 425	4 493

### JSC «URALSK PLANT «ZENIT»

JSC «Uralsk Plant «ZENIT» was established on the basis of the Leningrad plant «Dvigatel» evacuated in 1941.

During the war, it produced a special military naval armament. Merit for providing the Army and Navy during the World War II, the factory, the only enterprise in Kazakhstan, was awarded by the World War Order of 1 degree.

The main activity is the building of boats and ships, which plant produces since 1993, which was the beginning of a new industry in the Republic of Kazakhstan — shipbuilding.

This was made possible thanks to availability in the plant of Appropriate technical and manufacturing capabilities, intellectual and human potential.

During this time, the mass production of boats and ships with displacement of up to 240 tons was mastered.

Products:

- shipbuilding;
- products for oil and gas industry;
- products for agriculture and other civil products.

In last year, the first rocket gunboat «Kazakhstan» was launched, with displacement of 240 tons.

In the future it is also planned to produce specialized marine vessels having dry weight up to 600 tons (multifunctional support vessels, floating laboratories, tugs with shallow draft, ships for delivery of watch-based shifts, search and rescue and fire-fighting vessels).

There are all licenses and certificates in place necessary to organize the production. Quality management system ISO 9001:2008 is implemented and employed.

Name of the enterprise	Volume of output	Total revenue	Including: income from sale of products	Income — total:	Workforce productivity, ths. tenge/person
2011 — actual	2 984 010	1 242 858	1 087 494	66 745	3 323
2012 — actual	4 682 732	6 758 734	6 741 681	549 164	5 152

### JSC «MUNAYMASH»

JSC «Munaymash» was established on the basis of the Taganrog plant «Red Hydropress» evacuated to the Petropavlovsk city in November, 1941. The company specializes in production of products for oil and gas industry. The products are manufactured by the original

technology and has high precision, corrosion resistant in aggressive liquids and gases, increased durability. Pumps, in terms of their operational and technical specifications are at the worldwide best level. The products designed for manufacturing, is developed

taking into consideration the requirements of oil producing companies, veloped during operation of analog products and can be adjusted to meet the customer's requirements.

A large-scale modernization was implemented, latest metalworking equipment manufactured by "Nakamura Tomi" (Japan) was introduced and sequential automated design and production control system was created to meets the highest world standards.

There are all licenses and certificates in place necessary to organize the production.

Quality management system ISO 9001:2008 is implemented and employed ISO 9001:2008.

Currently, the production modernization project undergoes at the enterprise. The project aims at upgrade of machining production.

Name of the enterprise	Volume of output	Total revenue	Including: income from sale of products	Income — total:	Workforce productivity, ths. tenge/person
2011 — actual	1 959 789	2 557 877	1 950 651	213 462	14 099
2012 — actual	1 685 834	2 467 092	1 669 930	78 059	12 128

#### JSC «KAZENGELECTRONICS»

JSC«KazEngElectronics»(previously—NationalCenter for Electronics and Communications of Kazakhstan) was established in 1994 on the basis of scientific and technical complex of «Sary — Shagan» polygon, enterprises and organizations of radio technical profile.

The main activities of the enterprise are modernization and overhaul of weapons, military and special

equipment, manufacturing of modern means of communication and electronics products, assembly production of computer equipment.

There are all licenses and certificates in place necessary to organize the production. Quality management system ISO 9001:2008 is implemented and employed.

Name of the enterprise	Volume of output	Total revenue	Including: income from sale of products	Income — total:	Workforce productivity, ths. tenge/person
2011 — actual	435 310	461 024	435 311	9 423	4 784
2012 — actual	2 447 489	2 415 556	2 326 242	5 172	23 995

#### JSC «PLANT NAMED AFTER KIROV»

JSC «Plant named after S.M. Kirov» was founded in 1928; it specializes in the production of radio equipment. In 1941, the plant was evacuated to Petropavlovsk. Core business is the design and manufacture, installation,

commissioning into operation, maintenance and repair of means of communication, railway automation, security systems for the Ministry of Defense of the Republic of Kazakhstan, railway transport, oil and gas complex,



technical means for digital TV and special means. There are all licenses and certificates in place necessary to organize the production.

Quality management system ISO 9001:2008 is implemented and employed.

Name of the enterprise	Volume of output	Total revenue	Including: income from sale of products	Income — total:	Workforce productivity, ths. tenge/person
2011 — actual	5 510 811	5 524 532	5 577 450	288 473	9 894
2012 — actual	6 504 981	6 114 875	6 164 528	329 317	11 493

#### JSC «MACHINE BUILDING PLANT NAMED AFTER S.M. KIROV»

JSC «Machine-Building Plant named after S.M. Kirov» was established in 1942, on the basis of plant number 182 evacuated from Makhachkala (now Plant «Dagdizel»).

In Soviet times, it was one of the leading diesel building and scattler building plants in the USSR. The enterprise launched production of marine underwater weapons, ship hydraulics products, marine boilers burring process control

systems, parts for railway, products for mining and oil and gas industries. In 2012, the plant celebrated its 70-year anniversary.

There are all licenses and certificates in place necessary to organize the production. Quality management system ISO 9001:2008 is implemented and employed.

Name of the enterprise	Volume of output	Total revenue	Including: income from sale of products	Income — total:	Workforce productivity, ths. tenge/person
2011 — actual	827 864	1 266 302	853 803	12 910	2 208
2012 — actual	740 750	762 913	564 964	-311 192	2 218

#### JSC «RESEARCH AND DEVELOPMENT INSTITUTE «GIDPROPRIBOR»

JSC «Research and Development Institute «GIDPRO-PRIBOR» was established in Uralsk town in 1972 on the basis of SCB of Machine-Building Plant named after K.E. Voroshilov, as the Uralsk branch of the Leningrad Cent-ral Research Institute "Gidropribor" of the USSR Ministry of Shipbuilding Industry to make research, development and production of underwater robotic facilities for search, rescue and special underwater engineering works.

Currently, the main activities of the company focus on the research, project design, manufacturing and engineering in the field of shipbuilding, mobile robotics, as well as in manufacturing of equipment for oil and gas sector. To implement these works, all licenses and certificates are in place at the enterprise to organize the production.

In 2012, the enterprise was accredited by the Ministry of Education and Science of the Republic of Kazakh-



stan and received Certificate as a subject of scientific and (or) scientific and technological activities.

In 2012, the company has developed technical documentation and produced a prototype high-speed boat.

Quality management system  
**ISO 9001:2008**  
is implemented and employed

Name of the enterprise	Volume of output	Total revenue	Including: income from sale of products	Income — total:	Workforce productivity, ths. tenge/person
2011 — actual	301 650	305 601	301 650	8 676	2 556
2012 — actual	377 756	380 451	377 756	4 503	2 974

#### JSC «811 MOTOR-REPAIR PLANT KE»

JSC «811 Motor-repair Plant KE» was established in the town Yereimentau on July 1, 1976, in order to ensure overhaul routine repair of automotive vehicles for Turkestan and West Siberian military districts of the USSR.

During the period of more than 30 years, the company has accumulated extensive experience in the repair and re-equipment of machines. The plant's products earned a good reputation.

The main activities are overhaul, modernization, re-equipment and maintenance of freight automotive vehicles of all modifications.

The company specializes in the overhaul, modernization, re-equipment and maintenance of freight automotive vehicles of all modifications.

There are all licenses and certificates in place.

Name of the enterprise	Volume of output	Total revenue	Including: income from sale of products	Income — total:	Workforce productivity, ths. tenge/person
2011 — actual	610 756	615 692	610 245	68 709	4 662
2012 — actual	399 874	402 402	399 604	2 148	3 278

#### JSC «SEMIPALATINSK MACHINE BUILDING PLANT»

JSC «Semipalatinsk Machine Building Plant» was founded in 1969 as a branch of Rubtsovsk Machine Building Plant (RMP) in accordance with the Order of the USSR Ministry of Defense Industry.

Production facilities of the plant are oriented to production of all-terrain tracked vehicles and spare parts, spare parts for railway transport and general mechanical engineering products.

The enterprise launched production of tracked transporter tractor GT-T and spare parts, parts for railway transport, general mechanical engineering products.

There are all licenses and certificates in place necessary to organize the production.

Quality management system ISO 9001:2008 is implemented and employed.



Name of the enterprise	Volume of output	Total revenue	Including: income from sale of products	Income — total:	Workforce productivity, ths. tenge/person
2011 — actual	636 876	479 575	465 291	8 870	4 423
2012 — actual	1 466 020	1 824 296	1 807 056	182 961	8 726

#### JSC «SEMEY ENGINEERING»

JSC «Semey Engineering» was created by reorganization of RSE «Armored Vehicles Repair Plant», which was established on July, 1976.

This is the only specialized company in the Central Asian region, producing works and services on overhaul and modernization of armored vehicles. The company specializes in capital repair and modernization of

weapons and military equipment and manufacture of conversion techniques.

There are all licenses and certificates in place necessary to organize the production.

Quality management system ISO 9001:2008 is implemented and employed.

Name of the enterprise	Volume of output	Total revenue	Including: income from sale of products	Income — total:	Workforce productivity, ths. tenge/person
2011 — actual	1 526 311	1 719 523	1 708 154	435 818	9 140
2012 — actual	6 017 757	6 093 337	6 031 823	489 424	11 573

#### JSC «INSTRUMENT-MAKING PLANT «OMEGA»

JSC «Instrument-Making Plant «Omega» was established in 1972 and belonged to the USSR Ministry of the shipbuilding industry, specialized in the production of systems and complexes to control ship mechanisms, ship internal communication equipment, precision mechanics products for ship instruments.

The following productions are established at the enterprise:

- stockpiling;
- tools production;
- metalworking;
- installation and assembly;
- production of plastic and rubber products;

- production of equipment for the manufacture of potable water.

Manufacture and supply are organized of wide range of spare parts for rolling stock of Kazakhstan railway, parts and components for rolling stock.

The company specializes in the production of railway equipment, parts and components for rolling stock, specialty products, dual-purpose products and products for AIC.

In 2012, the plant celebrated its 40th anniversary.

There are all licenses and certificates in place necessary to organize the production.

Quality management system ISO 9001:2008 is implemented and employed.



Name of the enterprise	Volume of output	Total revenue	Including: income from sale of products	Income — total:	Workforce productivity, ths. tenge/person
2011 — actual	482 817	547 498	515 920	18 341	2 962
2012 — actual	628 326	1 053 139	624 921	237 924	3 510

«RESEARCH AND DEVELOPMENT INSTITUTE «KAZAKHSTAN ENGINEERING» LLP

«United Center for implementation of weapons management Systems» LLP was transformed into «Research and development Institute «Kazakhstan Engineering» and was accredited as a subject of scientific and technical activities, it obtained licenses to conduct development and production, repair of ammunition, weapons military equipment, and spare parts, components and devices to them; special materials and equipment for their production, including installation, commissioning, upgrading, erection, storage, repair and maintenance.

Taking into account the large market and increasing demand the decision was made to develop the area of engineering services in format EPC (M) contracts, which includes:

- development of the sphere of engineering services in the domestic market, export-oriented;
- implementation (development and transfer) of new technologies;
- improving the quality of services in the field of engineering;
- develop of own production capacity.

Paragraph No.	Indicators	2012 approved plan	12 months of 2012 / actual
1	Income, total	92 738	153 335
2	Expenses, total	86 301	154 470
	Financial result	5 150	(1 335)

«KAZAKHSTAN AVIATION INDUSTRY» LLP

The enterprise was created to implement the project «Establishment of Aviation Technology Center in Astana», which is conducted in the following areas:

- maintenance and assembly of aircrafts belonging to the model range of «Cessna Aircraft Company»;
- maintenance and repair of helicopters of Russian production;
- maintenance and repair of aircraft belonging to military frontal aviation;
- maintenance of aircrafts belonging to military transport aviation.

«KAZAKHSTAN ASELSAN ENGINEERING» LLP

«Kazakhstan ASELSAN Engineering» LLP was created on April 18, 2011.

The founders of the joint venture are: JSC «NC «Kazakhstan Engineering» — 50%, Turkish Company «ASELSAN» — 49% and the Committee for Defense Industry of Turkey — 1%.

Activities of the joint venture include the production of electronic-optical devices.

In 2012, the founders of the company signed a joint agreement that will allow expanding the range of products. The company also signed a Memorandum of Understanding with «Eurocopter Kazakhstan Engineering», according to

which the parties are willing to consider the possibility of installation of electronic-optical equipment on the EC-145 helicopters produced by «Eurocopter Kazakhstan Engineering» LLP.

The systems for management and quality control in aviation, environment, Industrial safety and health: ISO 9001:2008, ISO 14001, AGAP-160, AGAP-2110, OHSAS 18001, AS9100, were implemented and are employed.

In 2013, a plant for production of electro-optical equipment will be put into operation.

JSC «KAMAZ ENGINEERING»

JSC «Kamaz Engineering» was created on May 31, 2005. Co-founder of the Company is JSC «KAMAZ».

JSC «Kamaz Engineering» is the first plant in Kazakhstan specialized in assembly of trucks and special equipment on the basis of KAMAZ vehicles.

It is a leading manufacturer of trucks in the Republic of Kazakhstan.

Since the putting the plant into operation, more than six thousand vehicles and machines were produced, which are used in many sectors of the economy of the Republic, including law enforcement agencies, emergency services, road construction and agriculture.

Model range has about 30 kinds of machines of special and dual purpose.

There are all licenses and certificates in place necessary to organize the production.

Quality management system ISO 9001:2008 is implemented and employed.

«KAZAKHSTAN THALES ENGINEERING» LLP

«Thales Kazakhstan Engineering» LLP was established in May, 2009, pursuant to the order of the President following the official visit to the French Republic in June, 2008.

Founders of the joint venture are the JSC «NC «Kazakhstan Engineering» — 50%, «Thales Kazakhstan» LLP — 40% (France), company «Thales communication & security S.A.» — 10% (France). The JV specializes in developing, manufacture and sale of electronic equipment, systems and/

or software and provision of related services; manufacture, sale and maintenance of radio and communication equipment for the defense market.

«INDRA KAZAKHSTAN ENGINEERING» LLP

«Indra Kazakhstan Engineering» LLP was established on June 28, 2011.

Founders of the joint venture are: JSC «NC «Kazakhstan Engineering» — 49% and Spanish company «Indra Sistemas, SA» — 51%.

Main activities include production and maintenance of radio-electronic systems for defense purposes on the basis of transfer of modern technology to the Kazakh partner.

«EUROCOPTER KAZAKHSTAN ENGINEERING» LLP

«Eurocopter Kazakhstan Engineering» LLP was established in December, 2010.

Founders of the joint venture, which was formed on a parity basis, are JSC «NC «Kazakhstan Engineering» and a subsidiary of the group EADS — «Eurocopter».

The enterprise is equipped with workshops for maintenance of mechanical parts, repair of sheet metal products, repair of electrical equipment and avionics, repair of products made of composite materials, blades, shop for repair of engines, hydraulic equipment, facilities for maintenance and painting, autonomous boiler and storerooms.

The main activities include:

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

JSC «ZIKSTO»

JSC «ZIKSTO» was created by mean of transformation of the State-owned Company JSC «Machine Building Plant named after V.V. Kuibyshev».

The company is located at the major railway junction in Petropavlovsk, which creates favorable conditions for supply of the enterprise with raw materials and for shipment



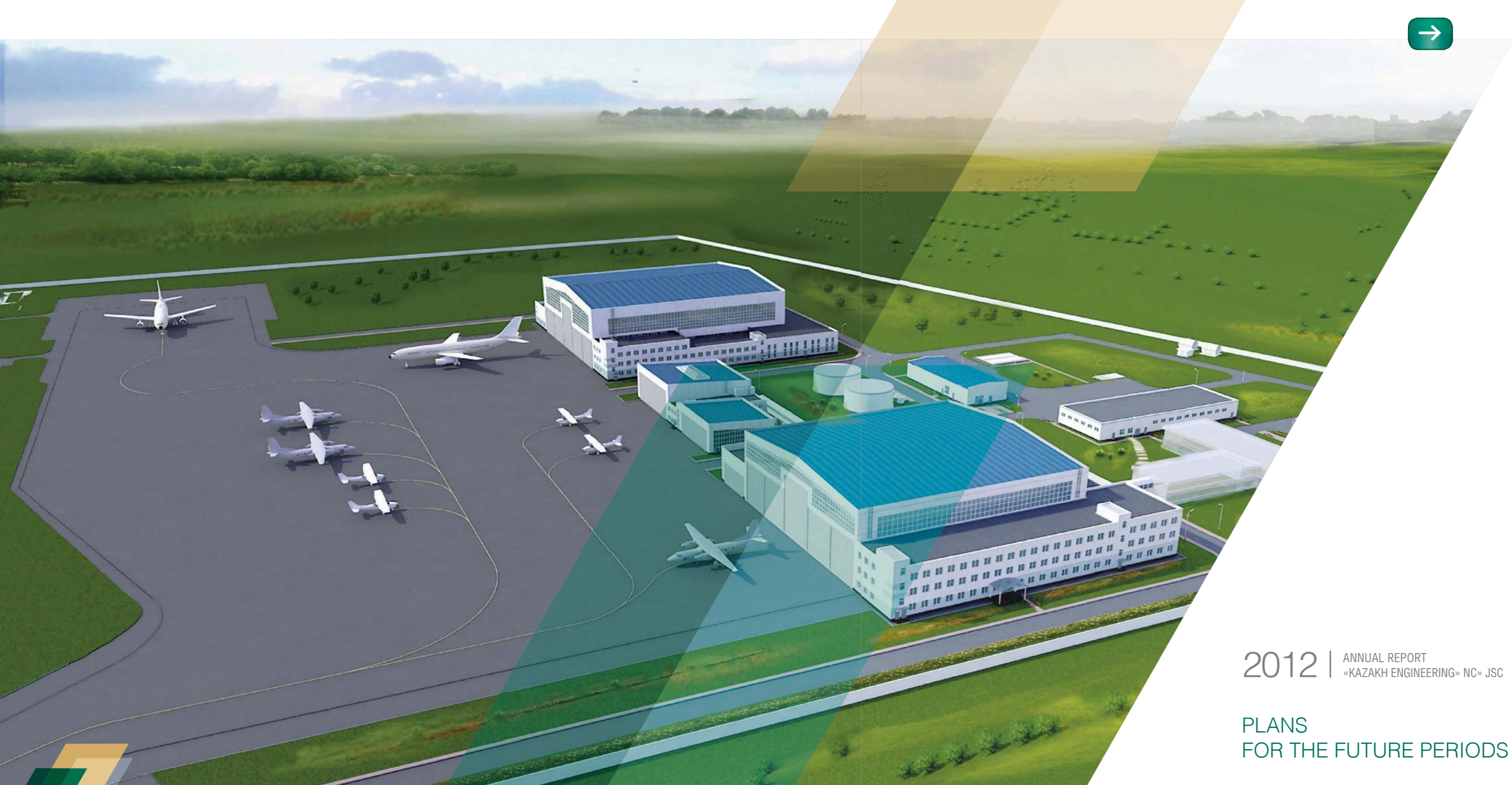
of finished products. The company specializes in production of freight cars, covered hopper cars to transport grain, container wagons, overhaul of wagons and their parts, overhaul and other types of repair of cars and their parts, manufacturing products for the oil and gas industries, energy system, general industrial products and consumer goods.

There are all licenses and certificates in place necessary to organize the production.

Quality management system ISO 9001:2008 is implemented and employed.







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«KAZAKH ENGINEERING» NC» JSC

PLANS  
FOR THE FUTURE PERIODS



The Development Plan of the Company provides for increase in the value of the Company's assets in 2013, up to 66,327 million tenge. It is planned to achieve this level by increasing the value of fixed assets, investments, inventories, financed from the Republican budget for implementation of the investment projects of the Company, as well as from our own and borrowed funds within the bond program of the Company.

It is also planned to increase workforce productivity (volume of output over the group of the Company / planned (actual) number of workers for the period) up to the level of 12.1 million tenge per employee.

Workforce productivity at the end of 2012, is 10.8 million tenge per employee. Increase in workforce productivity of the Company's enterprises will be achieved through implementation of the following areas:

- modernization of existing enterprises, transfer of technologies;
- improvement of staff qualification (training, retraining of staff);
- Development of R&D on the basis of existing enterprises.

It is planned to create and develop a new area — Engineering, volume of which is expected to reach up to The level of 7,712 million tenge.

We will work to conclude EPC-contract. The implementation contracts should provide for service and subsequent maintenance of manufactured products so as to extend their service life and ensure an integrated approach.

Volume of engineering services amounting 7,712 million tenge will be achieved by subsidiaries of the Company until the end of 2013.

It is planned to perform modernization and renewal of production facilities and to create 150 new jobs. Modernization and updating of the Company's production facilities will be carried out in the following areas:

- replacement of worn-out and outdated equipment through acquisition of high-tech equipment, specialized transport and mechanisms;
- transfer of technologies;
- reconstruction, capital repair of industrial premises and equipment, change of layout at production sites, optimization of in-plant traffic flows, construction of new facilities;

- automation of production, acquisition of modern hardware and software. Over the last 3 years, the group of the Company created about 650 new jobs;
- the next big challenge for 2013, is to create a center for production of electronic – optical devices in the territory of the Republic of Kazakhstan.

Joint Venture «Kazakhstan Aselsan Engineering» LLP plans to produce the following products: night vision devices, thermal imagers, sights (the production of optical and thermal lenses will be mastered), military radio stations, communication systems for law enforcement agencies of Kazakhstan and CIS countries.

Also, helicopters' avionics systems will be modernized in conjunction with «Eurocopter Kazakhstan Engineering» LLP. Production capacity planned is up to 5,450 pcs. per year, while the number of jobs will be up to 200.

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# 7 712

## million tenge

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planned volume of engineering services to be achieved by the Company's subsidiaries till the end of 2013

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Within the framework of implementation of the state program for technological upgrade of the Armed Forces, other troops and military formations of the Republic of Kazakhstan, and development of production of weapons and military equipment for 2011–2015, the Company conducts upgrade of production facilities at JSC «Semey Engineering» in order to develop new types of repairs and modernization of armored vehicles with further access to the global market of arms.

Value of the project is 2.8 billion tenge. It is planned to perform overhaul and modernization of at least 100 armored vehicles per year.

#### PARTNERS OF THE COMPANY INCLUDE:

- SC «Ukroboronprom» (Ukraine) — supply of modern technological equipment in order to master a new type of overhaul of self-propelled artillery system.



- JSC «SPC «Uralvagonzavod» — supply of modern technological equipment to organize modernization of armored vehicles and re-equipment of T-72 tanks into BMPT and heavy machines.

Another major investment project, planned in 2013, is creation of an assembly production of EW systems «Cicada –R» and radar station «LANZA» in cooperation with company «Indra Systemas S.A.».

Today, the Joint Venture already has orders and performs them under SDO contracts with MoD RK.

In 2013, it is planned to complete the repair work in production facilities and reach full designed capacity.

Increase in sales volumes will be promoted by creation of new production facilities, modernization of enterprises, increase in capacity and yield new markets by the Company.

The Company also plans to approve the Company Development Strategy for the years 2013–2022, which reflects new areas of development of the Company.



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26  
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«KAZAKH ENGINEERING» NC» JSC

CONSOLIDATED  
FINANCIAL STATEMENT



## ADMINISTRATION CONFIRMATION OF LIABILITY FOR PREPARATION AND AUTHORIZATION OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED IN 31 OF DECEMBER 2012

Management of National Company «Kazakhstan Engineering» JSC (hereinafter referred to as the Company) and its subsidiaries (hereinafter referred to as the Group) is responsible for preparing the consolidated financial statements that in all material respects give a true and fair view of the consolidated financial circumstances of the Groups as on 31 of December 2012 and the consolidated results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards («IFRS»).

During preparation of the consolidated financial statements, the management is responsible for: observance of accounting policy principles:

- presentation of information, including accounting policy, in the manner that assures relevance, truthfulness, compatibility and apprehensibility of such information;
- disclosure of additional data when meeting the requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the consolidated financial circumstances and consolidated financial performance of the Group;
- assessment of the Group's ability to continue its work in foreseeable future.

The management of the Group is also responsible for:

- development, introduction and maintenance of an effective and sound system of internal control throughout the Group;

On behalf of the Group

Zhetenova A.K.  
Managing director

March 15, 2013.  
Astana, Kazakhstan

- maintaining of records in the manner that are sufficient to show and explain the Group's transactions, as well as provide information on any date with adequate accuracy about the consolidated financial circumstances of the Group and to ensure that the consolidated financial statements comply with IFRS requirements;
- accounting records maintenance as provided by IFRS and the legislation of the Republic of Kazakhstan;
- taking all reasonably available steps to protect the assets of the Group;
- Detection and prevention of fraud and other irregularities.

The consolidated financial statements for the year ended 31 of December 2012 were approved and authorized for issue by the management of National Company «Kazakhstan Engineering» JSC on the 15 of March, 2013.

Mukushev B.A.  
Director—senior accountant of corporate finance  
and business accounting department



## INDEPENDENT AUDITORS' REPORT

To Shareholders and the Board of Directors of National Company «Kazakhstan Engineering» JSC:

We have audited the attached consolidated financial statements of National Company «Kazakhstan Engineering» JSC and its subsidiaries (hereinafter referred to as the Group), which include the consolidated statement of financial circumstances as at 31 of December 2012 and the consolidated statements of comprehensive income, changes in equity and cash flow for the year ended on that date, and a summary of basic principles of accounting policies and other explanatory information.

### MANAGEMENT RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and faithful representation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for creation of internal control system that the management determines to be necessary for preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing.

Those standards require that we comply with ethical requirements, plan and perform the audit in the manner to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performance of procedures to obtain audit evidence on the index numbers and footnotes in the consolidated financial statements.

Procedure selection is based on the auditor's assumptions, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error.

Those risk assessments includes appraisal of internal control system relevant to the preparation and truthfulness

of consolidated financial statements in order to design audit procedures that are appropriate in the present circumstances, but not for expressing an opinion on the effectiveness of the internal control system.

An audit also includes evaluating the appropriateness of used accounting policies and the reasonableness of estimated figures made by the management, as well as evaluation of the overall presentation of the consolidated financial statements. We believe that the obtained audit evidence is sufficient and appropriate basis for our opinion.

### OPINION

In our opinion, the consolidated financial statements in all material respects accurately present the financial circumstances of the Group as at 31 of December 2012 and the results of its operations and its cash flows for the year ended on that date, in accordance with International Financial Reporting Standards.

Gutova Tatiana  
Audit Engagement Partner,  
Qualified Auditor  
Certificate of competency №0000314  
Dated December 23, 1996.  
The Republic of Kazakhstan

Deloitte LLP  
State license on auditing in the Republic of  
Kazakhstan №0000015, MFU–2 form issued by  
the Ministry of Finance of the Republic of Kazakhstan  
dated September 13, 2006.

Nurlan Bekenov  
CEO  
Deloitte LLP

March 15, 2013  
Astana, Kazakhstan



«KAZAKH ENGINEERING NATIONAL COMPANY» JSC  
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL CIRCUMSTANCES  
AS ON 31 OF DECEMBER 2012  
(IN THOUSAND TENGE)

	Footnotes	31 of December 2012	31 of December 2011
<b>ASSETS</b>			
<b>LONG-TERM ASSETS:</b>			
Fixed assets	6	10,146,158	7,298,784
Fictitious asset	7	212,306	164,779
Investments in associates and jointly controlled entities	8	4,267,076	3,516,279
Other long-term assets	9	1,063,235	342,252
Deferred tax assets	33	213,691	132,567
Property investment		45,196	54,753
Long-term investment		4,417	4,417
<b>Total long-term assets</b>		<b>15,952,079</b>	<b>11,513,831</b>
<b>CURRENT ASSETS:</b>			
Inventories	10	10,887,246	8,197,964
Trade receivables	11	1,817,049	1,159,342
Prepaid income tax		146,397	79,156
Other taxes receivables	12	641,505	557,558
Restricted to use financial resources	13	87,062	82,391
Other current assets	14	6,296,234	2,268,510
Cash and cash equivalents	15	10,114,635	3,485,674
		29,990,128	15,830,595
Long-term assets held for sale		1,832	64,004
<b>Total current assets</b>		<b>29,991,960</b>	<b>15,894,599</b>
<b>TOTAL ASSETS</b>		<b>45,944,039</b>	<b>27,408,430</b>



«KAZAKH ENGINEERING NATIONAL COMPANY» JSC  
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL CIRCUMSTANCES  
AS ON 31 OF DECEMBER 2012  
(IN THOUSAND TENGE)

	Footnotes	31 of December 2012	31 of December 2011
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY:</b>			
Authorized capital	16	12,101,802	12,101,802
Additional paid-in capital	17	743,301	522,835
Undistributed profit		7,696,411	3,874,545
Equity that belongs to shareholders of the parent company		20,541,514	16,499,182
Non-controlling interests	18	561,383	573,174
<b>Total equity</b>		<b>21,102,897</b>	<b>17,072,356</b>
<b>LONG-TERM LIABILITIES</b>			
Loans	19	462,327	539,164
Debt securities in issue	20	4,327,836	
Finance lease liability	21	1,415,843	479,222
Other long term liabilities	22	218,216	866,309
Deferred tax liabilities	33	639,649	642,935
Liability component of preference shares		205,072	197,846
<b>Total long-term liabilities</b>		<b>7,268,943</b>	<b>2,725,476</b>





«KAZAKH ENGINEERING NATIONAL COMPANY» JSC  
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL CIRCUMSTANCES  
AS ON 31 OF DECEMBER 2012  
(IN THOUSAND TENGE)

	Footnotes	31 of December 2012	31 of December 2011
CURRENT LIABILITIES:			
Borrowings and current portion of long-term loans	19	6,220,430	2,440,297
Current portion of issued debt securities	20	34,005	–
Current portion of finance lease liabilities	21	345,031	152,792
Financial liabilities at fair value through profit and loss	21	204,370	183,230
Trade accounts payable	23	3,911,553	719,931
Income taxes payable		236,113	156,278
Taxes payable	24	1,427,207	1,024,415
Other current liabilities	25	5,193,490	2,933,655
<b>Total current liabilities</b>		<b>17,572,199</b>	<b>7,610,598</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>45,944,039</b>	<b>27,408,430</b>

On behalf of the Group

Zhetenova A.K.  
Managing Director

Mukushev B.A.  
Director–senior accountant of corporate finance  
and business accounting department

March 15, 2013  
Astana, Kazakhstan



«KAZAKH ENGINEERING NATIONAL COMPANY» JSC  
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT ON TOTAL INCOME  
FOR THE YEAR ENDED 31 OF DECEMBER 2012  
(IN THOUSAND TENGE)

	Footnotes	2012	2011
INCOME	26	52,153,614	33,623,194
COST	27	(43,392,917)	(28,222,723)
<b>GROSS PROFIT</b>		<b>8,760,697</b>	<b>5,400,471</b>
General and administrative expenses	28	(3,807,427)	(2,855,658)
Distribution costs	29	(841,849)	(640,484)
Other profit and loss	30	618,165	502,530
Profit / (loss) on exchange differences, net		(21,272)	50,374
Share in profit of associates and jointly-controlled entities	8	997,227	727,527
Loss on financial liabilities through profit and loss	21	(21,140)	(28,417)
<b>Financial income</b>	<b>31</b>	<b>314,818</b>	<b>79,531</b>
<b>Financial expenses</b>	<b>32</b>	<b>(790,886)</b>	<b>(389,858)</b>
<b>INCOME BEFORE CALCULATION OF EXPENDITURES FOR INCOME TAX</b>		<b>5,208,333</b>	<b>2,846,016</b>
INCOME TAX EXPENSE	33	(670,367)	(581,929)
<b>Profit for the year from continuing operations</b>		<b>4,537,966</b>	<b>2,264,087</b>
Profit for the year from discontinuing operations	34	20,580	–
<b>NET INCOME AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>4,558,546</b>	<b>2,264,087</b>
<b>Net profit and total comprehensive income connected to:</b>		<b>4,522,297</b>	<b>2,149,510</b>
To shareholders of the parent company		36,249	114,577
Non-controlling interests	18	4,558,546	2,264,087



«KAZAKH ENGINEERING NATIONAL COMPANY» JSC  
AND ITS SUBSIDIARIES

	Footnotes	Authorised capital
On January 1, 2011		12,101,802
Total profit and comprehensive income for the year		-
Evaluation of the debt component in preferred shares		-
Dividends	16	-
On December 31, 2011		12,101,802
Total profit and comprehensive income for the year		-
Fair value adjustment on the loan received from shareholders, after deduction of deferred tax amounting to 55.117 thousand tenge	19	-
Evaluation of the debt component of preferred shares		-
Dividends	16, 18	-
On December 31, 2012		12,101,802

On behalf of the Group

Zhetenova A.K.  
Managing Director

March 15, 2013  
Astana, Kazakhstan

Mukushev B.A.  
Director–senior accountant of corporate finance  
and business accounting department



CONSOLIDATED STATEMENT ON TOTAL INCOME  
FOR THE YEAR ENDED 31 OF DECEMBER 2012  
(IN THOUSAND TENGE)

Additional paid-in capital	Undistributed profit	Equity that belongs to shareholders of the parent company	Non-controlling interests	Total
522,835	1,856,543	14,481,180	458,597	14,939,777
-	2,149,510	2,149,510	114,577	2,264,087
-	(15,508)	(15,508)	-	(15,508)
-	(116,000)	(116,000)	-	(116,000)
522,835	3,874,545	16,499,182	573,174	17,072,356
-	4,522,297	4,522,297	36,249	4,558,546
220,466	-	220,466	-	220,466
-	(7,226)	(7,226)	-	(7,226)
-	(693,205)	(693,205)	(48,040)	(741,245)
743,301	7,696,411	20,541,514	561,383	21,102,897





«KAZAKH ENGINEERING NATIONAL COMPANY» JSC  
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED  
ON 31 OF DECEMBER 2012  
(IN THOUSAND TENGE)

	Footnotes	2012	2011
OPERATING ACTIVITIES:			
Profit before income tax expense		5,228,913	2,846,016
Adjustments for:			
Depreciation and amortisation	27, 28, 29, 30	621,234	644,860
Impairment of fixed assets	30	–	24,925
Provision for doubtful debts	28	32,936	(38,304)
Provision for obsolete inventories	28	(56,046)	56,078
Profit from disposal of fixed assets and intangible assets	30	(532,944)	(393,664)
Loss / (profit) from exchange rate differences		21,272	(50,374)
Loss on disposal of investments		(40,371)	1,074
Share in profit of associates and jointly-controlled entities	8	(997,227)	(727,527)
Loss on financial liabilities through profit and loss	21	21,140	28,417
Provision for warranty responsibilities		371,036	113,830
Provision for unutilized vacation		524,442	145,423
(Recovery) / charge of the cost for providing services		(392,792)	392,792
Other provisions		145,840	(5,109)
Financial income		(95,377)	–
Financial expenses	32	790,886	389,858
Cash flows from operating activities before changes in working capital		5,642,942	3,428,295
Changes in working capital:			
Change in inventories		(2,704,973)	(2,397,235)



«KAZAKH ENGINEERING NATIONAL COMPANY» JSC  
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED  
ON 31 OF DECEMBER 2012  
(IN THOUSAND TENGE)

	Footnotes	2012	2011
Change in trade receivables		(664,257)	31,889
Change the value added tax and other taxes receivable		64,934	(297,376)
Change in other assets		(2,034,694)	(1,407,251)
Change in trade accounts payable		3,184,505	(632,907)
Change in taxes payable		353,571	583,074
Change in other liabilities		813,679	(1,089,175)
Cash generated from / (used in) operating activities		4,655,707	(1,780,686)
Interest expense		(445,596)	(357,820)
Income tax expense		(736,242)	(537,364)
Net cash generated from / (used in) operating activities		3,473,869	(2,675,870)
INVESTMENT ACTIVITIES:			
Fixed asset acquisition		(2,002,753)	(717,633)
Acquisition of intangible assets		(107,141)	(22,537)
Advances paid for long-term assets	9	(921,130)	(240,249)
Acquisition of investments in associated enterprises		–	(1,319,595)
Granted short-term loans		(2,200,000)	(307,000)
Repayment of granted loans		54,474	307,000
Received dividends		248,825	74,246
Income from sales of fixed assets		686,898	692,098
Realization of investments in subsidiaries, after deduction of cash resources	34	8,436	–



«KAZAKH ENGINEERING NATIONAL COMPANY» JSC  
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED  
ON 31 OF DECEMBER 2012  
(IN THOUSAND TENGE)

	Notes	2012	2011
Acquisition of short-term investments		(4,671)	(547)
Net cash used in investing activities		(4,237,062)	(1,534,217)
FINANCIAL ACTIVITIES:			
Issue of bonds	20	4,317,912	–
Contracting of loans		9,913,114	7,246,081
Repayment of a loans		(5,990,938)	(5,919,378)
Repayment of finance lease		(71,999)	(20,373)
Paid dividends		(775,935)	(77,815)
Net cash provided by financing activities		7,392,154	1,228,515
CHANGE IN CASH AND CASH EQUIVALENTS, net		6,628,961	(2,981,572)
CASH AND CASH EQUIVALENTS, at beginning of the year	15	3,485,674	6,467,246
CASH AND CASH EQUIVALENTS, at the end of the year	15	10,114,635	3,485,674

On behalf of the Group

Zhetenova A.K.  
Managing Director

Mukushev B.A.  
Director–senior accountant of corporate finance  
and business accounting department

March 15, 2013  
Astana, Kazakhstan



«KAZAKH ENGINEERING NATIONAL COMPANY» JSC  
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED  
ON 31 OF DECEMBER 2012  
(IN THOUSAND TENGE)

	2012	2011
SIGNIFICANT NON-MONETARY TRANSACTIONS: FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011:		
Acquisitions of fixed assets and components of finance lease (Note 21)	1,240,676	–
Transfer from inventories to fixed assets (Note 6)	72,713	–
Fair value adjustment on the granted loans to associated company (Note 8)	72,991	13,045
Transfer from inventories to other long-term assets	63,503	–
Deduction of previously issued advances under finance leases (Note 9)	223,582	–
Adjustment to fair value of the loan received from shareholders	220,466	–
Financial expenses capitalized in the cost of fixed assets	72,405	–
Accumulated depreciation in the carrying value of finished goods and work in progress	38,656	1,685

On behalf of the Group

Zhetenova A.K.  
Managing Director

Mukushev B.A.  
Director–senior accountant of corporate finance  
and business accounting department

March 15, 2013  
Astana, Kazakhstan

«KAZAKH ENGINEERING NATIONAL COMPANY» JSC  
AND ITS SUBSIDIARIES

GENERAL INFORMATION

«KAZAKH ENGINEERING NATIONAL COMPANY» JSC (hereinafter referred to as the Company or «Kazakhstan Engineering») was established under the decree of the Government of the Republic of Kazakhstan № 244 of March 13, 2003 in order to improve the management system of the defense industry of Kazakhstan. The company is registered as a legal entity in Astana Justice Department on April 16, 2003 (registration number 13659–1901–JSC). May 20, 2005 the company passed re–registration of legal entity in Astana Justice Department (registration number 13659 1901–JSC).

As on December 31, 2012 and 2011 National Welfare Fund «Samruk–Kazyna» JSC is the sole shareholder of the Company. On June 15, 2010 100% of shares of the Company was transferred in trust to the Republic of Kazakhstan Ministry of Defense.

The principal activities of the Company and its subsidiaries are as follows:

- participation in the implementation of state policy on development, production, sale and liquidation of goods and safety equipment for dual and civilian designation;
- participation in the development and implementation of current and long–term cross–sector development programs and production of equipment for dual and civilian designation defense and dual–use for domestic needs and export;
- production and import of arms, military equipment and dual–use products for the national defence forces and other military formations of the Republic of Kazakhstan, as well as their export;
- development and implementation of conversion programs and programs for the development of the defense–industrial complex;
- participation in the execution of the state defense order, in the formation and implementation of plans for the organization and storage of mobilization reserves;
- production of oil and gas, railroad, aviation, agriculture and shipbuilding equipment, the production of civilian goods.

The present consolidated financial statements include the financial statements of the Company and the following subsidiaries (hereinafter jointly referred to as the Group).

In 2012 the Group sold a controlling interest (51%) of «Kazakhstan Engineering Distribution» LLP (Notes 8 and 34).

As on December 31, 2012 and 2011 the Group also had investments in associates and jointly–controlled entities.

Legal address:

Republic of Kazakhstan, Astana, Kunaeva str., 10

The number of employees of the Group as on December 31, 2012 was 6,458 people (December 31, 2011: 4,730 people).

The consolidated financial statements of the Group for the year ended on December 31, 2012 were approved by management on March 15, 2013.

OPERATING ENVIRONMENT

Markets of developing countries, including Kazakhstan, subject to economic, political, social, legal and legislative risks, different from risks of more developed markets. Laws and statutory regulations that govern the business operations in Kazakhstan, can change rapidly. There is a possibility of its arbitrary interpretation. The future direction of development of Kazakhstan is heavily dependent on fiscal and monetary policy of the state, adopted laws and regulations, as well as changes in the political situation in the country.

Due to the fact that Kazakhstan produces and exports large volumes of oil and gas, Kazakhstan's economy is particularly sensitive to changes in world prices for oil and gas.



NOTES ON CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR  
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Subsidiary organization	Type of business	Country of residence	Participating interest	
			31 of December 2012	31 of December 2011
«811 Motor–repair Plant KE» JSC	Repairs of automotive vehicles, armor, power components and assemblies; modernization of equipment.	Kazakhstan	100%	100%
«Automotive equipment maintenance plant №832 KI» JSC	Repairs of automotive vehicles.	Kazakhstan	100%	100%
«Kirov plant» JSC	Navigation systems, radio facilities, remote controls for railway complex; control units and automated devices for oil and gas industry.	Kazakhstan	84%	84%
LLP «Kazakhstan Engineering Distribution» LLP	Sale of products produced by the Group, attraction of investments, participation in government programs and tenders for the supply of equipment.	Kazakhstan	49%	100%
«Kirov Machine Building Plant» JSC	Marine underwater weapons and hydraulics and combustion automation products for the of marine vessels; pneumatic hammers for the mining industry; service parts for railway complex.	Kazakhstan	98%	98%
«Munaymash» JSC	Oil well pumps for the oil and gas section, consumer goods.	Kazakhstan	52%	52%
«Research Institute Hidropribor» JSC	Design and research work, as well as production of sea and river boats, ships, vessels and other floating facilities and underwater vehicles, ground and aerial robots and boats, equipment for underwater inspection and repair of pipelines, oil rigs, underwater and objects.	Kazakhstan	93%	93%
Instrument Making Plant «Omega» JSC	Water purification plants «Taza Suu»; spare parts and components for railway; digital exchange and components, telephones, consumer goods.	Kazakhstan	99%	99%





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Subsidiary organization	Type of business	Country of residence	Participating interest	
			31 of December 2012	31 of December 2011
«Petrovsk heavy machine plant» JSC	Special machinery for oilfield, vessels working under pressure, tools for repair and service of rail road, parts of rolling stock, production and sales of specialized products, production and modernization of military equipment.	Kazakhstan	100%	100%
«Semey engineering» JSC	Repair of combat vehicle arsenal and military vehicles, engines, moving machinery.	Kazakhstan	100%	100%
«Semey Machine Building Plant» JSC	Full-track carriers, access plates for freight wagons, repair of engineering equipment.	Kazakhstan	99%	99%
«Kuzet» LLP	Security services.	Kazakhstan	100%	100%
«Tynys» JSC	Medical equipment, gas equipment, air products, PET pipes, fire fighting equipment.	Kazakhstan	99%	99%
«Ural Plant «Zenit» JSC	Boats and ships for the Naval forces of the Republic of Kazakhstan, design and production of steel structures, spare parts for oil and gas industry.	Kazakhstan	95%	95%
«KazEngElectronics» JSC	Research and work in the field of electronics, creation of data management systems, development and implementation of programs and technologies.	Kazakhstan	100%	100%
«Joint center of armament management systems» LLP	Design and development of new types of specialized products for the defense industry, with the use of automated control weapon systems.	Kazakhstan	100%	100%
«Kazakhstan aviation industry» LLP	Repair and maintenance of aircraft.	Kazakhstan	100%	–



CONSOLIDATED STATEMENT OF FINANCIAL CIRCUMSTANCES  
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ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

STANDARDS AND INTERPRETATIONS ADOPTED IN THE CURRENT PERIOD

The Group adopted the following new and revised Standards and Interpretations during the year:

- AS 12 «Income Taxes» — Change of limited scope (recovery of underlying asset) (effective for periods beginning on or after January 1, 2012);
- Amendments to IFRS 7 «Financial Instruments — Disclosures», related to the expansion of disclosures regarding transfers of financial assets (effective for periods beginning on or after 1 July 2011).

Furthermore, the Group adopted the amendments to other standards as part of the annual initiative aimed at the overall improvement of existing international financial reporting standards. These amendments relate to some of the formulations and issues relating to the presentation of separate financial statements, recognition and measurement issues. Refinements led to several changes in the details of the Group's accounting policies, some of which are just changes in terminology and does not significantly affect the sum of reporting.

Adoption of the above standards had no effect on the results of operations or financial position of the Group, or notes to the consolidated financial statements.

ISSUED, BUT NOT ENACTED STANDARDS AND INTERPRETATIONS

At the date of the consolidated financial statements have been issued but not put into effect the following standards and interpretations:

- IAS 1 «Presentation of Financial Statements» — Amendments to the methods of other comprehensive income (effective for accounting periods beginning on or after July 1, 2012);
- IFRS 7 «Financial Instruments: Disclosures» — Amendments require disclosure of the initial application

of IFRS 9 (effective for accounting periods beginning on or after January 1, 2015);

- IFRS 9 «Financial Instruments» (effective for accounting periods beginning on or after January 1, 2015);
- IFRS 10 «Consolidated Financial Statements» (effective for accounting periods beginning on or after January 1, 2013);
- IFRS 11 «Joint arrangements» (effective for accounting periods beginning on or after January 1, 2013);
- IFRS 12 «Disclosure of interest in other entities» (effective for accounting periods beginning on or after January 1, 2013);
- IFRS 13 «Fair valuation» (effective for accounting periods beginning on or after January 1, 2013);
- IAS 19 «Employee Benefits» (June 2011) — Amendments to the draft revision of remuneration upon termination of employment (effective for accounting periods beginning on or after January 1, 2013);
- IAS 27 «Consolidated and Separate Financial Statements» — reissued as IAS 27 «Separate Financial Statements» (effective for accounting periods beginning on or after January 1, 2013);
- IAS 28 «Investments in Associates» — reissued as IAS 28 «Investments in Associates and Joint Ventures» (effective for accounting periods beginning on or after January 1, 2013);
- IAS 32 «Financial Instruments: Presentation» — Amendments to the Application Guide for cross charge of financial assets and financial liabilities (effective for accounting periods beginning on or after January 1, 2014).

In May 2011, a package of five standards (IAS 10, IAS 11, IAS 12, IAS 27 (2012) and IAS 28 (2012)) was released. It addresses the issues of consolidation, accounting for joint arrangements, investments in associates and disclosure. Five of the above required standards is effective for annual periods beginning on or after January 1, 2013. Early application is permitted on conditions of the simultaneous application of all five standards.

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The Group expects that all Standards and Interpretations will be adopted in the consolidated financial statements of the Company for the period commencing from the date of effect of these standards and the adoption of these Standards and Interpretations will have no material impact on the consolidated financial statements in the period of initial application.

FUNDAMENTAL PRINCIPALS OF ACCOUNTING POLICY

Basis of presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as IFRS).

The consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments.

Functional and presentation currency

These consolidated financial statements are denominated in Kazakh tenge («KZT»), which is the Group's functional currency and the presentation currency for the consolidated financial statements.

All financial information is presented in tenge and rounded to the (nearest) thousands.

Transactions in foreign currencies

During the preparation of the consolidated financial statements, transactions in currencies other than the functional one (foreign currencies) are recorded at the exchange rate on the transaction date.

Monetary items denominated in foreign currencies are retranslated at the rates prevailing on the date of the consolidated financial statements.

Non-monetary items carried in foreign currencies that are measured at fair value are translated at the exchange rates prevailing on the date of evaluation of the fair value.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items resulted from changes in exchange rates are recognized in profit or loss as

incurred, except for the following:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use are included in the cost of those assets as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on transactions for hedging certain foreign currency risks;
- exchange differences on items for mutual exchanges of the Group and subsidiaries, who operate abroad and the settlement of which is not planned and is hardly probable (such items are a part of the net investment).

Principles of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries).

Control is considered to be under control of the Company when the Company may determine the financial and operating policies of an entity for the purpose of the Company benefits from its activities.

Income and expenses of subsidiaries acquired or disposed during the year are included in the consolidated income statement from the date of acquisition or up to the effective date of disposal. Total comprehensive income of subsidiaries is attributed to the Company's shareholders and non-controlling interests (NCI), even if it leads to a negative balance of NCI.

If necessary, adjustments in the financial statements of subsidiaries are made to bring their accounting policies in line with the accounting policies of the Group.

All transactions between Group entities, appropriate balances and unrealized gains and losses resulting from transactions within the Group are eliminated.

Changes in Group's ownership interests in existing subsidiaries

Changes in ownership interests of the Group in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for in equity. The carrying amounts of the Group and non-controlling interests in a subsidiary are adjusted to reflect changes in their relative share.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the paid or received remuneration is recognized directly in equity of the shareholders of the parent company.

When the Group loses control over a subsidiary, the profit or loss on disposal is recognized in the consolidated statement of comprehensive income and is calculated as the difference between (1) the fair value of the consideration received and the fair value of any retained interest and (2) the carrying amount of the assets (including goodwill) and liabilities of the subsidiary, as well as non-controlling interests.

Investments in associates and jointly-controlled entities Investments in associates and jointly controlled entities are accounted using the equity method.

Associates are those entities in which the Group has significant influence but which is neither a subsidiary nor a joint venture of the Group.

Jointly-controlled entities is understood as a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Investments in associates / jointly controlled entities are recognized in the consolidated statement of financial position at cost, plus the change in the Group's share of net assets of the associate / jointly controlled entity after the acquisition, minus depreciation.

In cases when the Group's share of losses in these organizations exceeds the Group's ownership in such organization (which includes any long-term share ownership, which, in fact, form part of the Group's net investment in the organization), the Group discontinues to recognize its share of further losses.

Fixed assets

Fixed assets are reported at the initial cost after deduction of accumulated amortization sums and impairment losses.

Fixed assets acquired prior to December 31, 2006 are stated at fair value as determined by an independent appraiser and which is the initial value at the date of transition to IFRS.

Actual value includes all costs directly attributable to the acquisition of the asset.

Assets under construction, made for production or administrative purposes are carried according to value of construction after deduction of any recognized impairment loss.

The cost includes cost of professional services fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policies.

Such properties are classified to the appropriate category of fixed assets upon completion of construction or when it's ready for its intended use.

Depreciation is calculated to write off the cost of fixed assets (except for land and assets under construction) after deduction of their residual values over their estimated useful lives.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, herewith changes in accounting estimates are recognized in the consolidated financial statements without revising benchmarks.

	Average useful life
Buildings and Structures	8 — 100 years
Machinery and equipment	3 — 20 years
Transport facilities	5 — 10 years
Other assets	4 — 20 years

Assets held under finance leases are depreciated during their estimated useful lives in the same manner as the assets owned by the Group. However, in the absence of reasonable certainty that ownership will pass to the lessee at the end of the lease term, the asset shall be fully depreciated over the shorter of the two terms: lease term and its useful life. Article of fixed assets is derecognized in case of its disposal or when continuing use of the asset is not expected to give future economic benefits.

Gain or loss from the sale or other disposal of article of fixed assets is determined as the difference between the sale price and the carrying amount of the asset and is recognized in profit or loss.



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#### Intangible assets

Intangible assets are stated at cost after deduction of accumulated depreciation and impairment losses. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets at the rate of 10—20%.

The expected useful lives and depreciation method are reviewed at the end of each reporting period, taking into account any changes in estimates accounted for on a prospective basis.

#### Investment Property

Investment properties are items used to obtain rents, capital increment or in both cases (including such facilities under construction). Investment property is initially recognized at cost of acquisition, including transaction costs.

After initial recognition, the Group estimates the investment properties at initial cost after deduction of accumulated depreciation and impairment losses. Depreciation of investment property is calculated on a straight line basis.

Investment property is derecognised upon its disposal or permanently withdrawn from use when it is no longer expected to bring future economic benefits. Any gain or loss on derecognition of the property (the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is written off.

#### Impairment of fixed assets and intangible assets

The Group conducts inventory check of indicators of impairment the carrying value of tangible and intangible assets at each reporting date. 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).

The recoverable amount is defined as the highest of two values: the fair value after deduction of costs for realization and operating value. In assessing of operating value, the estimated future cash flows are discounted to their present value using a discount rate before tax 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 less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

Impairment losses are immediately recognized in profit or loss. In case an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the amount obtained as a result of new estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined if an impairment loss of previous years was not recognized for the asset (cash-generating unit).

#### Inventories

Inventories are reported at the minimum of cost and net realizable value. Net realizable value is based on the expected realizable value of inventories after deduction of all estimated costs of completion and implementation.

Net cost of finished goods and work in progress is calculated using the average weighted method and includes direct costs of materials and direct labor costs and those overheads that have been incurred in bringing the inventories to their present condition and the delivery to the existing location.

#### Recognition of financial instruments

The group admit financial assets and liabilities in its consolidated report about financial situation if and only if it becomes a participator of suitable agreement on instrument. The financial assets and liabilities are reported with use of the principle of accounting to operation date.

The financial assets and liabilities are primarily reported in prime cost, which is presented by fair value of received and paid reward, including and deducting expenses linked with consummation of transactions, and then are reported in fair or depreciate value.

The fair value is usually defined with reference to official market quotations. In case the market quotations are not available, the fair value is defined with use of conventional procedure on estimate, such as discounted future money flows, which are based on market data.

The depreciate (or amortised) value is estimated with the application of effective interest rate method.

The effective interest rate is a discounting rate of expected future cash receipts (including all the received or effected payments on debt instrument, which is being an integral part of effective interest rate, expenses on transaction processing and other rewards and discounts) for the period up to amortization

of debt instrument or (if applicable) for shorter time — up to balance cost as of the date of application of debt instrument for accounting.

#### Financial assets

The financial assets are classified in the following categories: the financial assets considering in the fair value through the profit and loss, investments retaining up to payment and "loans and trade credits". The classification depends on the character and the aim of financial instruments and is defined by the time of initial recognition.

#### Financial resources and their equivalents

The financial resources and their equivalents include the funds on bank accounts, cash in transit, cash money in cash department and transaction accounts with original maturity which doesn't exceed three months.

#### Trade receivables

The trade receivables are admitted and recognised and reported in accounting according to sums of made payables minus reserve on doubtful debt. The reserve on doubtful debt is allocated by the Group in case of failure to compensate the receivables in term defined in agreements.

The reserve in doubtful debt is occasionally reviewed and, if there is a necessity in correcting, the suitable sums are reported in consolidated report about aggregate income in accounting period, in which such necessity is revealed.

The uncollectable debt is written off according to its discovery by means of earlier created reserve.

#### Loans and other receivables

The loans and other receivables are presented as undervived financial assets with fixed or determined payments, which are not quoted on active market. The loans and other receivables are recognized according to depreciate value with use of effective interest rate method minus devaluation.

The income yield is recognised by use of effective interest rate, excluding short-term accounts receivable, the income yield on which would be insignificant.

#### Other financial assets

The other financial assets are presented as undervived financial assets — such as bank deposits with fixed or determined payments, which are not quoted on active market.

Such assets are accounted according to depreciate value with application of effective interest rate minus any devaluation.

#### Devaluation of financial assets

The financial assets (except for the assets accounting on fair cost through profit and loss) are accounted for the indicators of devaluation for every accounting date.

The financial assets depreciate when there is an objective evidence that after the initial recognition of the financial asset there will be: significant change of cash flow of investment in supposed future; significant financial difficulties experienced by emitter or debtor; infringement of agreement conditions; creditor's concessionality linked with borrower's financial difficulties; probability of borrower's bankruptcy or financial reorganization; disappearance of active market for actual financial asset.

For the financial assets estimated in depreciate value the sum of devaluation is presented by the difference between the balance sheet asset and the present value of supposed future flow of funds discounted by the initial effective interest rate.

The balance cost of financial asset drops for loss because of direct devaluation in all the financial assets except for the trade receivables, when the balance cost reduces by means of doubtful debt reserve.

In case in the next period the sum of impairment loss reduces and the reduce can be objectively linked with the event happened after the recognition of devaluation, the devaluation is reversed in profit and loss in as much as the balance cost of investment by the date of devaluation reversing does not exceed the sum, which could be equal to depreciate value if the devaluation was not recognised.

#### Financial liabilities and equity instruments

The debt and equity instruments produced by the enterprises of the Group are classified as the financial liabilities or the capital on the assumption of suitable agreement, and also of financial liability and equity instrument.

The equity instrument is any agreement, confirming the right to enterprise's assets fraction after exemption of all the liabilities. The equity instruments produced by the Group are estimated in the amount of its incomes minus direct costs on issue. The buying-out of Group's personal equity instruments is



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deducted from the capital. Profit and loss, emerged as a result of buying, selling, produce or annulment of personal equity instruments of the company, do not reflect in profits and losses.

**Preferred shares**

The preferred shares with fixed dividend amount are being the combined financial instrument in accordance with the content of contractual agreement. In such a way the components of liabilities and capital are presented separately in the statement of financial condition. During the initial recognition the component of the capital gets the remaining amount after the exemption of the fair value from instrument balance cost, defined for the component of liability.

The fair value of liability component during the initial recognition is calculated by exemption of expected money flows in market interest rate from the analogous debt instrument.

At a later stage, the component of liability is measured by the same principle as the subordinated debt is being measured; and the component of the personal capital — by the principle of measuring the registered capital.

The financial liabilities are presented by the contractual agreements, which are reported when there is a commitment expenditure.

**Trade and other accounts payable**

The trade and other accounts payable are initially estimated in fair value and subsequently overestimated in depreciate value with use of the effective interest rate method.

**Loans and attracted funds**

All the loans and attracted funds are initially estimated according to value, presented by fair value of received funds with due account for expences linked with the attraction of borrowed funds.

After the initial recognition the interest-bearing loans and attracted funds are estimated in depreciate value with use of the effective interest rate method.

The profits and losses except for borrowing costs subject to capitalization (for example, the third party guarantee commissions) are reported in consolidated report of aggregate income in case when the recognition of liabilities ends and also by the depreciation accounting.

**Cross charges**

The financial assets and financial liabilities can be crosscharged and the net amount can be shown in consolidated report of financial conditions only if there is a legal right of performing the cross charge and the Group is going to perform it or realize the asset and satisfy the liability simultaneously.

**Financial assets and liabilities estimated in fair value through profit or loss**

The financial assets and liabilities estimated in fair value through profit or loss are presented as derivative instruments or financial credit documents, (1) received with main aim of selling in short period; (2) being a part of identifying financial instruments' portfolio controlled collectively and the structure of which proclaims the intention of getting profit in short-term prospects; or (3) initially reported by the Group as financial assets and liabilities estimated in fair value through profit or loss. The financial assets and liabilities estimated in fair value through profit or loss are initially and subsequently measured in fair value. The Group uses the values for calculating the fair value of assets and liabilities, estimated in fair value through profit or loss, as well as derived financial instruments. The correcting of fair value of financial assets and liabilities, estimated in fair value through profit or loss, is reported in consolidated report about aggregate income. The Group doesn't classify the financial instruments in or out present category during the period of possessing these financial instrument.

**Integrated derived financial instruments**

The derived financial instruments, integrated into other financial instruments or main contract, are treated as separate derived financial instruments when their characteristics and risks are in close association with the characteristics and risks of main contract; and the main contracts are not estimated in fair value through profit of loss.

**DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES****Financial assets**

The recognition of financial asset (or, where applicable, a part of financial asset or fraction of analogous financial assets) ends if:

- the rights to receiving money flows from active are lapsed;

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- the Group preserves a right to receiving money flows from active, but assumed an obligation to pay them in full with no delays to the third party in accordance with the transmission agreement and transferred, mainly, all risks and rewards on this asset;
- The group transferred its rights to receive cash flows from the asset and either (a) transferred, mainly, all risks and rewards on the asset or (b) did not transfer and did not retain any risks and rewards on the active, but transferred control over the asset.

If The group transferred its rights to receive cash flows from the asset and did not transfer and did not retain any risks and rewards on the active and did not transfer control over the asset, therefore, the asset is considered recognized to the extent that the Group continues its participation in the asset. Participation duration that appears for the guarantee on the transferred asset is estimated by the least value of primary book value of the asset and maximum sum of compensation that can be required from the Group as repayment.

**Financial obligations**

Recognition of financial obligations (or a part of financial obligations) is terminated when they are discharged, i.e. when obligation indicated in the agreement is performed, annulled or if its term is expired.

**Revenue recognition**

Revenue is recognized to the extent to which there is a possibility that the Group will derive certain economic benefit and revenue can be discharged or estimated with sufficient accuracy degree.

**Disposal of goods**

Income from disposal of goods is recognized upon goods delivery and transfer of ownership.

**Rendering of services**

Income by service agreements is recognized on the basis of stage of completion.

**Construction agreements**

If the financial result of Construction agreement can be reliably calculated, revenue and expenses are recognized proportionally to stage of completion of works under the agreement at the balance sheet date. Stage of completion is defined as a part of costs of completion till the balance

sheet date in total calculated cost rate under the agreement, except as this part does not reflect stage of completion of works. Deviations on amount of work completed, claims and incentive rewards are recognized to the extent that they can be reliably estimated and their acceptance is considered to be high probable.

**Lease**

Lease agreement under which all the essential risks and rewards that result from ownership are transferred to the Lessee, are classified as Financial Lease. All other lease agreements are recognized as Operating Lease.

**The Group as a Lessor**

Amounts due from the lessees under Financial Lease Agreements are indicated in account receivable in the amount of net investments of the Group to the lease. Financial lease revenue is divided between accounting periods so that to provide constant rate of returns by net investments of the Group to the Lease.

Operating Lease revenue is recognized within lease period. Primary direct expenses related to agreeing terms and conditions of Operating Lease Agreement and its execution are included to balance sheet value of the leased out asset and related on an even basis during the lease period.

**The Group as a Lessee**

Assets leased out under Financial Lease Agreements are primarily recognized by the least of two values: fair value of leased property at the beginning of lease period and discounted value of minimum lease payments. Corresponding obligations to the Lessor are indicated in the consolidated balance sheet as finance lease obligations.

Lease amount is divided between financial expenses and decrease of leasing obligations so as to get constant rate of interest for obligation remainder. Financial expenses are reflected in profit and loss if they are not directly related to qualified assets. In the latter case they are capitalized in accordance with general policy of the Group in terms of borrowing costs (see below). Lease amount defined by future events is related to expenses on accrual basis.

Operating Lease payments are related to expenses on an even basis within lease period except for cases when other method of expenses distribution corresponds to temporal distribution of economic benefit from leased assets more correctly.

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Lease amount under Operating Lease Agreements defined by future events is related to expenses on accrual basis.

Incentive payments from conclusion of Operating Lease Agreement are recognized as obligations.

Total sum of such payments reduces lease expenses on an even basis except for cases when other method of expenses distribution corresponds to temporal distribution of economic benefit from leased assets more correctly.

#### Government grants

Government grants are recognized at the moment when there is reasonable assurance that all conditions required for grant acquisition will be met and that the grant will be obtained.

Government grants with basic condition of undertaking of obligations on purchase, construction or other acquisition of long-term assets by the Group are reflected in the consolidated balance sheet as revenue of future periods with further relation of profit and loss on constant and rational basis within useful economic life of corresponding assets.

Government grants that compensate incurred expenses or presented as financial support without relation to future expenses, are related to revenue of the period when there is right for their acquisition.

Economic benefit from government loan by the rate that is below the market one, are recognized as government grant in the amount of difference between proceeds of loans and its fair value calculated by current market rates.

#### Borrowing costs

Borrowing costs that are directly related to acquisition, construction and creation of assets that require much time to be prepared for planned usage or sale are included to value of such assets until they are prepared for planned usage or sale.

Revenue from temporary investment of raised debt till the moment of its expending for qualified assets acquisition is subtracted from debt expense. All other borrowing costs are reflected in profit and loss on accrual basis.

#### Pension obligations

The Group effects payments in the amount of 10% of employees salary as pension contribution, but not more than 130.792 tenge per month (2011: not more than 119.992

tenge). Payments to pension funds are retained from employees salary and included to total expenses for salary and deduction in the consolidated statement on total income.

#### Tax assessment

Expenses on income tax are the sum of current and deferred tax.

#### Current tax

The sum of current tax is calculated on the basis of value of taxable income per year. Taxable income differs from income reflected in the consolidated statement on total income due to taxable income item or expense item or deduction for taxation in other years, and it also excludes non-taxable or non-deductible items.

Obligations on current income tax is calculated with the use of tax rate approved by legislation on the balance sheet date.

#### Deferred tax

Deferred tax is recognized in terms of temporary differences between balance sheet assets and obligations reflected in the consolidated financial statements and corresponding data of tax registration when calculating taxable income. Deferred tax obligations, as a rule, are reflected inclusive of all taxable temporary differences.

Deferred tax assets are reflected inclusive of all deductible temporary differences under condition of high probability of presence of taxable balance sheet profit for usage of these temporary differences in future.

Tax assets and obligations are not reflected in consolidated financial statements if temporary differences are related to goodwill or if they appear as a result of primary recognition of other assets and obligations within transactions (except transactions on business combination) that do not influence either taxable or accounting income.

Deferred tax obligations are reflected inclusive of all deductible temporary differences related to affiliated undertakings, associated undertakings, with the exception of cases when the Group has possibility to control the terms of reversal of temporary difference and it is high probable that this difference will not be returned in the foreseeable future.

Deferred tax assets of affiliated undertakings, associated undertakings and joint activity are recognized upon condition of high probability of future acquisition of taxable income

sufficient for usage of calculated temporary differences and expectation of their usage in the foreseeable future.

The balance sheet value of deferred tax assets is subject to review in the end of every accounting period and it reduces if probability of future presence of taxable income sufficient for full or partial usage of these assets is no more high.

Deferred tax assets and obligations on current income tax are calculated with the use of tax rates (and also tax legislation regulations) that were established or practically approved by legislation on the balance sheet date and, as expected, will be valid for the period of tax asset realization or repayment of obligation. Estimation of deferred tax assets and obligations reflects tax consequences of intentions of the Group (as of the balance sheet date) in terms of repayment methods or repayment of balance sheet value of assets and obligations.

#### Current and deferred tax per year

Current and deferred taxes are recognized in profit and loss, except for cases when they refer to items that are directly included to other total income or its own capital. In this case current and deferred taxes are recognized in other total income or directly in capital, respectively. In case when current or deferred tax appears as a result of primary transaction accounting on business combination, tax effect is reflected when making account of these transactions.

#### Reserves

Reserves of costs to be incurred are reflected in accounting when the Group has obligations (juridical or determined by business practice norms), that appear as a result of past events, and it is high probable that the Group will have to meet these obligations and value of these obligations can be estimated.

Value of costs to be incurred reflected in the accounting is the best estimation of the sum necessary to meet the obligations, defined on the balance sheet date inclusive of risks and uncertainties that are characteristic for such obligations. If volume of the reserve of costs to be incurred is calculated on the basis of assumed cash flow for meeting of obligations, the reserve of costs to be incurred is calculated as discounted value of such cash flows (if influence of value of money in time is sufficient).

If it is expected that payments necessary for meeting of obligations will be partially or fully paid by the third party, the

corresponding account receivable is reflected as an asset on condition that it is quite certain that repayment will be acquired and there will be a possibility to estimate the sum of this account receivable.

#### ESSENTIAL ASSUMPTIONS AND SOURCES ESTIMATION UNCERTAINTY

Preparation of consolidated financial statements in accordance with IFRS provides preparation of estimation by the Group management and use of objective estimation and assumptions that influence accounted assets sums and obligations and disclosure of information about contingent assets and obligations as of the date of signing of consolidated financial statements and accounted sums of revenue and expenses within accounting period. Whereas these estimations are based on historical knowledge and other essential factors, events or actions may result in differences between actual results and estimation.

Key assumptions on future and other key sources of uncertainty estimation on the balance sheet date that have essential risk of financial correction of balance sheet assets and obligations in the next financial year are discussed below.

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

In the process of applying of accounting policy towards debt component of preferred shares of the Group the management applied its estimation to the conditions of preferred shares and determined that preferred shares of the Group are to be considered a combined instrument in accordance with IAS 32 (revised) «Financial instruments: Disclosure», as there is an obligation to pay dividends to the investors.

In accordance with this standard the revenue of issuing of such combined instrument is classified as capital or obligation, based on preferential right of every part of such instrument: treaty obligations to pay dividends is classified as obligation, and interest in final division between shareholders is classified as capital.

#### Terms of useful economic life of fixed capital

The Group considers terms of useful economic life of fixed capital in the end of every accounting period. Estimation of terms of useful economic life of asset depends on such factors as: economic use, programs on maintenance,

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technologic improvements and other business conditions. Estimation of terms of useful economic life of fixed capital by the management reflects corresponding information as of the date of these consolidated financial statements.

**Warranty obligations**

The reserve in terms of provided warranty is recognized at the moment of sale of corresponding goods and services. The value of such reserve is calculated on the basis of historical data collected within past periods with applying of weighing of all possible results by probability factor of occurrence of each of them.

**Asset impairment**

The Group provides presence testing of impairment indicator of balance sheet value of tangible and intangible assets on every balance sheet date.

Defining of presence of asset indicators is based on many factors, such as: potential growth, assumed cash flows, change of funding availability in future; technologic ageing, termination of service providing, current costs for substitution and other changes of conditions that point at impairment.

In case such indicators exist replacement value of assets is estimated and compared to balance sheet value of assets. In case balance sheet value is higher than replacement value of assets impairment is recognized.

Replacement value is defined as the biggest of the two values: fair value of assets less expenses for realization and use value.

When estimating use value calculated future cash flows are discounted to their current value with the use of discount rate before taxation that, on the management's opinion, reflects current market estimation of temporary money value and risks of assets.

Changes of estimated recoverable amount can result in impairment or its recovery in future periods.

**Estimation of inventories**

Inventories are estimated by the least of the two values: by cost value or net realizable value.

The Group reflects corresponding reserve and reduces value of nonliquid and little used inventories to net realizable value.

Actual sum of realization from disposal of such inventories can differ from net realizable value; any such difference may influence future operational results.

**Tax assessment**

Various Kazakh acts and regulations of legislation are not always clear. Discordance of opinions is possible between local, regional and republican tax authorities.

At this, in case of additional charge of taxes by tax authorities current amount of penalties are established in on a large scale; fixed penalty amount is 50% of additional tax sum and penalty amount is 22.5% of undue paid tax sum. As a result, the penalties can exceed sums of additional taxes.

In view of uncertainty indicated above, potential sum of taxes, penal sanctions and penalty, if added, can exceed the sum related for expenses and accrued as of December 31, 2012.

Differences between estimation and actually paid sums, if any, may have essential influence on revenue of the Group in future periods.

**Financial obligations on fair value by means of profit or loss**

Financial obligations on fair value by means of profit or loss are primarily considered and then estimated by fair value with the use of market data, such as: forward currency rate and risk-free discounting rate.

**SEGMENT INFORMATION**

Information submitted for the Group management responsible for decision-making on operational activity for purposes of recourse allocation and results estimation on segments, is of types of sold goods and rendered services; in terms of operations with specific goods and double-purpose goods, civilian industry product, and service rendering.

In order to get reporting segment of the Group none of its operational segments were combined, with the exception of other goods and services that separately do not exceed quantitative limits.

In particular, reporting segments of the Group are presented in the following way:

- Specific goods and double-purpose goods;
- Civilian industry product;



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- Services (engineering).

Principles of accounting policy of reporting segments do not differ from principles of accounting policy of the Group, listed in Note 3.

The Group management analyses in terms of segments only revenue from goods and services realization.

This index is provided for the management responsible for decision-making on operational activity for purposes of recourse allocation and estimation of results on segments.

Analysis of revenue of the Group from constant activity on basic products and services is as follows:

	2012	2011
Specific goods and double-purpose goods	28,129,393	16,923,263
Civilian industry product	14,243,378	12,044,868
Services (engineering)	9,780,843	4,655,063
	52,153,614	33,623,194

The Group carries out its business in Kazakhstan.

The revenue of the Group from constant activity on sales to external customers countrywide is given below:

	2012	2011
Kazakhstan	48,627,926	31,139,285
CIS countries	2,818,855	1,903,923
Others	706,833	579,986
	52,153,614	33,623,194



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	Land	Buildings and constructions
<b>BASIC ASSETS</b>		
<b>INITIAL OR BASIC COST</b>		
As of January 1, 2011	194,232	4,864,644
Revenue	5,500	125,930
Disposal	(27,885)	(232,434)
Transfer into assets held for sale	–	(62,044)
Transfer into investment property	–	(119,463)
As of December 31, 2011	171,847	4,576,633
Revenue	39,957	196,601
Financial lease revenue	–	–
Lack of control over affiliated undertaking	–	–
Transfer from inventories	–	18,507
Internal transfers	–	305,037
Disposal	(16,529)	(75,769)
As of December 31, 2012	195,275	5,021,009
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT:</b>		
As of January 1, 2011	–	(1,002,666)
Depreciation accrued per year	–	(122,339)
Impairment accrued per year	–	–
Lack of control over affiliated undertaking	–	–
Disposal	–	25,150
Transfer into assets held for sale	–	8,110



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Machines, equipment and means of transportation	Other assets	Construction in progress	Total
5,122,819	408,060	167,548	10,757,303
487,441	84,505	14,257	717,633
(90,962)	(9,204)	(7,602)	(368,087)
(5,006)	–	–	(67,050)
–	–	–	(119,463)
5,514,292	483,361	174,203	10,920,336
735,462	177,015	1,163,512	2,312,547
1,214,166	–	–	1,214,166
(15,846)	–	–	(15,846)
48,001	–	6,205	72,713
(375)	–	(304,662)	–
(92,122)	(24,098)	–	(208,518)
7,403,578	636,278	1,039,258	14,295,398
(1,971,457)	(137,377)	–	(3,111,500)
(451,544)	(45,978)	–	(619,861)
(24,925)	–	–	(24,925)
8,543	–	–	8,543
30,105	5,855	–	61,110
1,022	–	–	9,132



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	Land	Buildings and constructions
Transfer into investment property	–	55,949
As of December 31, 2011	–	(1,035,796)
Depreciation accrued for the period	–	(119,831)
Disposal	–	20,553
As of December 31, 2012	–	(1,135,074)
BALANCE SHEET VALUE:		
As of December 31, 2012	195,275	3,885,935
As of December 31, 2011	171,847	3,540,837

As of December 31, 2012 uncompleted construction includes expenses for general maintenance of process buildings of sections and warehouses of affiliated undertaking «Semey Engineering» JSC in the amount of 821,322 thousand of tenge and expenses for «Conversion of foundry operation of consumable patterns» project of affiliated undertaking «Tynys» JSC in the amount of 209,231 thousand of tenge (December 31, 2011: expenses for general maintenance of process buildings at affiliated undertaking «Zenit» Uralsk Plant» JSC in the amount of 165,578 thousand of tenge). As of December 31, 2012 and 2011 basic means with balance sheet value of 1,708,249 thousand of tenge and

2,449,376 thousand of tenge respectively, were pledged as guarantee of certain loans acquired by the Group (Note 19).

The value of fully worn-out basic assets as of December 31, 2012 and 2011 was 621,358 thousand of tenge and 291,135 thousand of tenge respectively.

As of December 31, 2012 the balance sheet value of basic assets acquired under financial lease was 1,660,059 thousand of tenge (December 31, 2011: 487,418 thousand of tenge).

This equipment serves as bid security under financial lease.



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Machines, equipment and means of transportation	Other assets	Construction in progress	Total
–	–	–	55,949
(2,408,256)	(177,500)	–	(3,621,552)
(440,325)	(66,894)	–	(627,050)
71,696	7,113	–	99,362
(2,776,885)	(237,281)	–	(4,149,240)
4,626,693	398,997	1,039,258	10,146,158
3,106,036	305,861	174,203	7,298,784





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	Software	Others	In total
<b>INTANGIBLE ASSETS</b>			
<b>INITIAL OR BASIC COST</b>			
As of January 1, 2011	140,741	27,285	168,026
Revenue	5,447	76,182	81,629
Disposal	(21)	(35)	(56)
As of December 31, 2011	146,167	103,432	249,599
Revenue	103,443	3,698	107,141
Disposal	(182)	(36,245)	(36,427)
Lack of control over affiliated undertaking	(76)	–	(76)
As of December 31, 2012	249,352	70,885	320,237
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT:</b>			
As of January 1, 2011	(49,827)	(17,080)	(66,907)
Amortization accrued per year	(12,230)	(5,693)	(17,923)
Disposal	–	10	10
As of December 31, 2011	(62,057)	(22,763)	(84,820)
Amortization accrued per year	(11,992)	(11,291)	(23,283)
Disposal	172	–	172
As of December 31, 2012	(73,877)	(34,054)	(107,931)
<b>BALANCE SHEET VALUE:</b>			
As of December 31, 2012	175,475	36,831	212,306
As of December 31, 2011	84,110	80,669	164,779



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Name	Current value as of December 31, 2011	Acquired/ (dividends received)	Share in profits/ (losses)	Current value as of December 31, 2012
<b>ASSOCIATED AND JOINTLY CONTROLLED ENTITIES INVESTMENTS</b>				
<b>ASSOCIATED:</b>				
«ZIKSTO» JSC	844,685	(71,664)	(73,008)	700,013
«MBM–Kirovets» LLP	354,560	(2,000)	3,016	355,576
«KAMAZ–Engineering» JSC	304,142	(14,164)	24,690	314,668
«Indra Kazakhstan Engineering» LLP	119,474	(182)	(10,681)	108,611
«Kaz–ST Engineering Bastau» LLP	15,547	–	(408)	15,139
«Ulan» OJSC	17,809	–	–	17,809
«Kazakhstan Engineering Distribution» LLP	–	995	(995)	–
<b>JOINTLY CONTROLLED:</b>				
«Eurocopter Kazakhstan Engineering» LLP	1,615,026	(232,406)	1,069,389	2,452,009
«Tales Kazakhstan Engineering» LLP	220,406	–	(19,111)	201,295
«Kazakhstan ASELSAN Engineering» LLP	24,630	72,991	4,335	101,956
	3,516,279	(246,430)	997,227	4,267,076



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Associated and Jointly Controlled entities investments of the Group are as follows:

Business name	Primary activity	as of December 31, 2012	as of December 31, 2011
<b>ASSOCIATED:</b>		Interest, %	Interest, %
«ZIKSTO» JSC	Maintenance of cargo rail cars, maintenance of wheel pairs with removal of elements.	42%	42%
«Kaz-ST Engineering Bastau» LLP	Investment holding activity and defence and engineering services.	49%	49%
«KAMAZ-Semey» LLP	Business activity.	49%	49%
«KAMAZ-Engineering» JSC	Production and realization of buses, cars, special vehicles and replacement parts for them.	25%	25%
«Indra Kazakhstan Engineering» LLP	Production of radiolocation stations, electronic warfare and search systems.	49%	49%
«Kazakhstan Engineering Distribution» LLP	Realization of output products of the enterprises of the Group, attraction of investments, participation in government programs and tenders for equipment supply.	49%	100%
<b>JOINTLY CONTROLLED:</b>			
«Tales Kazakhstan Engineering» LLP	Development, production and sale of electronic equipment, systems, software and providing of related services; production sale and maintenance of radio- and communication equipment.	50%	50%
«Kazakhstan ASELSAN Engineering» LLP	Production of electronic optical instruments.	50%	50%
«Eurocopter Kazakhstan Engineering» LLP	Production and maintenance of helicopters.	50%	50%

On October 11, 2012 the Company sold 51% of partnership share in affiliated undertaking «Kazakhstan Engineering Distribution» LLP, as a result it began to consider the remaining share as investments to associated entity (Note 34). Within 2012 the Company recognized the adjustment to fair value under the loan provided for

«Kazakhstan ASELSAN Engineering» LLP in the investments in the amount of 72,991 thousand of tenge (2011: «Kazakhstan ASELSAN Engineering» LLP — 13,045 thousand of tenge and «Eurocopter Kazakhstan Engineering» LLP — 267 thousand of tenge) (Note 14).



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	as of December 31, 2012	as of December 31, 2011
<b>OTHER LONG-TERM ASSETS</b>		
Advances to the suppliers from basic assets	921,130	240,249
Account receivable of financial lease	157,638	157,638
Inventories for general maintenance and construction of long-term assets	63,503	69,545
Loans for the employees	18,505	22,979
Other long-term account receivable	60,097	9,479
Exclusive of the reserve of doubtful debts	(157,638)	(157,638)
	1,063,235	342,252

As of December 31, 2011, the advances to the suppliers from basic assets included an advance for «BRK-Leasing» JSC in the sum of 223,852 thousand of tenge in accordance with Equipment Financial Lease Agreement (Note 37).

Within 2012 the equipment was installed and the Group unwound these advances against the obligations on financial lease.

	as of December 31, 2012	as of December 31, 2011
<b>INVENTORIES</b>		
Incomplete production	3,499,630	3,305,142
Raw materials and materials	5,077,604	2,266,930
Finished products	2,101,415	2,142,640
Goods for resale	420,635	490,156
Others	96,163	357,343
Exclusive of the reserve of nonliquid inventories	(308,201)	(364,247)
	10,887,246	8,197,964

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Dynamics in the reserve of nonliquid inventories for the years that ended on December 31, 2012 and 2011 is as follows:

	2012	2011
The reserve of nonliquid inventories at the beginning of the year	(364,247)	(321,542)
Restored (accrued) per year	56,046	(56,078)
Debited on account of earlier created reserve	–	13,373
The reserve of nonliquid inventories at the end of the year	(308,201)	(364,247)

	as of December 31, 2012	as of December 31, 2011
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TRADE RECEIVABLES

Trade receivables of the third parties	1,113,795	579,638
Trade receivables of related parties (Note 37)	748,796	623,836
Exclusive of the reserve of doubtful debts	(45,542)	(44,132)
	1,817,049	1,159,342

Dynamics in the reserve of doubtful debts for the years that ended on December 31, 2012 and 2011 is as follows:

	2012	2011
The reserve of doubtful debts at the beginning of the year	(44,132)	(36,318)
Accrued per year	(1,616)	(8,171)
Debited on account of earlier created reserve	206	357
The reserve of doubtful debts at the end of the year	(45,542)	(44,132)



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As of December 31, 2012 and 2011 trade receivables exclusive of the reserve of doubtful debts were presented in the following currencies:

	as of December 31, 2012	as of December 31, 2011
Tenge	1,806,440	1,158,227
USA dollars	–	827
Russian roubles	10,609	288
	1,817,049	1,159,342

	as of December 31, 2012	as of December 31, 2011
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OTHER TAXES TO BE REFUNDED

Value-added tax	604,010	545,457
Other taxes to be refunded	37,495	12,101
	641,505	557,558

	as of December 31, 2012	as of December 31, 2011
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FINANCES  
LIMITED IN USE

Bank guarantee	87,062	82,391
	87,062	82,391

As of December 31, 2012 and 2011 the finances limited in use include finances on special account at «BTA Bank» JSC as collateral for execution of the Contract for component item improvement. Term of the Contract is May 25, 2013.





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	as of December 31, 2012	as of December 31, 2011
<b>OTHER CURRENT ASSETS</b>		
Short-term advances made to the third parties	3,492,561	1,699,598
Short-term advances made to the related parties (Note 37)	20,806	12,984
Future periods expenses	97,140	34,458
Employees account receivable	34,209	17,893
Dividends to be received (Note 37)	71,592	-
Interest-free loans (Note 37)	2,200,000	50,000
Guarantees secured on execution of the Contracts	-	284,562
Other short-term account receivable of the third parties	463,939	195,965
Short-term investments	-	1,800
Exclusive of the adjustment to fair value (Note 37)	(31,810)	(5,418)
Exclusive of the reserve of doubtful debts	(52,203)	(23,332)
	6,296,234	2,268,510

In September, 2011 the Group granted interest-free loans to jointly controlled entity «Kazakhstan ASELSAN Engineering» LLP in the amount of 250,000 thousand of tenge and 50,000 thousand of tenge with payback period till November 30, 2011 and December 31, 2012, respectively. The Group estimated the granted loans by amortized cost with the use of market interest rate in the amount of 11.5% per annum on the date of loans granting and reflected the adjustment to fair value of the investments to associated entities in the amount of 13,045 thousand of tenge.

Also within 2011 the Group recognized discount amortization of financial revenue in the amount of 7,627 thousands of tenge (Note 31). The loan in the amount of 250,000 thousand of tenge was redeemed in December, 2011 and the loan in the amount

of 50,000 thousand of tenge was redeemed in December, 2012. Within 2012 the Group recognized discount amortization of financial revenue in the amount of 5,418 thousand of tenge (Note 31).

Also in March, 2011 the Group granted an interest-free loan to jointly controlled entity «Eurocopter Kazakhstan Engineering» LLP in the amount of 7,000 thousands of tenge with payback period till July, 2011.

The Group estimated the granted loan by amortized cost with the use of market interest rate in the amount of 13.1% per annum on the date of loans granting and reflected the adjustment to fair value of the investments to associated entities in the amount of 267 thousand of tenge.



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In 2011 this loan was fully redeemed and the Group recognized discount amortization of financial revenue in the amount of 267 thousand of tenge (Note 31).

In 2012 the Group granted interest-free loans to jointly controlled entity «Kazakhstan ASELSAN Engineering» LLP in the total amount of 2,200,000 thousand of tenge with payback period till March, 2013. The Group estimated these loans

by amortized cost with the use of market interest rate in the amount of 7% per annum on the date of loans granting and reflected the adjustment to fair value of the investments to associated entities in the amount of 72,991 thousand of tenge.

Also, within 2012 the Group recognized discount amortization of financial revenue in the amount of 41,181 thousands of tenge (Note 31).

Dynamics in the reserve of doubtful debts for the years that ended on December 31, 2012 and 2011 is as follows:

	2012	2011
The reserve of doubtful debts at the beginning of the year	(23,332)	(69,807)
(Accrued) / restored per year	(31,320)	46,475
Debited on account of earlier created reserve	2,449	-
The reserve of doubtful debts at the end of the year	(52,203)	(23,332)

As of December 31, 2012 and 2011 other current assets are expressed in tenge.

	as of December 31, 2012	as of December 31, 2011
<b>FINANCES AND THEIR EQUIVALENTS</b>		
Money on bank accounts, tenge	9,106,226	3,350,186
Short-term deposits	924,505	81,005
Petty cash fund, tenge	15,290	31,593
Money on bank accounts, in the currency	66,266	15,797
Finances on special accounts, tenge	-	5,089
Cash float, tenge	2,348	2,004
Total	10,114,635	3,485,674

The Group allocated finances on short-term deposits with primary payback period from 1 to 3 months and interest rate from 3.8% to 6% per annum (2011: from 4% to 5%).

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Finances and their equivalents were presented in the following currencies:

	as of December 31, 2012	as of December 31, 2011
Tenge	10,043,419	3,469,877
USA dollars	419	–
Euro	–	445
Russian roubles	64,043	15,352
Other currency	6,754	–
	10,114,635	3,485,674

AUTHORIZED CAPITAL

As of December 31, 2012 and 2011, stated, issued and fully paid authorized capital of the Company consisted of ordinary shares in the amount of 12,101,802 shares, with nominal value of 1,000 tenge for each share.

As of December 31, 2012 and 2011, 100% of shares of the Company belong to «FNB «Samruk–Kazyna» JSC.

In 2012, the Company declared the payment of dividends to the controlling Shareholder for 2010 and 2011 in the amount of 48,352 ths. of tenge and 644,853 ths. of tenge, respectively.

In 2011, the Company declared the payment of dividends to the controlling Shareholder for 2007–2008: 50,000 ths. of tenge are to be paid during 2012, 66,000 ths. of tenge – during 2013.

As of December 31, 2012, additional paid capital was 743,301 ths. of tenge and 522,835 ths. of tenge, respectively. Additional paid capital includes:

- difference between the value of shares paid as a contribution to the authorized capital by the MB of State Property and Privatization Committee of the Ministry of Finance of the Republic of Kazakhstan, and the value of stated authorized capital of the Company in the amount 428,612 ths. of tenge (2011: 428,612 ths. of tenge);
- fair value adjustment, inclusive of the capacity of deferred tax, noninterest financial support, received from the Shareholder in the amount of 314,689 ths. of tenge (2011: 94,223 ths. of tenge) (Note 19).

ADDITIONAL PAID CAPITAL



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	2012	2011
<b>NONCONTROLLING INTERESTS</b>		
As of January 1	573,174	458,597
The total profit and year total return, relating to non–controlling interests	36,249	114,577
Dividends	(48,040)	–
As of December 31	561,383	573,174

During 2012, the affiliated undertaking «Munajmash» JSC announced the dividends for 2011. The amount of dividends on non–controlling interests was 48,040 ths. of tenge (2011: null).

Title	Payback period	Interest rate	as of December 31, 2012	as of December 31, 2011
<b>DEBENTURE LOANS</b>				
«Kazakhstan National Bank» JSC	November, 2016	8% — 16%	918,527	
«BTA Bank» JSC	January, 2015	8% — 12,54%	853,913	
«Temir Bank» JSC	April, 2013	14%	–	
«Eurasia Bank» JSC		13% — 14,25%	–	
			1,772,440	
<b>UNSECURED LOANS</b>				
«FNB «Samruk–Kazyna» JSC			5,017,084	
Exclusive of fair value adjustment			(106,767)	
«BTA Bank» JSC	June, 2012	13%	–	
			4,910,317	
			6,682,757	

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Title	Payback period	Interest rate	as of December 31, 2012	as of December 31, 2011
Short-term loans and the current portion of long-term loans			6,220,430	
Long-term loans			462,327	
			6,682,757	

PEOPLE'S BANK OF KAZAKHSTAN JSC

On the 24th of February, 2010 the Group signed Line of Credit Agreement No. 3 in the People's Bank of Kazakhstan JSC for financing the Group's working capital in the amount of 300,000 ths. tenge at the interest rate of 14–16% per annum depending on the maturity period, with the loan availability period of up to February 24, 2013.

According to the Supplementary Agreement dated February 23, 2011, the total line of credit amount was increased to 600,000 ths. tenge. Later, according to the Supplementary Agreement signed on April 22, 2011, the total line of credit amount was increased to 900,000 ths. tenge. The loan principal and interest is paid monthly.

On the 13th of October, 2010, the Group signed the Line of Credit Agreement No. 22 in the People's Bank of Kazakhstan JSC for investment into the Group's long-term assets in the amount of 80,974 ths. tenge and maturity period up to October 13, 2015, at the interest rate of 14% per annum. Part of interest on this loan in the amount of 7% is subsidized by the Damu Entrepreneurship Development Fund JSC under the national program «Roadmap 2020». Subsidy Agreements were signed before the credit agreements' expiration.

These loans were assessed by their fair value from the subsidy agreement execution date (October 22, 2010). The loan principal and interest is paid monthly. As of December 31, 2011, the Group recognized loan fair value adjustment by the amount of 13,717 ths. tenge and disclosed it as deferred income. As of December 2012, the Group recovered adjustment according to the Company Board Decision dated December 28, 2012 on early repayment of this loan.

On the 10th of February, 2012, the Group signed the Line of Credit Agreement No. 2 in the People's Bank of Kazakhstan JSC for financing the Group's working capital in the amount of 900,000 ths. tenge for equipment procurement, start-up works, equipment transportation and other expenses related to equipment procurement, at the interest rate of 8% to 8,3% per annum. The loan principal and interest is paid monthly.

BTA BANK JSC

On the 25th of May, 2010 and 31st of May, 2010, the Group signed Bank Loan Agreements with the BTA Bank JSC in order to invest into the Group's long-term assets for the total amount of 264,475 ths. tenge, with the maturity period up to 31st of May, 2015, at the interest rate of 8% per annum. The loan principal and interest is paid monthly.

Part of interest on this loan in the amount of 7% is subsidized by the Damu Entrepreneurship Development Fund JSC under the national program «Roadmap 2020». Subsidy Agreements were signed before the credit agreements' expiration. Loan details were assessed by their fair value from the subsidy agreement execution date (January 19, 2011).

As of December 31, 2011, the Group recognized loan fair value adjustment in the amount of 20,437 ths. tenge and disclosed it as deferred income (Notes 22 and 25) which will be included into profit or loss systematically within the period of validity of the bank loan agreement. In 2012, the Group recognized adjustment depreciation to its fair value in the amount of 3,799 ths. tenge within other profit and loss (2011: 11,868 ths. tenge), and also recognized recovery adjustment to fair value for the amount of 3,227 ths. tenge.



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Thus, as of December 31, 2012, fair value adjustment is disclosed in deferred income in the amount of 13,411 ths. tenge (Notes 22 and 25).

On August 17, 2011, the Group signed the General Agreement with the BTA Bank JSC with tranche duration up to 18 months, credit limit of 850,000 ths. tenge, and final redemption date in January, 2015. Of the total amount, 750,000 ths. tenge are financed from the Damu Entrepreneurship Development Fund. The loan principal is paid for quarterly, interest is paid monthly.

On the 18th of December, 2011, the Group signed the Bank Loan Agreements with the BTA Bank JSC for investment into the Group's long-term assets for the amount of 91,198 ths. tenge, with the maturity period up to September 18, 2016, at the interest rate of 12.25 % per annum. The loan principal and interest is paid monthly.

TEMIR BANK JSC

In 2011, the Company signed the General Bank Loan Agreement with the Temir Bank JSC for the amount of 900,000 ths. tenge, with the maturity period up to April 7, 2013, at the interest rate of 14% per annum. In 2012, the Group redeemed the loan from the Temir Bank JSC in full.

EURASIAN BANK JSC

In 2010–2011, the Group signed general credit agreements with the Eurasian Bank JSC. The interest rate for these loans was 13% to 14.25%. In 2012, the Group redeemed the loan from the Eurasian Bank JSC in full.

As of December 31, 2012 and 2011, fixed assets with the book value of 1,708,249 ths. tenge and 2,449,376 ths. tenge respectively, were pledged as collateral for the above-mentioned loans (Note 6).

SOVEREIGN WEALTH FUND «SAMRUK-KAZYNA» JSC

In 2008, the Company received an interest-free loan from the Shareholder for business development for the amount of 250,045 ths. tenge, with the maturity period up to December 31, 2012.

The Company calculated the fair value of these loans based on the effective interest rate of 16.1% and recognized adjustment to the fair value of 117,779 ths. tenge minus the tax effect in the amount of 23,556 ths. tenge as additional paid capital in the consolidated statement of changes in equity. For years ending on December 31, 2012 and 2011, discount depreciation for the amount of 22,218 ths. tenge and 30,002 ths. tenge respectively was recognized in financial expenses (Note 32).

On February 15, 2012, the Company received an interest-free loan from the Shareholder for the amount of 5,000,000 ths. tenge at the interest rate of 3% per annum with the maturity period up to December 30, 2013. The loan principal is to be paid for at the end of loan term, interest is paid monthly.

This loan will be used to finance creation of a center for electronic optic equipment production in the territory of the Republic of Kazakhstan, and to create own production facilities required to maintain and repair military armored vehicles on the basis of a subsidiary.

The Company calculated the fair value of this loan based on the effective interest rate of 7% and recognized adjustment to the fair value of 275,583 ths. tenge minus the tax effect in the amount of 55,117 ths. tenge as additional paid capital in the consolidated statement of changes in equity. For the year ending on December 31, 2012, discount depreciation for the amount of 168,816 ths. tenge was recognized in financial expenses (Note 32).



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As of December 31, 2012 and 2011, all loans are specified in tenge.  
The loans have the following dates of maturity:

	December 31, 2012	December 31, 2011
During one year	6,220,430	2,440,297
During the second year	307,017	383,288
During the third year	101,568	101,095
In subsequent years	53,742	54,781
	6,682,757	2,979,461

	Maturity date	Interest rate	December 31, 2012	December 31, 2011
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ISSUED DEBT  
SECURITIES

Bonds issued for the following price:

95.2341% — tranche 1	November 6, 2015	5%	4,534,000	–
Including/(less) Accrued fees			34,005	–
Discount on issued securities			(206,164)	–
Total placed bonds			4,361,841	–
Minus: current portion of issued debt securities			(34,005)	–
Long-term portion of issued debt securities			4,327,836	–



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For the purposes of fulfillment of Group objectives in development of national machine-building sector, the Board Resolution (minutes no. 90 dated September 26, 2012) approved the first issue of bonds for the amount of 15 bln tenge within the Company Internal Bond Issue Program. On December 7, 2012, the Company placed 45,340 internal

unsecured bonds (CFA–DBFUFR) in the Kazakhstan Stock Exchange with the nominal value of 100 tenge for the amount of 4,534,000 ths. tenge at the interest rate of 5% per annum. Coupon payments on these bonds are made twice per year from the starting date of circulation.

	Minimum rent payments		Discounted value of minimum rent payments	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Under one year	410,571	162,787	345,031	152,792
One to five years	1,461,767	605,497	1,074,546	479,222
Over five years	406,124	–	341,297	–
	2,278,462	768,284	1,760,874	632,014
Less deferred financial expenses	(517,588)	(136,270)	–	–
	1,760,874	632,014	1,760,874	632,014

FINANCIAL LEASE  
LIABILITIES

Disclosed in:

– current liabilities	345,031	152,792
– long-term liabilities	1,415,843	479,222
	1,760,874	632,014

In 2007, the Company signed the Production Equipment Financial Lease Agreement with the BRK Leasing JSC for the term of 10 years at the interest rate of 8%. The received equipment is used as security for this loan.

lease agreement and therefore requires separate recognition. In order to calculate the fair value of the embedded derivative, the Group uses calculation methods which are commonly used in the market and require market data.

According to this agreement, the Group redeems loan principal and interest and tenge adjusted to the USD exchange rate as of the redemption date.

As of December 31, 2012, the embedded derivative amounted to 204,370 ths. tenge (December 31, 2011: 183,230 ths. tenge). For the year ending on December 31, 2012, the Group recognized adjustment to the fair value of 21,140 ths. tenge for this embedded derivative as an expense (2011: 28,417 ths. tenge)

The Group considers this adjustment to be an embedded derivative which is not directly related to the main financial



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In 2011, the Company signed the Production Equipment Financial Lease Agreement with the BRK Leasing JSC for the term of 10 years at the interest rate of 7.5%. and made an advance payment under this agreement. In October 2012,

equipment and equipment accessories were received under this agreement for the amount of 1,240,676 ths. tenge. The received equipment is used as security for this loan. Financial lease liabilities are specified in tenge.

	December 31, 2012	December 31, 2011
<b>OTHER LONG-TERM LIABILITIES</b>		
Long-term advances received	145,393	717,400
Dividends payable to the Shareholder (Notes 16 and 37)	–	66,000
Other long-term debts to third parties	25,974	2,745
Deferred incomes – state subsidies (Note 19)	10,673	21,757
Other deferred income	–	3,451
Reserves	36,176	54,956
	218,216	866,309

As of December 31, 2012, reserves include accrued warranty maintenance expenses for the amount of 10,891 ths. tenge and other accrues expenses for indemnity to employees and

other compensations for the amount of 25,285 ths. tenge (2011: 54,956 ths. tenge and zero tenge respectively). Other long-term liabilities are specified in tenge.

	December 31, 2012	December 31, 2011
<b>TRADE ACCOUNTS PAYABLE</b>		
Accounts payable to suppliers and contractors	1,700,339	668,188
Accounts payable to related parties (Note 37)	2,211,214	51,743
	3,911,553	719,931



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Trade accounts payable are specified in the following currencies:

	December 31, 2012	December 31, 2011
Tenge	2,916,702	
US dollars	602,070	
Russian rubles	392,781	
	3,911,553	

	December 31, 2012	December 31, 2011
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**TAX LIABILITIES**

VAT payable		713,924
Pension and social contributions		129,086
Individual income tax		90,055
Social tax payable		60,850
Other taxes		30,500
		1,024,415

	December 31, 2012	December 31, 2011
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**OTHER CURRENT LIABILITIES**

Advances received from third parties	2,212,986	
Advances received from related parties (Note 37)	863,358	
Reserves	1,442,097	
Dividends payable to third parties	179,583	
Dividends payable to the Shareholder (Notes 16 and 37)	66,000	
Staff salary settlements		



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	December 31, 2012	December 31, 2011
Staff salary settlements	236,877	
Deferred incomes – state subsidies (Note 19)	2,738	
Deferred income	6,325	
Other payables	183,526	
	5,193,490	

As of December 31, 2012, reserves include accrued warranty maintenance expenses for the amount of 532,549 ths. tenge (2011: 117,448 ths. tenge), leave and vacation reserves — 788,256 ths. tenge (2011: 263,814 ths. tenge), other accrued expenses — 121,292 ths. tenge (2011: 392,529 ths. tenge). Other current liabilities are specified in tenge.

	2012	2011
<b>INCOME</b>		
Finished product sales income	42,372,771	28,964,924
Services income	9,780,843	4,655,063
Other	–	3,207
	52,153,614	33,623,194

In 2012, income from operations with related parties was 43,256,129 ths. tenge (2011: 26,220,456 ths. tenge) (Note 37).

	2012	2011
<b>PRIME COST</b>		
Raw materials	32,499,723	22,275,560
Salary and allocations	6,199,214	3,623,141
Subcontractor services	1,327,019	2,208,973



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	2012	2011
Depreciation and amortization	505,444	519,858
Utility payments	516,227	409,198
Repair and maintenance	1,700,627	177,626
Other	797,926	420,890
	43,546,180	29,635,246
WIP, start of year	3,305,142	2,181,718
WIP, end of year (Note 10)	3,499,630	3,305,142
Change in WIP	(194,488)	(1,123,424)
Finished products, start of year	2,142,640	1,853,541
Finished products, end of year (Note 10)	2,101,415	2,142,640
Change in finished products	41,225	(289,099)
	43,392,917	28,222,723

	2012	2011
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Salary and related taxes	2,058,890	1,372,912
Taxes	235,419	217,931
Professional services	123,025	164,606
Fines and penalty fees	32,691	155,041
Depreciation and amortization	136,828	111,610
Travel and entertainment costs	190,032	107,224
Accrued reserve for employee compensations	6,452	69,000
Utility payments	116,083	63,810





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	2012	2011
Bank commission	73,021	60,402
Repair and maintenance	19,290	59,906
Renting expenses	124,727	58,473
Accrued reserve for unutilized vacation	82,356	56,327
(Recovered)/accrued reserve for slow moving materials (Note 10)	(56,046)	56,078
Communication services	27,799	30,963
Materials	34,239	27,848
Transportation expenses	16,861	25,797
Staff training	22,657	18,586
Charity and sponsorship	16,817	12,502
Security	20,422	12,121
(Recovered)/accrued reserve for trouble debt (Notes 11 and 14).	32,936	(38,304)
Other	492,928	212,825
	3,807,427	2,855,658

	2012	2011
<b>DISTRIBUTION EXPENSES</b>		
Transportation expenses	236,610	200,234
Salary and related taxes	223,121	112,957
Integration expenses	–	103,075
VAT taken as an offset	153,611	61,275
Travel expenses	85,033	51,947



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	2012	2011
Advertisement and marketing	77,705	14,241
Depreciation and amortization	13,664	13,392
Utility payments	5,813	2,609
Other	46,292	80,754
	841,849	640,484

	2012	2011
<b>OTHER GAINS AND LOSSES</b>		
Gain on disposal of fixed assets	569,199	393,710
Income on disposal of inventories	65,342	152,845
Rental income	93,021	47,969
Loss on depreciation of fixed assets	–	(24,925)
Depreciation and amortization	(3,954)	(1,685)
Loss on retirement of intangible assets	(36,255)	(46)
Charity	(54,560)	(12,502)
Other losses	(14,628)	(52,836)
	618,165	502,530



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	2012	2011
<b>FINANCIAL INCOME</b>		
Interest on short-term deposits and current accounts	268,219	71,637
Adjustment depreciation to fair value on loans issued	46,599	7,894
	314,818	79,531

Financial income on current accounts and deposits from related parties amounted to 7,033 ths. tenge (2011: 21,887 ths. tenge) (Note 37).

	2012	2011
<b>FINANCIAL EXPENSES</b>		
Interest on loans	406,462	280,462
Interest on bonds issued (Note 20)	34,005	–
Interest on financial lease	128,506	68,540
Adjustment depreciation to fair value on loans received from the Shareholder (Note 19)	191,034	30,002
Discount depreciation on bonds issued	9,924	–
Dividends on preferred shares	20,955	10,854
	790,886	389,858

Financial expenses from related parties amounted to 588,594 ths. tenge (2011: 218,764 ths. tenge) (Note 37).

	2012	2011
<b>TAXATION</b>		
Expenses on current income tax	813,667	524,519



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	2012	2011
Current income tax adjustment from previous years	–	92,194
Deferred income tax recovery	(143,300)	(34,784)
Income tax expenses	670,367	581,929

See below comparison of expected income tax expenses at the 20% income tax rate for financial statements and taxation accounts.

	2012	2011
Profit from continuing operations before accounting income tax expenses	5,208,333	2,846,016
Estimated tax at the official tax rate of 20%	1,041,667	569,203
Tax effect from permanent difference	(171,855)	66,037
Current income tax adjustment from previous years	–	92,194
Tax-exempt share in profits of associates	(199,445)	(145,505)
	670,367	581,929

See below tax effect upon main timing differences which result in deferred tax assets and liabilities as of December 31, 2012 and 2011.

	As of December 31, 2011	Disclosed in gains and losses	Disclosed in capital articles	Retirement of subsidiary	As of December 31, 2012
Fixed assets	(877,283)	(25,171)	–	–	(902,454)
Trade receivables	8,826	11,103	–	–	19,929
Inventory	72,849	(11,208)	–	–	61,641
Reserves	165,949	132,065	–	–	298,014



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	As of December 31, 2011	Disclosed in gains and losses	Disclosed in capital articles	Retirement of subsidiary	As of December 31, 2012
Taxes payable	18,270	(2,676)	–	–	15,594
Financial liabilities via gains and losses	36,646	4,228	–	–	40,874
Loans received	–	33,764	(55,117)	–	(21,353)
Loans issued	–	6,362	–	–	6,362
Carry-over tax losses	64,375	(5,167)	–	(3,773)	55,435
	(510,368)	143,300	(55,117)	(3,773)	(425,958)

	As of January 1, 2011	Disclosed in gains and losses	As of December 31, 2011
Fixed assets	(850,984)	(26,299)	(877,283)
Trade receivables	7,264	1,562	8,826
Inventory	64,308	8,541	72,849
Reserves	36,562	129,387	165,949
Taxes payable	10,040	8,230	18,270
Financial liabilities via gains and losses	30,963	5,683	36,646
Carry-over tax losses	156,695	(92,320)	64,375
	(545,152)	34,784	(510,368)

On October 1, 2012 the Company sold its 51% equity stake in the Kazakhstan Engineering Distribution LLP.



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	December 31,
<b>RETIREMENT OF A SUBSIDIARY</b>	
<i>Amount of compensation</i>	
Monetary compensation	8,507
Total compensation received	8,507
<i>Retired assets and liabilities of the company sold</i>	
<i>Short-term assets:</i>	
Cash and equivalents	71
Inventory	687
Accounts receivable	5,653
Income tax prepayment	287
Other short-term assets	7,329
<i>Long-term assets:</i>	
Fixed assets	7,303
Intangible assets	76
Deferred tax assets	3,773
<i>Short-term liabilities:</i>	
Accounts payable	(14,874)
Liabilities on other taxes and obligatory payments	(15,897)
Other short-term liabilities	(25,277)
Retired net liabilities	(30,869)
<i>Profit on retirement of the subsidiary</i>	
Amount of compensation received	8,507
Retired net liabilities	30,869





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	2011
Investment into the associated company when losing control	955
Profit on sale of equity stake	40,331
	2012
<b>Profit/(loss) from discontinued operations</b>	
Income	246,158
Other income	3,638
	249,796
Losses	(269,559)
Loss before tax	(19,763)
Recovered income tax	12
Net loss for the period	(19,751)
Profit on sale of equity stake	40,331
Profit for the year from discontinued operations	20,580

CONTINGENT LIABILITIES

**Taxation and regulatory environment**

There is currently a number of laws in Kazakhstan related to various types of taxes charged both by national and regional authorities.

Laws related to such taxes did not exist for a prolonged time compared to more developed markets, therefore application thereof is often unclear or not established.

As such, a few precedents related to taxation issues have been set, and opinions vary as to legal interpretation of such laws.

According to the law, tax authorities may impose significant fines for failure to timely or properly submit tax statements and/or perform tax payments.

These factors create tax risks in Kazakhstan which are higher compared to countries with advanced taxation systems.

**Legal issues**

The Group has been and remains subject to legal proceedings and judicial decisions, which, both collectively and discretely, has not had any significant effect on the Group.

Executive management believes that settlement of any business issues would not affect significantly financial position or business results of the Group.

**Environmental protection**

Executive management believes that the Group obeys to laws of the Republic of Kazakhstan regarding environmental issues and has no significant obligations related to them.

The Group did not disclose reserves for probable losses in its consolidated financial statement.

**Insurance**

The Group did not insure its business assets, its legal liabilities to third parties or to employees.

As the lack of insurance does not mean attrition of assets or any new liabilities, no reserve for contingencies related to impairment or loss of such assets has been disclosed in this consolidated financial statement as of December 31, 2012.

**Market restrictions**

One of the Group's primary activities is development, production and sale of military equipment.

The Group's business is of strategic value to the Republic of Kazakhstan, and therefore has to be licensed and approved by the Government of the RK.

This fact restricts the market for products manufactured by the Group.

**Liabilities of a capital nature**

As of December 31, 2012 and 2011, the Group has liabilities on acquisition of fixed assets in the amount of 700,371 ths. tenge and 89,052 ths. tenge, respectively.

FINANCIAL DERIVATIVE INSTRUMENTS, PURPOSES AND FINANCIAL RISK MANAGEMENT POLICY

The main financial derivatives of the Group include loans, cash and short-term deposits, as well as accounts payable and receivable.

The main risk related to the Group's financial derivatives is the credit risk. The Group also monitors the market and liquidity risks for any financial derivatives.

**Capital risk management**

The Group manages the capital risk in order to ensure that the Group will be able to continue its business as a constantly operating enterprise, maximizing profits for the Shareholder via debt/capital balance optimization.

The structure of the Group's capital includes equity capital, additional paid capital and undistributed profits.

**Main principles of the accounting policy**

Details on the main principles of the accounting policy and current methods, including recognition criteria, basis of estimate and recognition of income and expenses for each class of financial assets, financial liabilities and equity instruments, are contained in Note 3 to the consolidated financial statement.

**Purposes of financial risk management**

Risk management is an important part of the Group's business. The Company monitors and manages financial risks related to the Group's business via internal risk reports which analyze risk exposure by risk levels and magnitudes.

These risks include the market risk (including the exchange risk, interest rate risk for the fair value and the price risk), liquidity risk and interest rate risk for cash flows. See below description of the Group's risk management policy.

**Interest rate risk**

The interest rate risk for the Group is the risk of change in market interest rates which may result in reduced total investment yield and increased cash outflow on the Group's loans.

This risk is not significant for the Group, as interest earning financial assets and interest liabilities include fixed interest rates.

**Currency exchange risk**

Amounts of short-term and long-term liabilities of the Group expressed in foreign currency are specified in tenge in the consolidated financial statement.

Changes in the exchange rate of tenge to foreign currencies result in income or loss from the exchange rate difference. The exchange risk is not significant for the Group, as its financial assets and liabilities are mainly specified in tenge.

**Credit risk.**

The credit risk arising from default of contractors on agreements on financial derivatives of the Group is usually restricted to the amount (if any) by which the amount of the contractor's liabilities exceed the Group's liabilities to these contractors.

The Group's policy includes financial derivative operations with a number of creditable contractors.

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The maximum credit risk exposure is the book value of each financial asset. The Group considers the maximum risk amount to be equal to the sum of trade receivables (Note 11) and other current assets (Note 14), less trouble debt reserves disclosed for the reporting date.

Credit risk concentration may arise from several separate debt amount for one borrower or a group of borrowers with similar business, for which there are reasons to believe that changes in economic conditions or other circumstances may equally affect their capacity to meet their obligations.

The maximum credit risk for trade receivables as of the reporting date for different geographic regions was the following:

	December 31, 2012	December 31, 2011
Within the country	1,806,440	1,158,227
Outside of the country	10,609	1,115
	1,817,049	1,159,342

The Group has policy which ensures that any transactions are closed with customers with adequate credit records and do not exceed established crediting limits. The credit risk decreases due to the fact that the Group works with most

of its customers on the in advance basis, with advance bank guarantee. The Group does not act as guarantor for any third party obligations.

As of December 31, 2012 and 2011, breakdown of credit receivables by limitation statutes was the following:

	December 31, 2012	December 31, 2011
Undue	1,762,336	599,927
Due by 3–6 months	54,713	487,744
Due by 6–12 months	–	71,671
Due by over 12 months	45,542	44,132
	1,862,591	1,203,474



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**Market risk**

The market risk is related to possible fluctuations in the value of a financial derivative due to changes in market prices. The Group manages the market risk via periodic assessment of potential losses which may arise from adverse changes in the market situation.

**Liquidity risk**

The Group controls liquidity risk for short-term, mid-term and long-term financing according to the Shareholder's requirements. The Group manages the liquidity risk via

maintaining adequate reserves, bank loans and available lines of credit, via constant monitoring of estimated and actual flow of money, and via comparison of maturity dates of financial assets and liabilities.

The following tables contain contractual periods of the Group on its non-derivative financial liabilities. The table is based on non-discounted cash flows on financial liabilities for the earliest date on which the Group may be required to perform payments. The table includes money flow both for the loan interest and for the loan principal.

	Interest rate	1 — 6 months	6 months — 1 year	1 — 5 years	Over 5 years	Total
<b>YEAR 2012</b>						
<b>Interest-free:</b>						
Trade accounts payable	–	3,911,553	–	–	–	3,911,553
Other liabilities	–	302,877	363,109	25,974	205,072	897,032
<b>Interest:</b>						
Loans	8%–16%	168,743	5,650,482	1,549,518	–	7,368,743
Bonds issued	5%	113,350	113,350	4,987,400	–	5,214,100
Financial lease	7,5%–8%	33,056	377,515	1,461,767	406,124	2,278,462
<b>YEAR 2011</b>						
<b>Interest-free:</b>						
Trade accounts receivable	–	719,931	–	–	–	719,931
Other liabilities	–	134,126	137,728	68,745	197,846	538,445
<b>Interest:</b>						
Loans	8%–14%	1,527,130	1,101,142	573,745	–	3,202,017
Financial lease	8%	81,394	81,394	605,496	–	768,284



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The following tables contain expected maturity periods for non-derivative financial assets of the Group. The table is based on non-discounted contractual periods of financial

assets, including interest receivable on these assets, except for cases when the Group expects the money flow to take place in another period.

	Interest rate	1 month — 1 year	1 — 5 years	Over 5 years	Indefinite maturity period	Total
<b>YEAR 2012</b>						
<b>Interest:</b>						
Short-term deposits	3,8%–6%	934,906	–	–	–	934,906
Financial lease debt	–	–	–	–	157,638	157,638
<b>Interest-free:</b>						
Cash and equivalents, except for cash on hand	–	9,174,840	–	–	–	9,174,840
Restricted cash	–	87,062	–	–	–	87,062
Trade receivables	–	1,817,049	–	–	45,542	1,862,591
Other assets	–	2,735,531	68,952	–	56,620	2,861,103
<b>YEAR 2011</b>						
<b>Interest:</b>						
Short-term deposits	4%–5%	81,005	–	–	–	81,005
Financial lease debt	–	12,893	2,788	–	–	15,681
<b>Interest-free:</b>						
Cash and equivalents, except for cash on hand	–	3,373,076	–	–	–	3,373,076
Restricted cash	–	82,391	–	–	–	82,391
Trade receivables	–	1,159,342	–	–	44,132	1,203,474
Other assets	–	514,016	29,670	–	18,347	562,033



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	Interest rate	1 month — 1 year	1 — 5 years	Over 5 years	Indefinite maturity period	Total
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**Fair value of financial derivatives**

The fair value is defined as an amount for which the derivative may be exchanged by knowledgeable parties on a commercial basis, except for situations with forced sale or sale upon liquidation. As there are not existing available market mechanisms to estimate the fair value for most financial derivatives of the Group, assumptions based on current economic situation and specific risks of certain derivatives have to be used for fair value assessment.

The following methods and assumptions are used by the Group to estimate the fair value of financial derivatives:

**Cash and equivalents**

The book value of cash and equivalents is approximately equal to the fair value thereof due to the short-term nature of maturity of these financial derivatives.

**Trade and other payables and receivables**

For assets and liabilities with maturity period less than twelve months, their book value is approximately equal to their fair value due to a relatively short-term nature of maturity of these financial derivatives.

**Loans**

Estimation for bank loans was made via discounting expected future cashflows for separate loans within the estimated maturity period based on market rates prevailing for the end of the corresponding year for loans with similar maturity periods and credit rating parameters.

As of December 31, 2012 and 2011, the fair value of financial assets and liabilities did not differ significantly from their book value.

**TRANSACTIONS WITH RELATED PARTIES**

Related parties include associates and subsidiaries of the Company, the Group's sole Shareholder, as well as branches and subsidiaries of the Group's sole Shareholder, including state-owned companies with the primary purpose of making profits.

Transactions with related parties made by the Group for years ending on December 31, 2012 and 2011, were mainly related to its common business activities, and conditions thereof were similar to those prevailing in transactions between independent parties.





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	2012	2011
<b>TRADE ACCOUNTS RECEIVABLE (NOTE 11)</b>		
«NC Kazakhstan Temir Zholy» JSC	599,216	398,909
«NC KazMunayGas» JSC	19,957	224,657
«Camcor Repair Corporation» LLP	126,615	-
«NAC Kazatomprom» JSC	2,351	-
Other	657	270
	748,796	623,836
<b>DIVIDENDS RECEIVABLE (NOTE 14)</b>		
«ZIKSTO» JSC	71,592	-
<b>TRADE ACCOUNTS PAYABLE (NOTE 23)</b>		
«Eurocompter Kazakhstan Engineering» LLP	2,180,952	-
«NC Kazakhstan Temir Zholy» JSC	23,278	28,404
«NC KazMunayGas» JSC	30	-
«Samruk-Energo» JSC	4,697	21,286
Other	2,257	2,053
	2,211,214	51,743
<b>ADVANCES ISSUED (NOTES 9 AND 14)</b>		
«Kazakhstan Development Bank» JSC	-	223,852
«NC KazMunayGas» JSC	12,568	10,910
Other	8,238	2,074
	20,806	236,836



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	2012	2011
<b>LOANS ISSUED (NOTE 14)</b>		
«Kazakhstan ASELSAN Engineering» LLP	2,200,000	50,000
Less adjustment to fair value	(31,810)	(5,418)
	2,168,190	44,582

In September 2011, the Group issued interest-free loans to the joint controlled entity of Kazakhstan ASELSAN Engineering LLP for the amount of 250,000 ths. tenge and 50,000 ths. tenge with the maturity period up to November 30, 2011 and December 31, 2012, respectively.

The Group estimated these loans by their amortized value based on the market interest rate of 11.5% per annum for the date of loan and disclosed this adjustment to fair value in the investments to associated companies for the amount of 10,436 ths. tenge.

Besides, in 2011 the Group recognized discount amortization within financial income for the amount of 7,627 ths. tenge (Note 31). The loan for the amount of 250,000 ths. tenge was

paid in full in December 2011, and the loan for the amount of 50,000 ths. tenge was paid in full in December, 2012.

In 2012, the Group issued interest-free loans to the joint controlled entity of Kazakhstan ASELSAN Engineering LLP for the total amount of 2,200,000 ths. tenge, with the maturity period up to March 31, 2013.

The Group estimated these loans by their amortized value based on the market interest rate of 7% per annum for the date of loan and disclosed this fair value adjustment in the investments to associated companies for the amount of 72,991 ths. tenge. Besides, in 2012 the Group recognized discount amortization within financial income for the amount of 41,182 ths. tenge (Note 31).

	2012	2011
<b>CASH AND EQUIVALENT AND RESTRICTED CASH</b>		
«BTA Bank» JCS (cash and equivalents)	6,098,287	2,946,204
«Temir Bank» JCS (cash and equivalents)	73,320	160,140
«Alliance Bank» JCS (cash and equivalents)	6,706	132
«BTA Bank» JCS (restricted cash)	80,947	79,701
	6,259,260	3,186,177



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	2012	2011
<b>LOANS RECEIVED (NOTE 19)</b>		
«BTA Bank» JSC	853,913	1,143,329
«Temir Bank» JSC	–	728,807
«SWF Samruk–Kazyna» JSC	5,017,084	150,045
Less adjustment to fair value	(106,767)	(22,218)
	5,764,230	1,999,963
<b>ADVANCES RECEIVED (NOTE 25)</b>		
«NC Kazakhstan Temir Zholy» JSC	7,602	97,795
«NC KazMunayGas» JSC	855,605	44,937
Other	151	–
	863,358	142,732
<b>DIVIDENDS PAYABLE TO THE SHAREHOLDER (NOTES 16, 22 AND 25)</b>		
Accrued for the period	693,205	116,000
Debts for the reporting date	66,000	116,000
<b>SALE INCOME (NOTE 26)</b>		
Ministries and departments	32,279,127	17,925,532
«NC KazMunayGas» JSC	5,794,747	3,450,671
«NC Kazakhstan Temir Zholy» JSC	4,693,805	3,989,016
«NAC Kazatomprom» JSC	118,543	801,118
«Kazpochta» JSC	–	50,000
«Camcor Repair Corporation» LLP	362,078	–
Other	7,829	4,119



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	2012	2011
<b>EXPENSED ON SERVICES RENDERED GOODS PURCHASED</b>		
«Eurocompter Kazakhstan Engineering» LLP	13,478,486	10,583,079
«Aircraft Repair Plant 405» JSC	573,601	–
«NC KazMunayGas» JSC	42,514	16,410
«NC Kazakhstan Temir Zholy» JSC	204,532	213,952
«Samruk–Energo» JSC	53,278	53,901
«Kaztelecom» JSC	5,094	5,582
«Camcor Repair Corporation» LLP	–	–
Other	910	1,014
	14,358,415	10,873,938
<b>FINANCIAL INCOME (NOTE 31)</b>		
«BTA Bank» JSC	7,033	21,887
«Kazakhstan ASELSAN Engineering» LLP	41,181	7,894
	48,214	29,781
<b>FINANCIAL EXPENSES (NOTE 32)</b>		
«BTA Bank» JSC	55,845	54,230
«Temir Bank» JSC	81,542	65,992
«BRK Leasing» JSC	128,506	68,540
«SWF Samruk–Kazyna» JSC (interest and discount amortization)	322,701	30,002
	588,594	218,764

For years ending on December 31, 2012 and 2011, compensations to key management personnel amounted to 225,051 ths. tenge and 134,735 ths. tenge, respectively.



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EVENTS AFTER THE REPORTING DATE

On January 3, 2013, the Group paid up the loan to the People's Bank of Kazakhstan JSC for the amount of 910,600 ths. tenge.

On February 14, 2013, the Group issued additional bonds for the amount of 3,617,299 ths. tenge at the coupon interest rate of 5%.

On February 15, 2013, the Group received a loan from the Sole Shareholder to finance the Group's working capital in the amount of 4,700,000 ths. tenge with the maturity period up to December 31, 2013, at the interest rate of 4%.

On March 13, 2013, the Group issued additional bonds for the amount of 969,239 ths. tenge at the coupon interest rate of 5%.

