



2017

ANNUAL REPORT

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MESSAGE OF THE CHAIRPERSON OF THE BOARD OF DIRECTORS



Chairperson of the Board of Directors
Kazakhstan Engineering NC JSC
A. Mamin

**Dear Readers of the Annual Report,
Colleagues, Present and Future
Partners,**

I am honored to address you again as the Chairperson of the Board of Directors of the largest mechanical engineering holding in Kazakhstan – Kazakhstan Engineering National Company JSC (Kazakhstan Engineering NC JSC).

The positive dynamics in a series of key performance indicators of Kazakhstan Engineering NC JSC remained at the same level in 2017.

Income from sales of products of Kazakhstan Engineering NC JSC increased by 17% in 2017 vs 2016 and amounted to 84B KZT, with workforce productivity grown by 23% to the amount of 17,887,000 KZT per capita.

The share of exported products in total sales volume was 9.7%.

The State Defense Order of the Republic of Kazakhstan was delivered successfully.

The ongoing increase in the indicators of Kazakhstan Engineering NC JSC

is inseparably associated with the development of Kazakhstan and priorities announced by the Head of the State in the Kazakhstan – 2050 Strategy that focused on the improved competitive ability of the domestic products.

In his Address The New Development Opportunities in the Context of the Fourth Industrial Revolution, the Head of the state mentioned the fact that the world was entering the age of the Fourth Industrial Revolution, the era of deep and drastic technologic, economic and social changes. Therefore, the task of Kazakhstan Engineering NC JSC is not only to develop the existing projects, but also to implement the advanced technologies Industry 4.0 elements, with simultaneous automation and robotization of the production, since the information technologies improve the production flexibility and prompt decision-making, create the basis for entering the global markets and competitive ability of the companies.

The development of marketing competences is one of the priority tasks. The V International Exhibition of Weapons Systems and Military Equipment KADEX

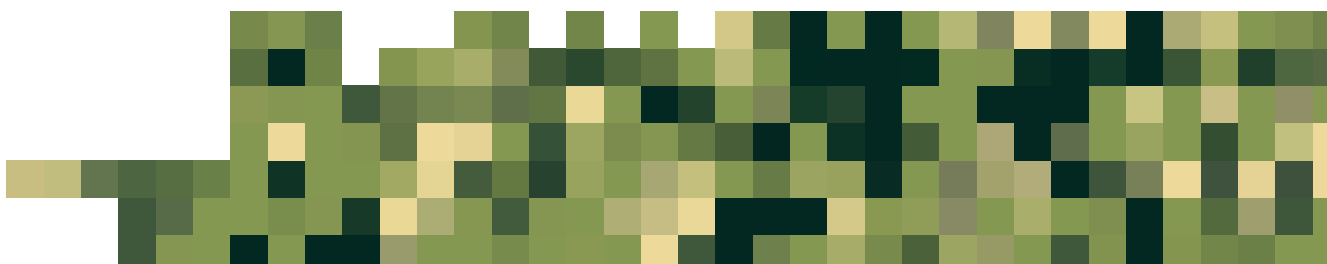
2018 (Astana), which took place last May, was arranged at a high level with maximum practical results in promotion of the products of Kazakhstan Engineering NC JSC.

In 2018, the focus will be placed on the human capital development policy with the increasing demands and dynamic changes in technologies taken into account.

In 2018, Kazakhstan Engineering NC JSC will keep working on strengthening its financial stability by introducing advanced management practices for liquidity, profitability and capital.

We will continue working on increasing the long-term asset value, ensuring high-quality delivery of the state defense order, building the export potential, implementing the privatization program and meeting the high standards of the corporate governance in 2018.

**Best regards,
Chairperson of the Board of Directors
Kazakhstan Engineering NC JSC
A. Mamin**



MESSAGE OF THE CHAIRPERSON OF THE MANAGEMENT BOARD



Chairperson of the Management Board
Kazakhstan Engineering NC JSC
A. Kurmangaliyev

Dear Readers of the Annual Report, Colleagues, Business Partners,

We are pleased to present the 2017 Annual Report of Kazakhstan Engineering National Company JSC (Kazakhstan Engineering NC JSC).

As a holding structure, Kazakhstan Engineering NC JSC unites mechanical engineering enterprises dealing with the production of civil and specialty products and dual-use goods. The subsidiaries also perform routine and major repairs, upgrade certain ranges of weapons and military equipment.

As the leader in the defense industrial complex, Kazakhstan Engineering NC JSC made a considerable contribution to strengthening the defense capability of the country and mechanical engineering development last year.

Zenit Uralsk Plant JSC floated out Mangystau artillery missile ship and FC-19 project high-speed powerboat.

Kazakhstan Paramount Engineering LLP performed factory power tests of Barys eight-by-eight armored wheeled vehicle. In cooperation with Israeli Plasan, they set up the production of Alan armored wheeled vehicle. The first lot of such vehicles was sent to the national security agencies of the country.

Petropavlovsk Plant of Heavy Machine Building JSC successfully delivered the order placed by KPJV to supply heat exchangers as a part of the project of Tengizchevroil LLP for the amount exceeding 265M KZT.

In addition, the plant produced a prototype of a mobile unit intended for chemical treatment of wells operated under the drillhole in situ leaching of uranium as per the order of the Institute for High Technologies LLP.

In 2017, the measures were taken to develop the production and sell products for defense and civil purpose as a part of the import substitution program, meet the domestic needs and export access.

Thus, in 2017 we started working on implementation of investment projects for the production technology upgrading of Petropavlovsk Plant of Heavy Machine Building JSC, which will result in purchase of 39 pieces of modern mechanical processing, blanking, heat-treatment, welding, testing and measuring equipment and in arrangement of production of multilayer printed circuit boards at S.M. Kirov Plant JSC to create high-quality technical level of the production of new types of radio electronics with high level of information security to meet the needs of the national security authorities and Armed Forces of Kazakhstan.

This year it is planned to implement two more investment projects, they are: establishment of an aviation technical center in Astana (to be amended) and a center for engineering and technical maintenance, repair and upgrading of heavy vehicles for military and civil purpose in Semey (to be amended).

The first project is aimed at full-scale operation of a specialized air entity in Kazakhstan providing routine maintenance, minor and major repairs of aviation equipment (all these operations are currently performed at the far-abroad entities in Russia, Belarus, Ukraine). The second project will enable significantly improved military security of the state.

Active work was conducted to develop cooperation with our foreign partners, including promotion of the products made by Kazakhstan Engineering NC JSC to foreign markets and attraction of investment and technologies. For example, Kazakhstan Aselsan Engineering LLP made the first supply of thermal imaging sights to the Republic of Turkey.

In order to keep the pace, the Memorandum of Joint Promotion of the high-tech products for export was signed with KAZINVEST National Company JSC.

In addition, for the purpose of implementation of the above tasks, the opportunities of international forums are widely used. The entities of Kazakhstan Engineering NC JSC participated in the Army 2017 III International Military and Technical Forum.

We are planning to make the most of arrangement and participation in the V International Exhibition of Weapons Systems and Military Equipment KADEX 2018 (May, Astana).

We perform systematic work on privatization of assets of Kazakhstan Engineering NC JSC in order to attract investors and obtain an optimal structure. The Company's assets were sold for a total amount of 2.311B KZT in 2017: ZIKSTO JSC (42.13% shares), 832 Auto Repair Plant KE JSC (100% shares) and Astra IEP LLP.

It is planned to sell interests in six more assets by the end of 2018: KazEngElectronics LLP (100% shares), Omega Instrument-Making Plant JSC (100% shares), Semipalatinsk Machine-Building Plant JSC (51% shares), Tynys JSC (51% shares), S.M. Kirov Machine Building Plant JSC (51% shares), Kazakhstan Aviation Industry LLP (50% interest).

Two assets were liquidated: Batyr Engineering LLP and KAMAZ-Semey LLP. Three more assets are at the liquidation stage: Tales Kazakhstan Engineering LLP, Kaz-ST Engineering Bastau LLP, Spetsmach Astana LLP.

The 2018 was marked by the anniversary – 15 years from the date of establishment of Kazakhstan Engineering NC JSC. The Company approached its 15th anniversary with a big store of experiences, resources and reserves. First of all, we are talking about people, a big team of Kazakhstan Engineering NC JSC.

In this connection, I would like to send my sincerest greetings to all the Company's employees and partners on this remarkable date and I would like to express my gratitude again for fruitful work and contribution to the development of the defense industrial complex and mechanical engineering sector.

The anniversary year imposes additional responsibility on us in achieving the tasks set to the Company and the industry.

I would like to express special gratitude to the management of Samruk-Kazyna JSC, Ministry of Defense and Aerospace Industry and Ministry of Defense, Chairperson and Members of the Board of Directors of the Company, partners and investors for their continuous attention paid to our Company.

**Best regards,
Chairperson of the Management Board
Kazakhstan Engineering NC JSC
A. Kurmangaliyev**



REPORT PROFILE

REPORTING PRINCIPLES

Kazakhstan Engineering NC JSC (hereinafter referred to as the Company) has made the 2017 Annual Report.

The major purpose of the report is to inform the stakeholders of the Company's performance and ensure informational transparency of the Company's business.

The Report describes the Company's performance for the period from January 1 to December 31, 2017.

When preparing the Report the Company focused on the following principles:

- **Accountability** – the Company realizes its accountability to the Sole Shareholder and Trust Manager for the increased long-term value and long-term sustainable development.
- **Openness** – the Company is open to the meetings, discussions and conversations and also seeks for

building long-term cooperation with stakeholders based on the accounting of mutual interests and tries making the report comprehensible and available to a wide range of stakeholders.

- **Balance** – the report describes positive and negative aspects of the Company's performance.
- **Accuracy and reliability** – the information containing in the report was collected based on documented data; audited financial statements made in accordance with IFRS were used to prepare the report sections concerning financial and economic activities.
- **Respect for human rights** – the Company's employees are the major value and main resource of the Company.
- **Timeliness** – the report preparation has a scheduled nature.

This Report will not be certified by an external independent entity, however, the Company realizes that external independent certification will enable improved completeness, balance, reliability of the presented performance of the Company's group in future and meet the needs of stakeholders. In this connection, the Company plans to implement the external certification practice in future.

This Report has been made in Kazakh, Russian and English in a hard copy and published in an electronic form on the Company's corporate website (www.ke.kz).

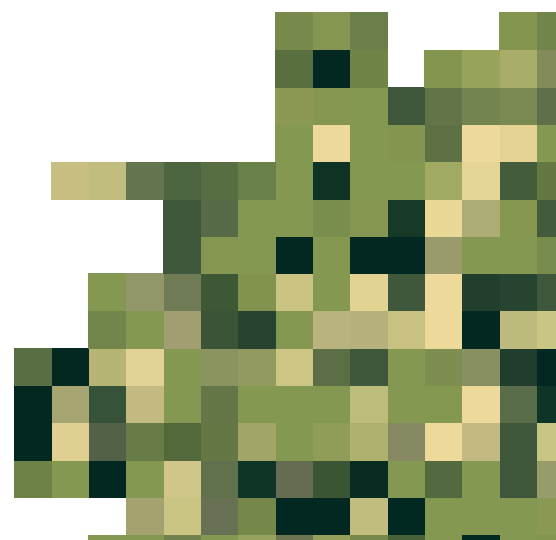
The hard and soft copies of the Report can be submitted to stakeholders.

When publishing the Report, the Company expects to continue and extend the productive public conversation and encourages feedback from all stakeholders.

REPORTING BOUNDARIES

The Report structure includes the description of the Company's operation in the following areas: corporate governance, finance, risk management, sustainable development management, stakeholder engagement, investment development, occupational health and safety and human resources management.

Financial indicators were disclosed for those subsidiaries where fifty and more percent of shares (interest) belong to the Company (hereinafter referred to as the subsidiaries).





BUSINESS REVIEW

REVIEW OF THE INDUSTRY

The Dynamics of the Production Volumes in Mechanical Engineering

The mechanical engineering product volume of the Republic of Kazakhstan amounted to 913.9B KZT in 2017¹.

Mechanical Engineering Product Export and Import

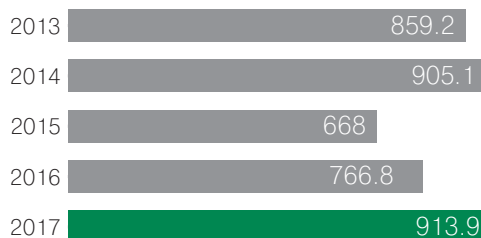
The export rate of mechanical engineering products in 2017 was 10% lower than in 2016 and made about 651.9M USD.

The import rate of the mechanical engineering products in 2017 increased by 15.9% compared to 2016. The major reason for such increase is related to the agitated trade with key commercial partners, recovered solvency margin of the population.

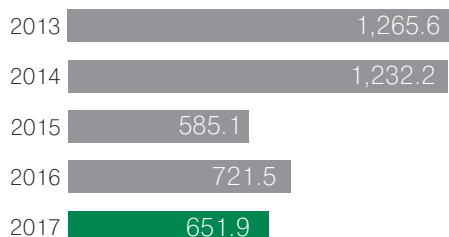
¹ Source: The Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, Digests, express reviews of the mechanical engineering industry of Kazakhstan Industry Development Institute JSC

² The Report was approved by the Resolution of the Board of Directors of Kazakhstan Engineering NC JSC of April 4, 2018 (minutes No. 2)

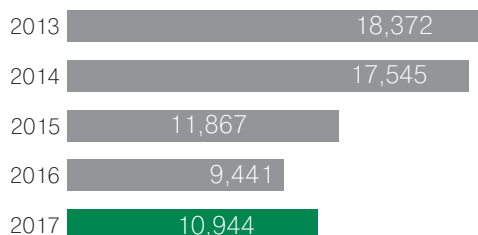
The Dynamics of the Mechanical Engineering Product Volumes 2013 - 2017 (B KZT)



Mechanical Engineering Product Export 2013 - 2017 (M USD)



The Dynamics of Mechanical Engineering Product Export in 2013-2017 (M USD)



ORGANIZATIONAL PROFILE

Kazakhstan Engineering National Company JSC (Kazakhstan Engineering) was established pursuant to Resolution of the Government of the Republic of Kazakhstan of March 13, 2003 No. 244 On Certain Issues of Defense Industrial Complex of the Republic of Kazakhstan in order to improve the management systems for the defense industrial complex of the Republic of Kazakhstan by including defense enterprises and military plants of the Republic of Kazakhstan in the Company.

In October 2006, state-owned shareholding in the Company (100%) was transferred as payment to the authorized stock capital of Samruk Holding JSC.

In September 2009, the Company's shareholding was transferred to the Ministry of Industry and Trade of the Republic of Kazakhstan into trust management.

In June 2010, the Company's shareholding was transferred to the Ministry of Defense of the Republic of Kazakhstan into trust

management in order to improve the management systems for the defense industrial complex of the Republic of Kazakhstan.

In December 2016, the Company's shareholding was transferred to the Ministry of Defense and Aerospace Industry of the Republic of Kazakhstan into trust management.

The Company is a holding structure intended to ensure the unified financial, industrial and technological policies at the largest mechanical engineering enterprises specializing in the output of specialty and civil products and dual-use goods.

A total number of the Company's authorized and allotted shares, including:

- ordinary shares – 21,476,802;
- preferred shares – none.
- Nominal value per share – 1,000 KZT.

The Company's Development Strategy for 2013 – 2022 was approved by the

Resolution of the Board of Directors of the Company of November 4, 2013 (minutes No.11) (hereinafter referred to the Company's Development Strategy).

Pursuant to the letter of expectations of the Sole Shareholder, in 2016 and 2017 the Company worked on updating the current Company's Development Strategy; the draft thereof was reviewed at the meetings of the Board of Directors of the Company.

In accordance with the Action Plan for implementation of expectations of the Sole Shareholder of Kazakhstan Engineering NC JSC for 2018 – 2022 and the Work Plan of the Board of Directors for 2018 approved by the Resolution of the Board of Directors of the Company of December 21, 2017 (minutes No.10); consideration of the draft of the new Company's Development Strategy for 2018 – 2027 and Road Map of implementation is planned for June 27, 2018.

Structure of Assets of Kazakhstan Engineering NC JSC as of Dec 31, 2017

Subsidiaries	14	Second-tier subsidiaries	2	Related entities	6	Jointly controlled entities	3
KE 811 Autorepair Plant JSC	100%			ZIKSTO JSC	42.13	Eurocopter Kazakhstan Engineering LLP	50%
Semey Engineering JSC	84%			Kamaz Engineering JSC	25%	Tales Kazakhstan Engineering LLP	50%
Petropavlovsk Plant of Heavy Machine Building JSC	99.8%			Kaz-ST Engineering Bastau LLP	49%	Kazakhstan Aselsan Engineering LLP	50%
S.M. Kirov Plant JSC	84%			Indra Kazakhstan Engineering LLP	49%		
Semipalatinsk Machine Building Plant JSC	99.4%	Kazakhstan Paramount Engineering LLP	24.5	Kazakhstan Engineering Distribution LLP	49%		
Tynys JSC	99.2%	Korgau Engineering JV LLP	100%	Spetsmach Astana LLP	35%		
Omega Instrument-Making Plant JSC	98.6%						
S.M. Kirov Machine Building Plant JSC	97.7%						
Zenit Uralsk Plant JSC	95.4%						
Gidropribor SRI JSC	90%						
Munaymash JSC	52.04%						
Kazakhstan Aviation Industry LLP	100%						
KazEngElectronics LLP	100%						
Kazakhstan Engineering R&D Center LLP	100%						

№	Company's name	Lines of business
Subsidiaries (more than 50% shares/interest)		
1.	KE 811 Autorepair Plant JSC	Repair of heavy automotive vehicles and caterpillar vehicles, engines and machines, upgrading and re-equipment of automotive vehicles
2.	Semey Engineering JSC	Repair of weapons and military equipment, major repair of engines of various modifications
3.	Petrovsk Plant of Heavy Machine Building JSC	Manufacturing of drilling equipment and equipment for well workover, equipment for oil refining plants and petrochemical productions, track tools and mechanical aids for railway repair and maintenance
4.	S.M.Kirov Plant JSC	Production and maintenance of navigation systems, control panels for railway industry; control unit and unit of automated devices for an oil and gas complex, etc.
5.	Semipalatinsk Machine-Building Plant JSC	Production of GT-T base unit caterpillar tractor hauler, modification and production of spare parts, products for railway industry
6.	Tynys JSC	Manufacturing of aeronautical products, fire-fighting equipment, medical equipment, production of polyethylene pipes, protective equipment for security agencies
7.	Omega Instrument-Making Plant JSC	Manufacturing of water treatment plants, railway industry products; digital exchanges and elements, telephones; fast moving consumer goods, etc.
8.	S.M. Kirov Machine Building Plant JSC	Production and maintenance of underwater equipment and hydraulics and burning automatics for naval ships; pneumatic hammers for extraction industry; spare parts for railway industry
9.	Zenit Uralsk Plant JSC	Manufacturing and repair of motor boats and ships; design and production of steelworks, spare parts, etc. for oil and gas complex
10.	Gidropribor SRI JSC	Design and research activities and production of marine and river motor boats, floatation devices and underwater vehicles, land and air robots, equipment for underwater surveys and repair of pipelines and underwater facilities
11.	Munaymash JSC	Bottom-hole pumps for oil and gas sector; fast moving consumer goods.
12.	Kazakhstan Engineering R&D Center LLP	Development of new types of specialty products for defense plants
13.	Kazakhstan Aviation Industry LLP	Production and maintenance of aviation equipment
14.	KazEng Electronics LLP	Upgrading and major repair of weapons, dual-use goods, production of modern means of communications and radio electronic devices, computer facility assembling

№	Company's name	Lines of business
Jointly controlled entities (50% interest)		
1.	Eurocopter Kazakhstan Engineering LLP	Production, assembly and maintenance of helicopters, distribution and sale of helicopters
2.	Tales Kazakhstan Engineering LLP	Production and maintenance of electronic equipment, systems and software; production and maintenance of radio communication equipment
3.	Kazakhstan Aselsan Engineering LLP	Production of electronic optical instruments
Related entities (less than 50% shares/interest)		
1.	ZIKSTO JSC	Repair of freight railcars, repair of mounted wheels with element replacement
2.	KAMAZ-Engineering JSC	Production and maintenance of buses, cars, special-purpose machines and spare parts
3.	Kazakhstan Engineering Distribution LLP	Sales of products manufactured by the enterprises of the Company's group, investment attraction, participation in state programs and tenders for equipment delivery
4.	Indra Kazakhstan Engineering LLP	Production and maintenance of radar stations, electronic warfare and radio electronic reconnaissance systems
5.	Kaz-ST Engineering Bastau LLP	Delivery of engineering services (Singapore Technologies Engineering Joint Venture)
6.	Spetsmach Astana LLP	Production and repair of spare parts for railway, oil and gas and power engineering industries

PERFORMANCE OF THE COMPANY'S SUBSIDIARIES IN NUMBERS

Zenit Uralsk Plant JSC

Year (actual)	Income from sales – TOTAL (‘000 KZT):	Including:			Total profit	Working performance, ‘000 KZT/pp	Actual headcount, ppl
		Specialty products (‘000 KZT)	Civil products	Maintenance			
2013	5,224,778	5,172,892	51,886	–	332,406	5,698	917
2014	5,281,358	5,247,206	34,152	–	317,725	5,823	907
2015	3,247,745	3,176,928	70,817	–	140,891	3,653	889
2016	4,948,000	4,863,466	84,534	–	220,253	5,510	898
2017	8,767,627	8,678,303	89,324	–	638,099	9,829	892

S.M.Kirov Plant JSC

Year (actual)	Income from sales – TOTAL (‘000 KZT):	Including:			Total profit	Working performance, ‘000 KZT/pp	Actual headcount, ppl
		Specialty products (‘000 KZT)	Civil products	Maintenance			
2013	8,249,825	2,410,130	4,781,214	1,058,481	473,577	14,731	560
2014	6,944,772	4,027,895	1,693,500	1,223,377	405,708	11,292	615
2015	5,980,459	3,951,542	916,486	1,112,431	715,599	9,934	602
2016	6,903,112	5,661,486	218,403	1,023,223	196,676	13,751	502
2017	4,146,582	2,624,215	315,676	1,206,691	119,890	7,913	524

Petropavlovsk Plant of Heavy Machine Building JSC

Year (actual)	Income from sales – TOTAL (‘000 KZT):	Including:			Total profit	Working performance, ‘000 KZT/pp	Actual headcount, ppl
		Specialty products (‘000 KZT)	Civil products	Maintenance			
2013	5,597,850	463,212	5,134,638	–	326,671	4,789	1,169
2014	4,015,158	304,421	3,710,737	–	136,408	3,721	1,079
2015	3,863,415	100,008	3,763,407	–	10,846	3,791	1,019
2016	3,017,567	261,078	2,756,489	–	(315,495)	3,356	899
2017	6,602,089	1,011,192	5,590,897	–	46,892	7,171	929

Tynys JSC

Year (actual)	Income from sales – TOTAL (‘000 KZT):	Including:			Total profit	Working performance, ‘000 KZT/pp	Actual headcount, ppl
		Specialty products (‘000 KZT)	Civil products	Maintenance			
2013	5,771,931	3,586,910	2,185,021	–	513,857	7,737	746
2014	6,671,712	5,441,522	1,230,190	–	688,691	8,278	806
2015	5,000,989	4,304,499	670,551	25,939	497,603	6,470	773
2016	3,694,735	2,649,788	1,021,793	23,154	226,223	5,102	713
2017	6,742,170	5,073,737	1,603,296	65,138	463,854	9,223	731

Semey Engineering JSC

Year (actual)	Income from sales – TOTAL (‘000 KZT):	Including:			Total profit	Working performance, ‘000 KZT/pp	Actual headcount, ppl
		Specialty products (‘000 KZT)	Civil products	Maintenance			
2013	6,535,300	6,535,300	–	–	1,307,857	15,672	417
2014	8,559,325	8,559,325	–	–	2,873,388	13,586	630
2015	513,234	513,234	–	–	(976,184)	905	567
2016	208,400	208,400	–	–	(1,678,330)	395	528
2017	1,994,151	1,994,151	–	–	(2,367,898)	4,638	430

Munaymash JSC

Year (actual)	Income from sales – TOTAL (‘000 KZT):	Including:			Total profit	Working performance, ‘000 KZT/pp	Actual headcount, ppl
		Specialty products (‘000 KZT)	Civil products	Maintenance			
2013	3,174,628	–	3,174,628	–	183,740	22,046	144
2014	3,193,291	–	3,193,291	–	210,307	20,602	155
2015	2,351,261	–	2,351,261	–	148,184	15,675	150
2016	2,330,120	–	2,330,120	–	128,068	14,654	159
2017	2,252,810	–	2,252,810	–	75,263	14,919	151

Gidropribor SRI JSC

Year (actual)	Income from sales – TOTAL (‘000 KZT):	Including:			Total profit	Working performance, ‘000 KZT/pp	Actual headcount, ppl
		Specialty products (‘000 KZT)	Civil products	Maintenance			
2013	472,646	271,748	200,898	–	18,385	3,812	124
2014	612,547	562,568	49,979	–	33,055	4,641	132
2015	1,240,121	1,184,600	55,521	–	75,228	8,159	152
2016	2,061,401	2,016,315	45,086	–	110,179	11,024	187
2017	342,269	319,622	22,647	–	75,590	2,223	154

S.M. Kirov Machine Building Plant JSC

Year (actual)	Income from sales – TOTAL (‘000 KZT):	Including:			Total profit	Working performance, ‘000 KZT/pp	Actual headcount, ppl
		Specialty products (‘000 KZT)	Civil products	Maintenance			
2013	806,097	678,810	127,287	–	(333,204)	3,124	258
2014	482,234	413,522	68,712	–	(433,981)	1,899	254
2015	476,151	435,520	40,631	–	(213,545)	1,928	247
2016	1,813,325	1,800,255	13,070	–	118,324	5,965	304
2017	4,572,688	4,545,342	27,346	–	508,267	15,141	302

Semipalatinsk Machine-Building Plant JSC

Year (actual)	Income from sales – TOTAL ('000 KZT):	Including:			Total profit	Working performance, '000 KZT/pp	Actual headcount, ppl
		Specialty products ('000 KZT)	Civil products	Maintenance			
2013	843,963	119,397	724,566	–	6,870	3,925	215
2014	1,206,519	998,690	207,829	–	70,072	4,826	250
2015	1,000,274	866,829	133,445	–	(61,216)	5,782	173
2016	1,246,365	1,086,966	159,399	–	1,799	8,041	155
2017	1,687,009	1,407,160	279,849	–	(50,272)	9,269	182

KE 811 Autorepair Plant JSC

Year (actual)	Income from sales – TOTAL ('000 KZT):	Including:			Total profit	Working performance, '000 KZT/pp	Actual headcount, ppl
		Specialty products ('000 KZT)	Civil products	Maintenance			
2013	394,387	387,034	7,353	–	11,209	3,490	113
2014	468,783	455,487	13,296	–	41,748	4,223	111
2015	512,469	509,089	3,380	–	73,155	4,271	120
2016	210,459	182,368	28,091	–	(74,055)	1,739	121
2017	536,178	532,867	3,311	–	25,533	4,662	115

Kazakhstan Aviation Industry LLP

Year (actual)	Income from sales – TOTAL ('000 KZT):	Including:			Total profit	Working performance, '000 KZT/pp	Actual headcount, ppl
		Specialty products ('000 KZT)	Civil products	Maintenance			
2013	–	–	–	–	(49,609)	–	22
2014	139,175	139,175	–	–	(2,312)	5,799	24
2015	2,050,334	2,050,334	–	–	85,005	85,431	24
2016	1,750,606	1,750,606	–	–	(94,139)	48,628	36
2017	14,587,248	14,587,248	–	–	(230,600)	205,454	71

KazEng Electronics LLP

Year (actual)	Income from sales – TOTAL ('000 KZT):	Including:			Total profit	Working performance, '000 KZT/pp	Actual headcount, ppl
		Specialty products ('000 KZT)	Civil products	Maintenance			
2013	1,789,391	1,519,399	127,135	142,857	5,451	13,871	129
2014	643,116	367,723	245,679	29,714	9,830	8,462	76
2015	760,014	760,014	–	–	61,973	15,834	48
2016	274,246	274,246	–	–	(60,419)	6,378	43
2017	260,543	260,543	–	–	17,575	8,405	31

Kazakhstan Engineering R&D Center LLP

Year (actual)	Income from sales – TOTAL ('000 KZT):	Including:			Total profit	Working performance, '000 KZT/pp	Actual headcount, ppl
		Specialty products ('000 KZT)	Civil products	Maintenance			
2013	234,857	184,942	49,915	–	(36,340)	6,180	38
2014	148,404	90,230	58,174	–	(70,520)	3,905	38
2015	273,789	212,416	61,374	–	102,948	7,205	38
2016	178,817	121,832	56,985	–	(131,106)	4,361	41
2017	62,861	–	62,861	–	(40,363)	3,143	20

Omega Instrument-Making Plant JSC

Year (actual)	Income from sales – TOTAL ('000 KZT):	Including:			Total profit	Working performance, '000 KZT/pp	Actual headcount, ppl
		Specialty products ('000 KZT)	Civil products	Maintenance			
2013	617,760	–	617,760	–	1,795	3,510	176
2014	230,614	–	230,330	284	(91,420)	1,281	180
2015	189,065	–	189,065	–	(86,196)	1,390	136
2016	125,628	–	125,628	–	(87,974)	1,611	78
2017	677,809	88,722	586,362	–	(74,928)	11,686	58

KEY EVENTS IN THE REPORTING PERIOD

JANUARY

The Board of Directors of Kazakhstan Engineering NC JSC was newly elected

Subsidiary of Kazakhstan Engineering NC JSC – Petropavlovsk Plant of Heavy Machine Building JSC successfully performed the contract with KPJV for supply of heat exchangers under the project of Tengizchevroil LLP Reduction of Seasonal Temperature Fluctuations at the Integrated Process Line for the amount of about 265M KZT

Kazakhstan Aselsan Engineering LLP performed the first supply of thermal imaging sights to the Republic of Turkey

FEBRUARY

New organizational chart of Kazakhstan Engineering NC JSC was approved

New members of the Audit Committee, Committee on Appointments and Remuneration and Committee for Strategy and Investment of the Board of Directors of Kazakhstan Engineering NC JSC were elected

100% shareholding of Kazakhstan Engineering NC in 832 Auto Repair Plant KE JSC was sold

The new type of the military equipment produced by Kazakhstan Paramount Engineering LLP – Arlan AWW – passed operational testing and was accepted to the Armed Forces of the Republic of Kazakhstan

The First Deputy Prime Minister of Kazakhstan A.U. Mamin visited the defense industry complex companies in Astana – Kazakhstan Aviation Industry LLP, Eurocopter Kazakhstan Engineering LLP, Kazakhstan Paramount Engineering LLP and Kazakhstan Aselsan Engineering LLP

► Year 2017 was marked by a series of events in various areas of activities of Kazakhstan Engineering NC JSC.

► Please find key corporate events of 2017 in the schedule below.

MAY

Kazakhstan Engineering NC JSC and KAZAKH INVEST National Company JSC signed the Memorandum of Joint Promotion of the high-tech products manufactured in Kazakhstan for export

New directors general of Kazakhstan Aviation Industry LLP and Kazakhstan Engineering Research & Development Center LLP were appointed



MARCH

The subsidiary of Kazakhstan Engineering NC JSC – Petropavlovsk Plant of Heavy Machine Building JSC produced a prototype of a mobile unit intended for chemical treatment of wells operated under the drillhole in situ leaching of uranium as per the order of the Institute for High Technologies LLP

A position of the Ombudsman was introduced for the Company's bodies and officers to comply with the Code of Business Ethics and strengthen the measures to prevent and regulate corporate conflicts and conflicts of interest

APRIL

The subsidiary of Kazakhstan Engineering NC JSC – Zenit Uralsk Plant JSC floated out MANGYSTAU artillery missile ship serial No.4

JUNE

The President of the Republic of Serbia Aleksandar Vučić visited Kazakhstan Paramount Engineering LLP and Kazakhstan Aselsan Engineering LLP as a part of his official visit in Astana





2017

JULY

The powers of the Chairperson of the Management Board of Kazakhstan Engineering NC JSC Yerlan Idrissov were terminated. New directors general of Tynys JSC and Semey Engineering JSC were appointed. The subsidiary of Kazakhstan Engineering NC JSC – Zenit Uralsk Plant JSC floated out FC-19 project high-speed powerboat. The 2016 Annual Report of Kazakhstan Engineering NC JSC was approved.

SEPTEMBER

Kazakhstan Engineering NC JSC and Uzmahsusimpex State Enterprise (Republic of Uzbekistan) signed the Memorandum of Cooperation at the II Business Forum of Kazakhstan and Uzbekistan.

A Serbian official delegation headed by the Minister of Defense Aleksandar Vulin visited Kazakhstan Aselsan Engineering LLP, which is a member of the group of Kazakhstan Engineering NC JSC. Kazakhstan Engineering NC JSC held a sectional industrial meeting on Defense Engineering within the V Forum of Mechanical Engineers of Kazakhstan on the New Industrialization of Kazakhstan: High-Technology Engineering. The new director general of KazEng Electronics LLP was appointed.

NOVEMBER

Kazakhstan Paramount Engineering LLP performed factory power tests of Barys eight-by-eight armored wheeled vehicle. The powers of some members of the Management Board were terminated and new members of the Management Board of Kazakhstan Engineering NC JSC were elected. New director general of Petropavlovsk Plant of Heavy Machine Building JSC was appointed.



AUGUST

Orman Nurbayev was appointed the Chairperson of the Management Board of Kazakhstan Engineering NC JSC. Kazakhstan Engineering NC JSC participated in the Army 2017 III International Military and Technical Forum in Moscow.

OCTOBER

The subsidiary of Kazakhstan Engineering NC JSC – Kazakhstan Engineering Research and Development Center and Cybersecurity Malaysia signed the Memorandum of Understanding. The subsidiary of Kazakhstan Engineering NC JSC – S.M. Kirov Machine Building Plant JSC celebrated the 75th anniversary. The Business Plan (Development Plan) for 2018 – 2022 of Kazakhstan Engineering NC JSC was approved. The members of the Board of Directors of Kazakhstan Engineering NC JSC were elected.

DECEMBER

Kazakhstan Paramount Engineering LLP in cooperation with Israeli Plasan set up the production of Alan armored wheeled vehicles (AWV). The first lot of such vehicles was sent to the national security agencies of the Republic of Kazakhstan. A position of Compliance Officer was introduced in Kazakhstan Engineering NC JSC in order to fight corruption and prevent compliance risks. Kazakhstan Engineering NC JSC and PremiumWagonComplect LLP signed the Sale and Purchase Agreement for 42% ordinary shares of ZIKSTO JSC.

FINANCIAL PERFORMANCE

The Company's share in mechanical engineering industry of the Republic of Kazakhstan in 2017 was 9.2%. The sales

income of the Company's group increased by 17% in 2017 vs 2016; with workforce

productivity in the amount of 17,887,000 KZT per capita.

Operating and Financial Performance for the Company's Group

Indicator	2013	2014	2015	2016	2017	Growth dynamics in 2017 vs 2013
Sales income (B KZT)	45	39	64	71	84	186%
Assets (B KZT)	74	89	114	84	75	101%
Financial performance (B KZT) *	3	0.9	- 8	- 3	- 4	-
Expenses for development (investment) (B KZT)	4	7	5	3	1	-
Workforce productivity ('000 KZT/ppl)	12,868	11,794	11,557	14,478	17,887	139%
Average monthly salary ('000 KZT)	114	124	103,9	134	170	149%

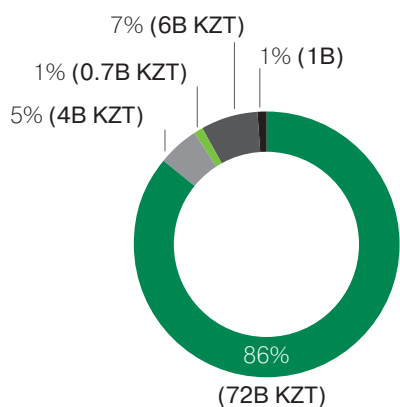
* financial performance = net income before minority interest reduction

The consolidated volume of sales of the Company's products in 2017 was 84B KZT with a target of 83B KZT or 101% to target, including:

- ▶ as for sales volume of specialty products and dual-use goods, it amounted to 72B KZT or 103% to target as a result of overachievement of export target;
- ▶ as for sales volume of civil products, it amounted to 11B KZT or 88% to target;
- ▶ as for maintenance service volume, it amounted to 1B KZT, which is 8.5% higher than the target for 2017.

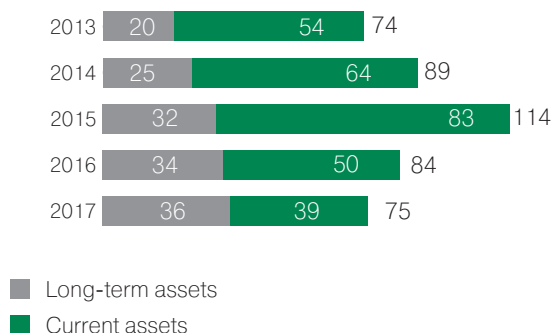
The export product share in the sales volume in 2017 was 9.7% of total sales volume.

Income Structure



- Specialty products and dual-use goods
- Maintenance services (engineering)
- Oil and gas products
- Railway products
- Other

Assets (B KZT)



As of the end of 2017, the consolidated assets amounted to 75B KZT. The amount of assets grew by 1% vs 2013.

The long-term assets amounted to 36B KZT or 48% in the asset structure, including fixed assets of 23B KZT or 31% of total amount of assets; investment in subsidiaries or joint ventures of 6B KZT or 8%; other assets of 7B KZT or 9%.

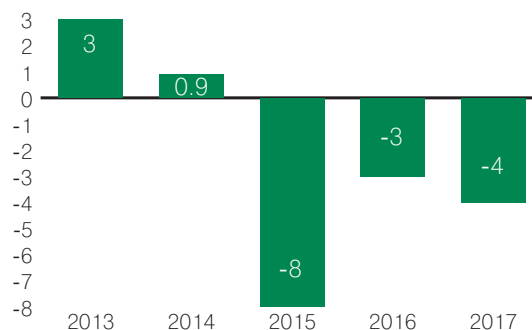
The short-term assets amounted to 39B KZT or 52%, including inventory of 14B

KZT or 19%; cash of 8B KZT or 11%; other short-term assets of 17B KZT or 22%.

Based on the Company's financial and operating performance in 2017, the consolidated loss amounted to 4B KZT with profit target of 0.5B KZT. The key factors that affected the net loss generation are as follows:

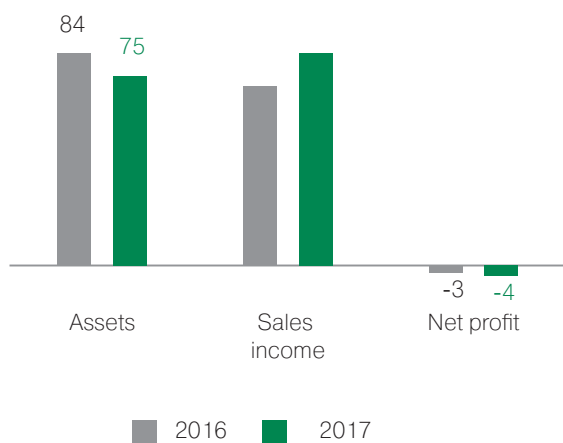
- some subsidiaries operating at loss of 3B KZT;
- inventory impairment for the amount of 1B KZT;

Financial Performance (B KZT)

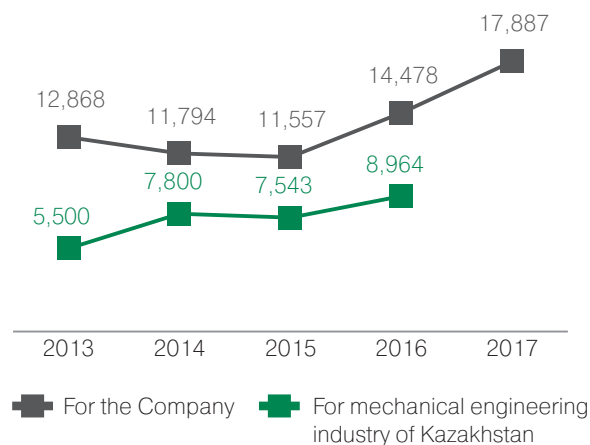


— failure to achieve the target of civil products sales volume by 2B KZT or 12%.

Based on the results of 2017, the workforce productivity at Kazakhstan Engineering NC JSC reached 17,887,000 KZT per employee. It increased by 24% vs 2016; by 39% vs 2013.



Workforce Productivity ('000 KZT/per capita)



PRIVATIZATION PROGRAM

According to Resolution of the Government of the Republic of Kazakhstan of December 30, 2015 No. 1141 On some Issues of Privatization for 2016 – 2020 (hereinafter referred to as the Resolution), it is planned to sell shareholdings (interest) and liquidate 19 subsidiaries, jointly controlled and related entities of tier 1 and 2 of Kazakhstan Engineering NC JSC, including 14 assets to be sold and 5 assets to be liquidated.

Three Company's assets were sold in 2017 for a total amount of 2.311B KZT: ZIKSTO JSC (42.13% shares) for 2,240M KZT, 832 Auto Repair Plant KE JSC (100% shares) and Astra IEP LLP for 71M KZT.

Two assets were liquidated: Batyr Engineering LLP and KAMAZ-Semey LLP.

It is planned to sell six Company's assets in 2018:

- through electronic bidding: KazEng Electronics LLP (100%) and Omega

Instrument-Making Plant JSC (100% shares);

- through open two-step bidding: Semipalatinsk Machine-Building Plant JSC (51% shares), Tynys JSC (51% shares), S.M. Kirov Machine Building Plant JSC (51% shares), Kazakhstan Aviation Industry LLP (50% interest).

Three Company's assets are at the liquidation stage:

Tales Kazakhstan Engineering LLP, Kaz-ST Engineering Bastau LLP, Spetsmach Astana LLP (35%).



INVESTMENT ACTIVITIES OF THE COMPANY

In accordance with the Investment Policy of the Company, the purpose of the investment activities is to maximize the Company's value over the long run.

The major principles of the investment policy are as follows:

- ▶ integration of strategic objectives into the investment decision-making process;
- ▶ use of investment evaluation tools in investment decision-making;
- ▶ use of project management tools and procedures in investment activities management;
- ▶ balance of budgetary control and administrative freedom of the managers responsible for the result of investment activities of the Company; and
- ▶ mandatory monitoring, assessment and analysis of the results of the investment activities.

Since 2017 the Company has been implementing the following investment projects:

The Production Technology Upgrading of Petropavlovsk Plant of Heavy Machine Building JSC (PPHMB JSC)

As a part of implementation of the project, it is planned to purchase 39 pieces of modern high-capacity equipment, such as mechanical processing, blanking, heat-treatment, plating, welding, testing and measuring equipment.

The Project scope:

1. Expansion of the production range of modern types of weapons and military equipment and upgrading those operationally available in the Armed Forces of the Republic of Kazakhstan.
2. Accelerated high-tech development of PPHMB JSC in order to build up the production capacities, ensure import substitution and develop an export potential of the mechanical engineering industry.

The financial feasibility study of the project passed expert appraisal and a positive opinion was received from Kazakhstan Public-Private Partnership Center JSC on December 15, 2017. The financial feasibility study of the Project was approved by the Ministry of National Economy of Kazakhstan.

Arrangement of Production of Multilayer Printed Circuit Boards at S.M. Kirov Plant JSC

The major goal of the Project is to create high-quality technical level of the production of new types of radio electronics with high level of information security to meet the needs of the national security authorities and Armed Forces of Kazakhstan.

Implementation of this project is aimed at strengthening the defense capability of the country thereby meeting the public needs of the Republic of Kazakhstan and will enable reduction of imported products and services of defense order through arrangement of domestic production to protect the national economy of the Republic of Kazakhstan from external conditions.

The financial feasibility study of the project passed expert appraisal and a positive opinion was received from Kazakhstan Public-Private Partnership Center JSC on December 15, 2017. The financial feasibility study of the Project was approved by the Ministry of National Economy of Kazakhstan.

The above investment projects are aimed at achieving the Company's targets for production and sales of defense and civil products as a part of the import substitution program, meeting domestic needs and accessing the export.

In 2018, the Company considers an opportunity of implementation of the following investment projects: Establishment of an Aviation Technical Center in Astana (to be amended)

The project is aimed at full-scale operation of a specialized air entity in Kazakhstan providing routine maintenance, minor and major repairs of aviation equipment. All these operations are currently performed at the far-abroad entities (Russian Federation, Belarus, Ukraine).

Establishment of a Center for Engineering and Technical Maintenance, Repair and Upgrading of Heavy Vehicles for Military and Civil Purpose in Semey (to be amended)

The project implementation will enable significantly improved military security of the state; operational and mobilization readiness of the Armed Forces, other forces and military units of the Republic of Kazakhstan will improve.

Taking into account the fact that Semey Engineering JSC is the only plant in the country that can perform major repairs and upgrade armored vehicles for the needs of the national security authorities of the Republic of Kazakhstan, then the delivery

of the state defense order by domestic production in these market segments will be 100%.

Certain investment projects are strategic ones and aimed at development of the

defense industrial complex of the Republic of Kazakhstan in accordance with the technological upgrading of the Armed Forces.

INTERNATIONAL COOPERATION DEVELOPMENT

In 2017, the Company conducted more than 170 meetings with the delegations of armed forces, companies and entities of defense industrial complexes of 38 foreign countries for the purpose of development of international and military technical cooperation.

Based on the results of the agreements on military technical cooperation reached in the course of the Company's international activities, there is a material potential for innovative technological development of the defense industrial complex enterprises of Kazakhstan and launch of the products of such enterprises to international markets.

It should be noted that one of the key instruments in solving such a challenging task as promotion of the products to international markets is continuous and active participation of the defense industrial complex enterprises of Kazakhstan in exhibitions of weapons and military equipment and specialized forums.

Thus, in 2017 the Company took part in the following events as an active exhibitor of mechanical engineering products of Kazakhstan:

Army 2017 International Military and Technical Forum (Kubinka, Moscow Oblast).

The Company took part in the event as an active participant – exhibitor. The Company built up a single stand of 227 sq.m. with 60 full-scale samples and mockups of products for military and dual-use purposes exhibited by the defense industrial complex enterprises of Kazakhstan in the exhibition pavilion of the Forum. In addition, there were two meeting rooms on the stand to hold business meetings with foreign state authorities and defense companies.

It should also be noted that the resource of KAZAKH INVEST NC JSC was first used last year as a part of the state program for export support. For the purpose of development of export-oriented production of its subsidiaries, the Company plans further interact with KAZAKH INVEST NC JSC.

In 2017, as a part of an official visit of the President of the Republic of Kazakhstan N.A. Nazarbayev to the Republic of Uzbekistan there was a Kazakh-Uzbek business forum with an exhibition of products of the Kazakh manufacturers.

In the course of the business forum, the Chairperson of the Management Board of

the Company O.K. Nurbayev presented the report on The Activities of Kazakhstan Engineering NC JSC and the Development Prospects of the Kazakh-Uzbek Cooperation.

Based on the results of the meetings, the following documents were signed: Memoranda of Cooperation with Uzmahsusimpex State Enterprise and with KRANTAS GROUP LLC for production of special-purpose machinery.

The Company's subsidiaries and related entities took an active part in the above events. Thus, the Company in cooperation with Uzmahsusimpex SE presented products and services of the defense industrial complex enterprises of the Republic of Kazakhstan to the representatives of the Ministry of Defense, Ministry of Internal Affairs, Ministry of Emergency Situations, Border Service and other state agencies of Uzbekistan.

The presentations were divided into the following sections:

Aviation equipment (Eurocopter Kazakhstan Engineering LLP, Aircraft Repair Plant No.405 JSC, Kazakhstan Aviation Industry LLP, Tynys JSC and Armytex LLP);

Machinery and weapons for the ground forces (Kazakhstan Paramount Engineering LLP, Semey Engineering JSC, Alatau ASKB RDE LLP, KAE LLP, Petropavlovsk Plant of Heavy Machine Building JSC and AlmaDK LLP;

Communication equipment (S.M. Kirov Plant JSC, Network OTS LLP and KAE LLP);

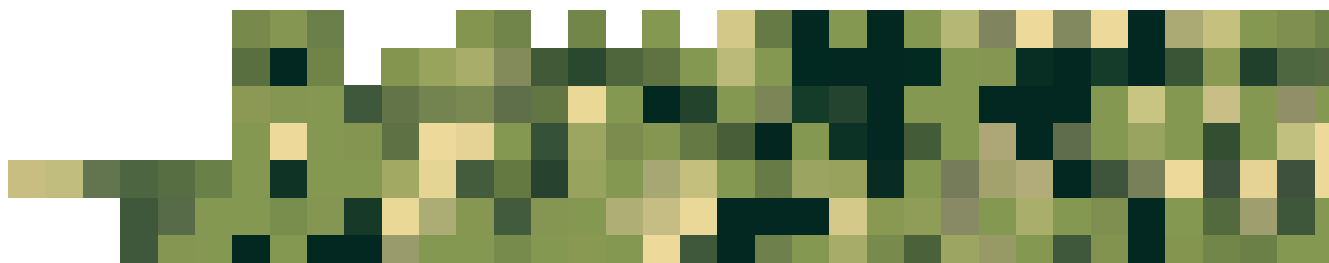
Protective equipment and outfit (Tynys JSC, Zhassampaz Consortium); and

Marine facilities (Gidropribor SRI JSC, Zenit Uralsk Plant JSC).

In addition, the Company interacts with some states on a regular base as a part of work of Subcommissions for military technical cooperation of Intergovernmental Commissions for Cooperation to which the Republic of Kazakhstan is a member.

THE COMPANY'S PLANS AND GOALS FOR FUTURE PERIODS

- ▶ In 2018, the Company plans further implementation of Resolution of the Government of the Republic of Kazakhstan of December 30, 2015 No. 1141 On some Issues of Privatization for 2016 – 2020; the following actions are planned within the Resolution:
 - sell five Company's assets: Omega IM JSC (100%); Semipalatinsk Machine-Building Plant JSC (51%), Tynys JSC (51%), S.M. Kirov Machine Building Plant JSC (51%), Kazakhstan Aviation Industry LLP (50%);
 - liquidate three Company's assets: Tales Kazakhstan Engineering LLP, Kaz-ST Engineering Bastau LLP, Spetsmach Astana LLP (35%).
- ▶ approve the Company's Development Strategy for 2018 – 2027.
- ▶ participate in the arrangement and conducting of KADEX 2018 international exhibition.
- ▶ participate in the ARMY 2018 International Military Technical Forum.





CORPORATE GOVERNANCE

MAJOR PRINCIPLES AND STRUCTURE OF THE CORPORATE GOVERNANCE

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

One of the fundamental internal regulations of the Company is the Corporate Governance Code of Kazakhstan Engineering NC JSC approved by the Resolution of the Management Board of Samruk-Kazyna JSC of May 27, 2015 (minutes No. 22/15).

The Company considers the corporate governance as an essential element of responsible development and making significant and stakeholder-affecting decisions. The Company ensures compliance of the corporate governance practices of the Company and the Company's subsidiaries with the best corporate governance practices and focuses on the international principles and standards in this area, while continuously improving the transparency of its business.

The Company has currently achieved significant success in the development of the corporate governance system. Thus, some important initiatives were implemented in this area; the Company and the Company's subsidiaries have developed new and updated the existing internal regulations.

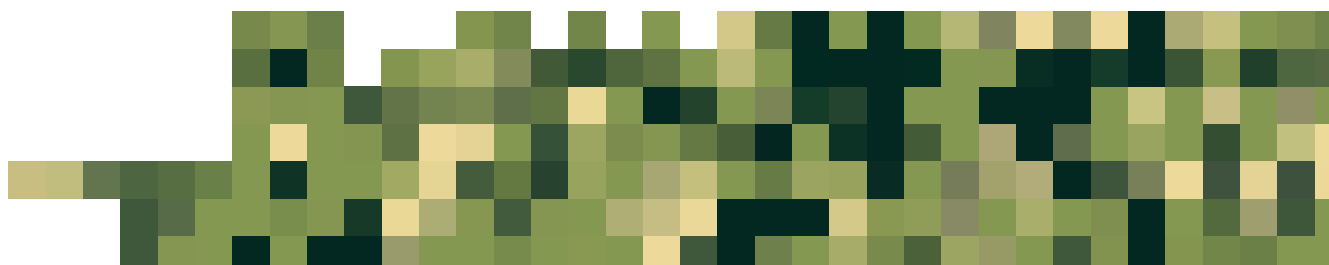
The Company interacts with its subsidiaries (related entities) pursuant to the approved corporate procedures via the relevant bodies of the Company and the Company's subsidiaries (related entities).

Improvement of the corporate governance system in accordance with the best principles and global practices is one of the Company's priorities.

Generally, the Company's corporate governance system is aimed at improving business transparency, creating and maintaining reliable and efficient relations with the Sole Shareholder, Trust Manager and investors and is based on the following principles:

- ▶ protection of the rights and interests of the Sole Shareholder, Trust Manager;
- ▶ good governance of the Company by the Board of Directors and Management Board;
- ▶ transparency and objectivity of the Company's business;
- ▶ legality and ethics;
- ▶ efficient dividend policy;
- ▶ efficient personnel policy;
- ▶ environmental protection;
- ▶ safe working conditions;
- ▶ settlement of corporate conflicts and conflict of interest; and
- ▶ responsibility.

The Company's Corporate Governance Code based on the corporate governance principles recognized by the global community is a key document determining the principles of the Company's corporate governance system and reflecting its development.



CORPORATE GOVERNANCE SYSTEM



BOARD OF DIRECTORS

The Board of Directors has overall charge of the Company's operation, except for the issues belonging to the exclusive competence of the Sole Shareholder.

The Board of Directors exercises its powers in accordance with the Laws of the Republic of Kazakhstan On Joint-Stock Companies, On the National Welfare Fund, On the State Property, the Company's Articles of Association and internal regulations.

The actions of the Board of Directors are based on the principles of reasonableness, effectiveness, pro-active approach, good faith, integrity, responsibility, accuracy, professional expertise, objectivity and regularity.

The Members of the Board of Directors of the Company in 2017:

Askar Mamin	Chairperson of the Board of Directors since Jan 30, 2017
Sailaukhan Raimbekov	Member of the Board of Directors, Representative of the Ministry of Defense and Aerospace Industry Term of appointment: from Jan 2017 to Sep 2017
Yerzhan Tutkushev	Member of the Board of Directors, Representative of Samruk-Kazyna JSC since May 4, 2016
Aniyat Muratbayev	Member of the Board of Directors, Representative of Samruk-Kazyna JSC since Jan 30, 2017
Zarina Arslanova	Member of the Board of Directors, Independent Director since Jan 30, 2017
Daulet Bakbergen	Member of the Board of Directors, Independent Director Term of appointment: from Jan 30, 2017 to Nov 22, 2017
Vladimir Bobrov	Member of the Board of Directors, Independent Director since Jan 30, 2017
Zhanna Yegimbayeva	Member of the Board of Directors, Representative of the Ministry of Defense and Aerospace Industry since Jun 28, 2017
Orman Nurbayev	Member of the Board of Directors since Sep 14, 2017 Chairperson of the Management Board of the Company
Asset Kurmangaliyev	Member of the Board of Directors since Oct 11, 2017
Nurlan Akhanzaripov	Member of the Board of Directors, Independent Director since Nov 22, 2017

The following changes were made in the composition of the Board of Directors of the Company in 2017:

By the Order of the Minister of Defense and Aerospace Industry of the Republic of Kazakhstan of January 30, 2017, the Board of Directors of the Company was formed in a new composition: A.U. Mamin, Y.B. Tutkushev, A.K. Muratbayev, S.G. Raimbekov, V.Y. Bobrov, Z.F. Arslanova, D.B. Bakbergen with a term of appointment of three (3) years.

On June 28, 2017 in accordance with the Order of the Minister of Defense and Aerospace Industry of the Republic of Kazakhstan, Z.D. Yegimbayeva was elected the Member of the Board of Directors of the Company – Representative of the Ministry of Defense and Aerospace Industry of the Republic of Kazakhstan.

By the Order of the Minister of Defense and Aerospace Industry of the Republic of Kazakhstan of September 14, 2017, the powers of S.G. Raimbekov were terminated,

and the Chairperson of the Management Board of the Company O.K. Nurbayev was elected the Member of the Board of Directors.

On October 11, 2017 in accordance with the Order of the Minister of Defense and Aerospace Industry of the Republic of Kazakhstan the Vice Minister of Defense and Aerospace Industry A.K. Kurmangaliyev was elected as the Member of the Board of Directors.

MEMBERS OF THE BOARD OF DIRECTORS OF THE COMPANY

As of Dec 31, 2017



ASKAR MAMIN

**Chairperson of the Board of Directors,
First Deputy Prime Minister of the
Republic of Kazakhstan**

Date of birth: Oct 23, 1965

Nationality: Republic of Kazakhstan

Background:

Graduated from the Tselinograd Engineering Construction Institute, Major: Civil Engineer; and from the G.V. Plekhanov Russian Economic Academy, Major: Economist.

Employers and job titles in the organizations over the past five years:

- Since Sep 2016 – First Deputy Prime Minister of the Republic of Kazakhstan.
- Apr 2008 – Sep 2016 – President of Kazakhstan Temir Zholy National Company JSC

The company's shares, shares of the company's suppliers and competitors in possession: none



ZHANINA YEGIMBAYEVA

Member of the Board of Directors, Representative of the Ministry of Defense and Aerospace Industry of the Republic of Kazakhstan. Member of the Appointment and Remuneration Committee of the Board of Directors of the Company

Date of birth: May 12, 1953

Nationality: Republic of Kazakhstan

Background:

- 1980 – Taldy-Kurgan Law College
- 1988 – S.M. Kirov Kazakh State University

Employers and job titles in the organizations over the past five years:

- Since 2016 – Advisor of the Chairperson of the Management Board of Baiterek National Management Holding JSC
- 2011–2016 – Deputy Executive Office Manager of the Prime Minister of the Republic of Kazakhstan

The company's shares, shares of the company's suppliers and competitors in possession: none



ASSET KURMANGALIYEV

Member of the Board of Directors, Vice Minister of Defense and Aerospace Industry of the Republic of Kazakhstan. Member of the Strategy and Investment Committee of the Board of Directors of the Company

Date of birth: Dec 1, 1965

Nationality: Republic of Kazakhstan

Background:

- In 1993 – Karaganda State University, Major in Law

Employers and job titles in the organizations over the past five years:

- Since Sep 2017 – Vice Minister of Defense and Aerospace Industry of Kazakhstan.
- 2011–2015 – Director General of Kazspecexport RSE

The company's shares, shares of the company's suppliers and competitors in possession: none



YERZHAN TUTKUSHEV

**Member of the Board of Directors,
Representative of Samruk-Kazyna JSC**

Date of birth: Dec 10, 1981

Nationality: Republic of Kazakhstan

Background:

- Aug 2006 – Aug 2007 – University of Illinois at Urbana-Champaign. Major: Master of Finance
- Sep 1999 – Jun 2004 – St. Petersburg State University of Economics and Finance. Major: Financial Analysis and Accounting

Employers and job titles in the organizations over the past five years:

- Since Jan 2018 – Asset Development Department Director – Member of the Management Board of Samruk-Kazyna JSC
- Aug 2014 – Jan 2018 – Deputy Chief Business Development Director, Co-managing Director for Development of New Industries of Samruk-Kazyna JSC
- Nov 2012 – Aug 2014 – Assessment and Business Simulation Manager in PricewaterhouseCoopers Tax and Advisory

The company's shares, shares of the company's suppliers and competitors in possession: none



ANIYAT MURATBAYEV

**Member of the Board of Directors,
Representative of Samruk-Kazyna JSC**

Date of birth: Jul 21, 1978

Nationality: Republic of Kazakhstan

Background:

- 1999 – Al-Farabi Kazakh State National University, Major in Law
- 2018 – KAZGUU University JSC, Major in Finance

Employers and job titles in the organizations over the past five years:

- Since 2018 – Senior Manager of the Asset Development Department of Samruk-Kazyna JSC
- 2016 – 2017 – Senior Manager of the Department of the Development of New Projects of Samruk-Kazyna JSC
- 2014 – 2016 – Chief Expert of Direction of Oil and Gas and Industrial Assets of Samruk-Kazyna JSC.
- 2011 – 2014 – Chief Expert of Direction of Industrial Assets of Samruk-Kazyna JSC

The company's shares, shares of the company's suppliers and competitors in possession: none

**VLADIMIR BOBROV**

Member of the Board of Directors, Independent Director. Chairperson of the Appointment and Remuneration Committee of the Board of Directors of the Company. Member of the Audit Committee of the Board of Directors of the Company. Member of the Strategy and Investment Committee of the Board of Directors of the Company.

Date of birth: Aug 14, 1953

Nationality: Republic of Kazakhstan

Background:

1975 – Pavlodar Industrial Institute, Major: Electrical Engineer

Academic ranks, degrees:

- Candidate of Technical Sciences
- Associate Professor

Employers and job titles in the organizations over the past five years:

- 2012 – 2016 – Deputy of the Senate of the Parliament of the Republic of Kazakhstan, Member of the Committee for Constitutional Legislation, Judiciary System and Law-Enforcement Agencies of the Senate of the Parliament of the Republic of Kazakhstan
- 2010 – 2011 – Deputy Chairperson of the Majilis of the Parliament of the Republic of Kazakhstan

The company's shares, shares of the company's suppliers and competitors in possession: none

**ZARINA ARSLANOVA**

Member of the Board of Directors, Independent Director. Chairperson of the Audit Committee of the Board of Directors of the Company

Date of birth: Dec 22, 1960

Nationality: Republic of Kazakhstan

Background:

- 1978 – 1983 – S.M. Kirov Kazakh State University, Major in Political Economics

Academic ranks, degrees:

- Candidate of Economic Sciences
- Associate Professor

Employers and job titles in the organizations over the past five years:

- Since 2015 – Adviser, Member of the Managing Committee of Dala Mining LLP
- 2007 – 2015 – CEO of private commercial entities

The company's shares, shares of the company's suppliers and competitors in possession: none



NURLAN AKHANZARIPOV

Member of the Board of Directors, Independent Director. Chairperson of the Strategy and Investment Committee of the Board of Directors of the Company. Member of the Audit Committee of the Board of Directors of the Company. Member of the Appointment and Remuneration Committee of the Board of Directors of the Company

Date of birth: Dec 17, 1965

Nationality: Republic of Kazakhstan

Background:

- 2015 – K.I. Satpayev Kazakh National Technical University
Major in Geology and Exploration of Natural Resources
- 1995 – The Kazakhstan Institute of Management, Economics and Forecast at the President of Kazakhstan,
Master of Business Administration
- 1991 – Semipalatinsk Technological Institute, Shakarim Semipalatinsk University. Major in Accountant Economist, Accounting and Audit

Employers and job titles in the organizations over the past five years:

- Since Jun 2016 – Financial Advisor of Almaty Consulting Services
- Dec 2014 – Mar 2016 – Deputy Director General for Economy and Finance of Beineu – Shymkent Gas Pipeline LLP
- Oct 2014 – Jan 2015 – Advisor of the Chairperson of the Management Board of Samruk-Kazyna JSC
- Jan 2006 – Aug 2014 – Deputy Director General for Economy and Finance of Intergas Central Asia JSC

The company's shares, shares of the company's suppliers and competitors in possession: none



ORMAN NURBAYEV

Member of the Board of Directors, Chairperson of the Management Board of Kazakhstan Engineering NC JSC

Date of birth: Dec 12, 1966

Nationality: Republic of Kazakhstan

Background:

- 1983 – 1987 – The Krasnoyarsk Higher Command College of Radio Electronics of Air Defense, Major – Engineer
- 1996 – 1997 – The National Higher School of Public Administration under the President of the Republic of Kazakhstan, Specialist in International Relations

Academic ranks, degrees, activities:

Employers and job titles over the past five years:

- Aug 2017 – Chairperson of the Management Board of Kazakhstan Engineering NC JSC
- 2012 – 2017 – Ambassador Extraordinary and Plenipotentiary of the Republic of Kazakhstan in Turkmenistan
- 2007 – 2012 – Ambassador Extraordinary and Plenipotentiary of the Republic of Kazakhstan in Mongolia

The company's shares, shares of the company's suppliers and competitors in possession: none

ACTIVITIES OF THE BOARD OF DIRECTORS

In 2017, the Board of Directors of the Company held 10 meetings in presentia where 84 issues were considered.

Attendance of the members of the Board of Directors at the meetings of the Board of Directors in 2017

Member of the Board of Directors	Attendance rate	%
Askar Mamin for the period from Jan to Dec 2017	10/10	100%
Yerzhan Tutkushev for the period from Jan to Dec 2017	8/10	80%
Aniyat Muratbayev for the period from Jan to Dec 2017	9/10	90%
Zarina Arslanova for the period from Jan to Dec 2017	9/10	90%
Vladimir Bobrov for the period from Jan to Dec 2017	10/10	100%
Daulet Bakbergen for the period from Jan to Nov 2017	7/8	87.5%
Zhanna Yegimbayeva for the period from Jun to Dec 2017	6/7	85.7%
Sailaukhan Raimbekov for the period from Jan to Sep 2017	5/6	83.3%
Orman Nurbayev for the period from Sep to Dec 2017	4/4	100%
Asset Kurmangaliyev for the period from Oct to Dec 2017	2/3	66.6%
Nurlan Akhanzaripov for the period from Nov to Dec 2017	2/2	100%

The resolutions of the Board of Directors approved:

Strategic issues:

- approved the Business Plan (Development Plant) of Kazakhstan Engineering NC JSC for 2018 – 2022;
- approved the Plan of Actions to meet expectations of the Sole Shareholder of Kazakhstan Engineering NC JSC for 2018 – 2022;
- approved the Plan of Actions to help Kazakhstan Engineering NC JSC out of the red risk zone;
- approved the List of Strategic Key Performance Indicators of Kazakhstan Engineering NC JSC for 2018 – 2022; and
- set the limits for balance-sheet and off-balance-sheet commitments for the agency banks of Kazakhstan Engineering NC JSC.

Corporate governance issues:

- approved the 2016 Annual Report of Kazakhstan Engineering NC JSC;
- approved the Disclosures Policy of Kazakhstan Engineering NC JSC;
- approved the Regulation on the Compliance Officer of Kazakhstan Engineering NC JSC; and
- considered the 2016 Report on Compliance/Noncompliance with the Principles and Provisions of the Corporate Governance Code.

HR policy issues:

- made decisions on a number, terms of appointment and election of the members of the boards of directors of subsidiaries of Kazakhstan Engineering NC JSC;
- approved the organizational chart of Kazakhstan Engineering NC JSC;

- made decisions on early termination of powers of some members of the Management Board and election of new members of the Management Board;
- made changes in the remuneration and bonus payment procedure for executives, Corporate Secretary and Internal Audit Service team of Kazakhstan Engineering NC JSC; and
- approved the Regulation on the Compliance Officer of Kazakhstan Engineering NC JSC

Transaction-associated issues:

- made a decision on making a large transaction with Halyk Bank of Kazakhstan JSC by signing a supplementary agreement to the Credit Line Agreement signed by and between the Bank and the Company to extend the term of the credit line;

- ▶ approved transactions arising interest within fulfillment of the state defense order for 2017 – 2019;
- ▶ approved a transaction with Center for Military Strategic Research JSC for purchase of services to enhance the section of the Development Strategy of Kazakhstan Engineering NC JSC for 2013 – 2022; and
- ▶ made a decision to increase the liabilities of Kazakhstan Engineering NC JSC for the amount of 6B KZT in order to repay principle amount of debt to Halyk Bank of Kazakhstan JSC.

For the purpose of detailed development of the issues belonging to the competence of the Board of Directors or examined by the Board of Directors in order to monitor the operation of the Company's executive body

and develop proper recommendations for the Board of Directors, the following units were established:

- **The Audit Committee;**
- **The Appointment and Remuneration Committee; and**
- **The Strategy and Investment Committee.**

Each Committee consists of three members of the Board of Directors, one of them is the chairperson of the Committee. In addition, the Committees of the Board of Directors include independent experts with necessary professional expertise. The terms of powers of the members of the Committee are the same as their terms of powers as the members of the Board of Directors.

The Audit Committee of the Board of Directors of the Company provides

assistance to the Board of Directors of the Company by developing recommendations on an efficient system of monitoring of the Company's financial and operational activities; monitoring of reliability and efficiency of internal control and risk management systems and enforcement of corporate governance documents; monitoring of the independent nature of the external and internal audit and for the process of insuring compliance with the legislation of the Republic of Kazakhstan, etc.

In 2017, the Audit Committee of the Board of Directors of the Company held 10 meetings in presentia where they considered 52 issues.

Members of the Audit Committee	Period	Attendance rate	%
Zarina Arslanova	Jan – Dec 2017	10/10	100%
Vladimir Bobrov	Jan – Dec 2017	10/10	100%
Daulet Bakbergen	Jan – Nov 2017	8/8	100%
Nurlan Akhanzaripov	Nov – Dec 2017	2/2	100%

The Appointment and Remuneration Committee of the Board of Directors of the Company develops recommendations on appointments, payment of remuneration to independent directors, members of the Management Board, Internal Audit Service

and Corporate Secretary team; gives recommendations on other issues within its competence and in accordance with the instructions of the Board of Directors and/or the Company's internal regulations, etc.

In 2017, the Appointment and Remuneration Committee of the Board of Directors of the Company held 6 meetings in presentia where they considered 23 issues:

Members of the Appointment and Remuneration Committee	Period	Attendance rate	%
Vladimir Bobrov	Jan – Dec 2017	6/6	100%
Sailaukhan Raimbekov	Jan – Sep 2017	5/5	100%
Daulet Bakbergen	Jan – Nov 2017	6/6	100%
Zhanna Yegimbayeva	Jun – Dec 2017	1/1	100%

The Strategy and Investment Committee of the Board of Directors of the Company develops recommendations on the Company's development strategy,

Development Plans, implementation of investment projects, asset management, etc.

In 2017, the Strategy and Investment Committee of the Board of Directors of the Company held 10 meetings in presentia where they considered 37 issues.

Members/Strategy and Investment Committee	Period	Attendance rate	%
Vladimir Bobrov	Jan – Dec 2017	10/10	100%
Daulet Bakbergen	Jan – Nov 2017	7/7	100%
Sailaukhan Raimbekov	Jan – Sep 2017	5/5	100%
Asset Kurmangaliyev	Oct – Dec 2017	1/3	33,3%
Nurlan Akhanzaripov	Nov – Dec 2017	3/3	100%

REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS

In accordance with the Law of the Republic of Kazakhstan On Joint-Stock Companies, by the Resolution of the Trust Manager of the Company as the Sole Shareholder, remuneration is paid to Independent Directors – Members of the Board of Directors of the Company and they are compensated for the expenses associated with performance of their duties. The amounts of such remunerations and compensation are determined by the

resolution of the Trust Manager of the Company.

In accordance with the procedure at place in the Company, the remuneration for performance of duties of a member of the Board of Directors contains only:

- fixed annual remuneration; and
- extra annual remuneration for attendance at the meetings of the Committees of the Board of Directors of the Company in presentia.

However, we should note that remuneration is paid provided attendance at the meetings of the Board of Directors (in presentia/ in absentia), other than absence from the meetings by reason of illness, fixed annual remuneration is not paid.

Please find total amounts of remuneration accrued for the year ended on December 31, 2017 in the table below.

Independent Director	Period	Remuneration (KZT)
Vladimir Bobrov	Jan – Dec 2017	7,180,312
Zarina Arslanova	Jan – Dec 2017	7,180,312
Daulet Bakbergen	Jan – Nov 2017	6,336,689
Sailaukhan Raimbekov	Jan – Sep 2017	3,379,172
Zhanna Yegimbayeva	Jun – Dec 2017	3,881,250
Nurlan Akhanzaripov	Nov – Dec 2017	852,699

Based on the Guidelines for Performance Assessment of the Board of Directors and its committees, the Chairperson, members of the Board of Directors and Corporate Secretary approved by the Resolution of the Management Board of Samruk-Kazyna JSC

of December 14, 2017 (minutes No. 44/17), the Resolution of the Board of Directors of the Company of April 4, 2018 minutes No. 2, approved the Rules for Performance Assessment of the Board of Directors and its committees, the Chairperson, members

of the Board of Directors and Corporate Secretary of Kazakhstan Engineering NC JSC. In this connection, performance assessment is planned to be conducted in 2018.

INTERNAL AUDIT SERVICE

The Internal Audit Service of the Company was established by the Resolution of the Board of Directors of the Company in 2007.

Headcount of the Internal Audit Service of the Company is 4 people.

The major operational goal of the Internal Audit Service is to provide the Board of Directors with independent and unbiased information intended to ensure efficient governance of the Company by introducing a system approach to the improvement of risk management, internal control and corporate governance systems.

The activities of the Internal Audit Service are regulated by the Regulation on the Internal

Audit Service of the Company, Internal Audit Policy and other internal regulations.

ISA submits a performance report for consideration of the Audit Committee and the Board of Directors on a quarterly basis.

The 2017 Annual Audit Plan of the Internal Audit Service was approved by the Resolution of the Board of Directors of the Company of December 14, 2016 (minutes No.10).

According to the Annual Audit Plan, in 2017 the Internal Audit Service performed auditing tasks associated with audits of business processes (generally for the Company's group) for the state defense order, innovative technological development

and marketing policy, corporate governance system, and operation of Semey Engineering JSC, achievement of key performance indicators by the Company's executives and performance assessment of the Company's internal control system. In addition, unscheduled audits were performed as instructed by the Board of Directors associated with the evaluation of compliance of the approved internal policies of the Company with the corporate standards of Samruk-Kazyna JSC concerning treasury transactions, risk management and asset (interest in a legal entity's capital) management and audits were performed following the calls to a hot line of the Board of Directors of the Company.

CORPORATE SECRETARY

The Corporate Secretary is in charge of ensuring effective arrangement of operation of the Board of Directors and interaction between the Board of Directors, Management Board and Sole Shareholder. The Corporate Secretary ensures that the Company's bodies and officers comply with the procedures aimed at provision of the Sole Shareholder's rights and interests and observe the standards and regulations of legislation concerning corporate governance, provisions of the Articles of

Association and other internal regulations of the Company within the corporate governance.

Functions, tasks and duties of the Corporate Secretary are described in the Regulation on the Corporate Secretary.

Thus, the Corporate Secretary monitors the preparation and holding of the meetings of the Board of Directors, ensures formation of materials for agenda issues to the meetings

of the Board of Directors, controls the access thereto within his/her competence.

The Corporate Secretary ensures prompt receipt of accurate and clear information by the members of the Board of Directors. According to the Resolution of the Board of Directors of the Company of March 30, 2017, Ainur Ualiyeva was the Company's Corporate Secretary in 2017.

MANAGEMENT BOARD OF THE COMPANY

The collective executive body – the Management Board – administers the Company's day-to-day operations and makes decisions on the Company's operation beyond the competences of other bodies.

Determination of a number of members, term of powers of the Management Board, election (appointment) of the Chairperson and members of the Management Board, early termination of their powers and approval of key performance indicators and target values for the Chairperson and members of the Management Board of

the Company belongs to the exclusive competence of the Board of Directors of the Company.

The Management Board operates in accordance with the Laws of the Republic of Kazakhstan On Joint-Stock Companies, On the National Welfare Fund, On the State Property, Articles of Association, Corporate Governance Code, Regulation on the Management Board of the Company and other internal regulations of the Company.

The operation of the Management Board is built on the principles of maximum respect

to the Sole Shareholder's interests and fully accountable to the resolutions of the Sole Shareholder, Trust Manager and Board of Directors of the Company.

For the purpose of preliminary consideration, making collective decisions and preparation of recommendations for the Management Board of the Company for the issues supervised, there are advisory and consultative bodies at the Management Board of the Company – three committees and two commissions:

The Risk Committee

Provides assistance to the Management Board of the Company in making decisions on the Company's risk management; arranging and maintaining the efficient risk management system; developing processes intended to identify, measure, monitor and control risks; and develops recommendations and proposals for monitoring of the coordination of risk management in the Company and Company's subsidiaries/related entities.

The Investment Innovative Committee

Provides assistance to the Management Board of the Company in improving investment and innovation activities of the Company and Company's entities and forming a single policy for the development of local content.

The Credit Committee

Provides assistance to the Management Board of the Company in ensuring timely and high-quality decision making associated with provision of loans (borrowings), financial assistance and guarantees, the Company's asset and liability management, minimization of risks related to attraction and placement of cash, the Company's yield increase.

The Budget Commission

Provides assistance to the Management Board of the Company in developing a single position of the Company's representatives with the management bodies of subsidiaries and related entities for budgets, plans of development, planning and implementation of investment projects to be approved and ensuring timely and high-quality development of the Company's draft budget for the relevant financial period and developing proposals for budget adjustment and fulfillment.

MANAGEMENT BOARD

As of Dec 31, 2017



ORMAN NURBAYEV

Chairperson of the Management Board

Date of birth: Dec 12, 1966

Nationality: Republic of Kazakhstan

Background:

- 1983 – 1987 – The Krasnoyarsk Higher Command College of Radio Electronics of Air Defense, Major: Engineer
- 1996 – 1997 – The National Higher School of Public Administration under the President of the Republic of Kazakhstan, Major: International Relations

Employers and job titles over the past five years:

- Since Aug 2017 – Chairperson of the Management Board of Kazakhstan Engineering NC JSC
- Nov 2012 – Aug 2017 – Ambassador Extraordinary and Plenipotentiary of the Republic of Kazakhstan in Turkmenistan
- Sep 2007 – Nov 2012 – Ambassador Extraordinary and Plenipotentiary of the Republic of Kazakhstan in Mongolia

He held executive posts in the Ministry of Economy and Budget Planning of the Republic of Kazakhstan; Administration of the President of the Republic of Kazakhstan, Ministry of Foreign Affairs of the Republic of Kazakhstan, and was the First Secretary in the Embassies of the Republic of Kazakhstan in the Republic of Uzbekistan, Republic of Tajikistan and the Embassy of the Republic of Kazakhstan in Malaysia.

The company's shares, shares of the company's suppliers and competitors in possession: none



DAULET BAKBERGEN

Deputy Chairperson of the Management Board

Date of birth: Jan 3, 1972

Nationality: Republic of Kazakhstan

Background:

- 1989 – 1994 – The Kyzylorda Institute of Agribusiness Engineers, Major in the Industrial and Civil Construction
- 1997 – The Moscow International Institute of Business and Information Technologies, Major in Finance and Credit

Employers and job titles over the past five years:

- Since Nov 2017 – Deputy Chairperson of the Management Board of Kazakhstan Engineering NC JSC
- Jan 2017 – Nov 2017 – Member of the Board of Directors, Independent Director of Kazakhstan Engineering NC JSC
- 2014 – 2016 – Managing Director, Director of Processing Industry Department of Atameken NCE RK
- 2010 – 2014 – Deputy Chairperson of the Industry Committee of the Ministry of Industry and New Technologies of the Republic of Kazakhstan

The company's shares, shares of the company's suppliers and competitors in possession: none

**SAYA MYNSHARIPOVA****Deputy Chairperson of the Management Board****Date of birth:** Oct 19, 1970**Nationality:** Republic of Kazakhstan**Background:**

- 2008 – 2010 – Higher School of Business of the M. Lomonossov Moscow State University, Moscow
Degree: Executive MBA
- 1987 – 1992 – The Kazakh State Economic University, Almaty. Major: Accounting and Operating Analysis

Employers and job titles in the organizations over the past five years:

- Since Feb 2015 – Deputy Chairperson of the Management Board of Kazakhstan Engineering NC JSC
- 2008 – 2015 – Director of Audit and Control Department of Samruk-Kazyna National Welfare Fund JSC

The company's shares, shares of the company's suppliers and competitors in possession: none

**MADINA MUKUSHEVA****Deputy Chairperson of the Management Board****Date of birth:** Jul 31, 1971**Nationality:** Republic of Kazakhstan**Background:**

- 1988 – 1994 – The Al-Farabi Kazakh State National University, Major in Law

Employers and job titles in the organizations over the past five years:

- Since Nov 2017 – Deputy Chairperson of the Management Board of Kazakhstan Engineering NC JSC
- Feb 2017 – Nov 2017 – Managing Director, Member of the Management Board of Kazakhstan Engineering NC JSC
- Feb 2014 – Feb 2017 – Sector Head of the Legal Department of the Administrative Office of the Prime Minister of the Republic of Kazakhstan
- Nov 2012 – Feb 2014 – Director of the Corporate Governance Department of Samruk – Energo Joint-Stock Company

The company's shares, shares of the company's suppliers and competitors in possession: none

THE ACTIVITIES OF THE MANAGEMENT BOARD

In 2017, 38 meetings of the Management Board of the Company were held. The Management Board of the Company focused on the following issues at the meetings:

- carving out shareholdings (interest) in some subsidiaries by the Company;
- making decisions within the competence of the general meeting of shareholders/members of the Company's SREs;
- approving documents accepted to arrange the Company's operation;

- appointing some managers of executive bodies of the Company's subsidiaries;
- preliminary consideration and approval of the materials for the issues to be considered by the Board of Directors and Sole Shareholder; and
- discussing some issues of the Company's risk management system.

Generally, in the reporting period the Management Board of the Company interacted with the Sole Shareholder and all

stakeholders of the corporate relations to resolve the tasks set to the Company in an efficient way.

The Resolution of the Board of Directors of the Company of November 22, 2017 (minutes No. 9) extended the term of powers of the Management Board of the Company for 3 years.

REMUNERATION OF THE MANAGEMENT BOARD

The terms, conditions, procedure for performance assessment and payment of remuneration to the executives, Manager and employees of the Internal Audit Service, Corporate Secretary and his/her team, and payment of remuneration to the Company's executives are regulated by the Performance Assessment Rules for such employees approved by the Resolution of the Board of Directors of the Company of November 19, 2014.

Remunerations based on the performance (short-term and long-term remuneration)

are paid depending on the performance as a material incentive for successes and in order to improve the performance and are not of permanent nature.

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

- choosing incentive key performance indicators (KPI), setting targets;
- approving incentive KPI;
- monitoring performance; and
- calculating and approving actual performance.

The major condition for payment of remuneration based on performance of the year is consolidated final profit for the reporting year calculated with the target amount for remuneration.

The Resolution of the Board of Directors of the Company of May 16, 2017 (minutes No.3) approved the maps of short-term key performance indicators of the Chairperson and members of the Management Board of the Company with targets for 2017.

SECRETARY OF THE MANAGEMENT BOARD OF THE COMPANY

The Secretary of the Management Board is the Company's employee, who acts under the Company's Articles of Association and Regulation on the Management Board approved by the Resolution of the Board of Directors of November 23, 2012 (minutes No. 94).

The functions of the Secretary of the Management Board include:

- developing, approving and monitoring the plan of actions of the Management Board, preparing the progress report of the Management Board;
- forming the meeting agenda of the Management Board and materials in accordance with the meeting agenda of the Management Board;
- documenting the resolutions of the Management Board of the Company;
- monitoring the timely submission and completeness of materials for the meeting of the Management Board; and
- monitoring and enforcing the resolutions of the Management Board.

Armangul Kussainova was the Secretary of the Management Board of the Company in 2017.

INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEM

Internal control system

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

The Company's activities within the internal control system are performed in accordance with the Company's Internal Control System Regulation approved by the Resolution of the Board of Directors of June 27, 2014 (minutes No.7).

The Internal Control System Regulation describes the liabilities of the Board of Directors for organization, monitoring and assessment of performance of the Company's internal control system with the use of a risk-oriented approach. The Management Board of the Company is responsible for efficient operation of the internal control system.

The Company's Internal Audit Service acts as a part of continuous monitoring of the Company's internal control system and evaluates directly the internal control system to comply with the goals, objectives and criteria set and gives recommendations to improve the internal control system.

Risk management

The Company has the risk management system at place aimed at ensuring a going concern principle and stability of operation by limiting the impact of internal and external adverse factors on the Company's activities.

The Company's risk management is performed with the Board of Directors, Internal Audit Service, Management Board, risk owning business units and Risk Manager involved.

The Company performs its activities in respect of a wide range of risks distributed

into four categories – strategic, financial, legal and operational risks.

The risk management process in the Company is regulated by the Risk Management Policy, Risk Identification and Assessment Rules, Rules for Management of Certain Types of Financial Risks (Currency, Credit, Interest and Country Risks) approved by the Board of Directors of the Company, the Risk Hedging Rules of Samruk-Kazyna JSC, Rules for Risk Assessment of Investment Projects and Discharged Risk Accounting Methods approved by the Management Board of the Company.

The Company identifies and assesses risks on an annual basis and develops risk management measures.

The risks are monitored on a quarterly basis with risk owners involved, implementation

of the risk management measures is monitored and the base of discharged risks is conducted. If external and/or internal risks change, risks are revaluated, risk management measures are revised.

The Risk Committee operated in 2017; the objective of this Risk Committee is to prepare the recommendations for the Company's Management Board on risk management issues. In 2017, six meetings were held where eight issues were considered. The Risk Committee reports the results of its activities to the Management Board.

Every business unit of the Company has an employee assigned to supervise risk management issues and provide assistance in assessment of risks inherent with structural supervised area, preparation of risk reports, interaction with the risk management sector.

In 2017, the first independent assessment of the corporate governance performance was conducted in Kazakhstan Engineering NC JSC (KPMG Tax and Advisory LLP). The assessment of performance of the corporate risk management system was 60%.

The report based on the results of the independent assessment was taken into account by the Board of Directors of the Company.

The management of risks of maintenance and repayment of loans and bonds, financial instability, loss of liquidity and risk of default of subsidiaries in repayment of borrowed funds granted by the Company

In order to avoid insufficient funds for maintenance and repayment of loans and bonds, inefficient management of cash flows and repayment of borrowed funds granted to subsidiaries by the Company, revenues are regularly monitored; the monitoring results were considered by the Management Board, Board of Directors on a quarterly basis based on the risk report.

Temporary financial assistance was granted by Samruk-Kazyna JSC to refund the debts to Halyk Bank of Kazakhstan JSC. Based on the results of borrowed funds attracted, a part of debt to Halyk Bank of Kazakhstan JSC was repaid.

The Company conducted negotiations with Halyk Bank of Kazakhstan JSC concerning the loan restructuring based on which the loan extension agreement was achieved.

The management of risks of failure of compliance with the employment terms and conditions

This risk is an operational risk and is characterized by occurrence of occupational accidents, violation of occupational health and safety rules and employer's violation of employment legislation. The potential occurrence of such risk is subject to such factors as human errors in compliance with the safety rules, lack of mechanisms of updating the knowledge of employees on applicable law on a permanent basis, failure to comply with the legislation of the Republic of Kazakhstan in the normal course of business.

In order to avoid occupational accidents, there are occupational health and safety units in the Company's group entities; the personnel training and briefing schedules were approved.

The Company approved the Regulation on Procedure for Training, Briefing and Testing Knowledge on Occupational Health and Safety and Establishment of Examination Board. The Company's employees are provided with personal protective equipment against smoke. The employees of the Company's subsidiaries are trained on a permanent basis. The safety briefings are conducted on the working place.

QUALITY MANAGEMENT SYSTEM

The Company's strategic objectives in the quality are aimed at achieving efficient and productive management through a system approach to the quality management based on the international standard ISO 9001:2008. The system approach allows building the effective business processes with a stable high level of quality and

guarantees highly qualified and reasonable management of all factors affecting quality.

The Quality Management System has been at place in the Company since 2006 maintained in a working state in accordance with the international standard ISO 9001:2008.

The Certificate was issued by one of the leading certification bodies TÜV SÜD Management Service GmbH certified to perform certification for compliance with the international standards.



SUSTAINABLE
DEVELOPMENT

SUSTAINABLE DEVELOPMENT PRINCIPLES

OPENNESS

We are open to the meetings, discussions and conversations; we strive for building long-term cooperation with stakeholders based on the respect to mutual interests, rights and balance between the interests of the Fund, organization and stakeholders

RESPECT

We respect rights and interests of stakeholders arising out of the legislation, contracts signed or business relations

TRANSPARENCY

Our decisions and actions shall be clear and transparent to stakeholders

ETHICAL CONDUCT

Our decisions and actions are based on our values, such as partnership, responsibility, integrity, meritocracy and perfection

PERSONAL EXAMPLE

Each of us contributes to implementation of the sustainable development principles through our daily actions, behaviors and decisions made

ACCOUNTABILITY

We realize our accountability for impact on economy, environment and society. We seek for minimizing adverse impact of our activities on environment and society by careful attitude to the resources

LEGALITY

Our decisions and actions comply with the legislation of the Republic of Kazakhstan and decisions of the Fund's bodies

OBSERVANCE OF HUMAN RIGHTS

We observe and contribute to compliance with human rights provided for by the Constitution of the Republic of Kazakhstan and international documents

INTOLERANCE TO CORRUPTION

We declare zero tolerance to corruption in the relations with all stakeholders

INADMISSIBILITY OF CONFLICT OF INTEREST

Personal interests of executives and officers shall not affect the unbiased fulfillment of their duties

STAKEHOLDER ENGAGEMENT

The Company considers the stakeholder engagement as a basis for necessary terms and conditions for creation of long-term value, achievement of strategic objectives and formation of the Company's positive reputation.

The system of the Company's stakeholder engagement is aimed at harmonizing the interests of all stakeholders. The stakeholder engagement is based on the principles of respect to interests and cooperation, information transparency of the Company's

activities, frequency of interaction, and compliance with commitments.

The stakeholder engagement is an integral part of the Company's sustainable development. The Company pays much attention at establishing and maintaining a stable conversation with all stakeholders via various communication platforms. Feedback received from stakeholders throws light on multiple aspects – from determination of the Fund's strategic priorities to creation of the relevant policies, from business model to social responsibility

Engagement of the Sole Shareholder and Trust Manager

The Sole Shareholder (Samruk-Kazyna JSC) owns 100% shares of the Company. The Board of Directors of the Company understands the importance of the continuous and efficient engagement of the Sole Shareholder and Trust Manager. The Company reports the information concerning its activities to the Sole Shareholder and Trust Manager in a timely and full manner as provided for by

the Articles of Association and internal regulations of the Company.

Engagement of the state authorities

The Company builds relations with the state authorities based on the principles of partnership and respect by understanding that all the initiatives of the state authorities and the Company shall be aimed at development of the country economy. The Company and Company's subsidiaries and related entities are responsible and fair taxpayers.

Engagement of subsidiaries and related entities

Engagement of subsidiaries and related entities is performed within the corporate procedures approved via the relevant bodies of such entities. The subsidiaries and related entities are the entities where the

Company owns shares (interest), whether directly or indirectly. The major goals of interaction between the Company and Company's subsidiaries and related entities are to ensure stable financial development, profitability, improved investment appeal of the Company and Company's subsidiaries and related entities as well as to develop and implement well-coordinated and efficient development strategy of the Company.

Engagement of suppliers, contractors and clients

In building the relations with suppliers, contractors and clients, the Company relies on the principles of transparency, integrity, respect to the mutual benefits, understanding the absolute responsibility for obligations undertaken, complies with all terms and conditions of contractual relations, shows respect and fair practice in mutual relations, conducts business

meetings with customers to fulfill contractual obligations.

Personnel

Interaction between the Company and personnel is aimed at formation of relations based on cooperation principles.

The Company appreciates the contribution of each employee and builds the relations with the personnel based on respect and cooperation, encourages initiatives, responsibility and achieving ambitions.

Interaction between the employer and employees meets the regulations of the legislation of the Republic of Kazakhstan and is regulated by the Collective Agreement, employment agreements, Code of Business Ethics and HR Policy.

HR POLICY

The Company's human resources are the essential strategic factor of success. The Company has the HR Policy at place with the major goal of efficiency improvement in HR management by introduction of HR management and establishment of the Company's human resource system aimed at obtaining maximum profit and ensuring leadership in the competitive environment based on economic incentives and social benefits and contributing to a harmonious combination of interests of both employer and employee and development of

relations for the benefit of the Company and Company's subsidiaries and related entities.

Key priorities of the HR Policy are as follows:

- ▶ attracting, developing and retaining highly professional employees;
- ▶ introducing advanced HR management methods;
- ▶ managing the candidates pool through a reasonable combination of internal talent pool and external resources;
- ▶ forming the candidates pool of executive officers;

- ▶ establishing and developing common values, social standards and standards regulating employee behaviors; and
- ▶ regulating social and employment relations, preventing and avoiding labour disputes.

The Company's personnel structure

Average headcount of the Company's group in 2017 was 4,891 people (474 (10%) administrative personnel and 4,417 (90%) operational personnel).

STAGES OF COMPETITIVE SELECTION

The recruitment procedure in the Company was conducted in accordance with the Competitive Selection Rules for administrative positions in the Company, including the use of testing elements for professional, personal and business competences based on Samruk Kazyna Corporate University PI and interview with the Company's top management (provided that the testing has been passed) to check the knowledge of candidates and the meeting of the competition committee.

1. Announcement published on www.ke.kz – 10 days;
2. HR manager examines the CVs to check the compliance with major qualification criteria (length of service, work experience, education, language skills);
3. CVs of candidates meeting the major qualification criteria of the job are forwarded to the management of the Company's business unit with the vacancy for consideration;
4. Testing English and Kazakh language skills.
5. Testing professional knowledge. The minimum limit is 70%;
6. Selection of a candidate at the collective interview.
7. Publication of information concerning the competitive selection for the vacancy and candidate selected on the Company's website.

In total, 61 people (5 people per position) took part in the competition for 13 vacancies in 2017, of whom 43 people did not meet qualification criteria.

SOCIAL STABILITY

The Company's activities for social support of employees are regulated by the following internal regulations:

- Collective agreement;
- The Company's HR policy;
- The rules for provision of social support for employees.

As a part of the Industrial Agreement in the mechanical engineering sector of the Republic of Kazakhstan for 2014 – 2016, the Company and all Company's subsidiaries signed the Collective Agreements between employees and employer.

The Collective Agreement is aimed at improving the actions taken to develop social and employment relations, defense rights and guarantees of employees.

SPONSORSHIP AND CHARITY

As a part of performance in this area, the Company's employees at their own initiative and by their own efforts conduct permanent events dedicated to May 9, with the support of the veterans of the Great

Patriotic War and those equated to them, retired people, who have previously worked in the Company's group. There is also a promotional event Road to School used to provide a material assistance, food, school

clothes and accessories for large families of employees of the Company's group. In addition, assistance was provided to those injured due to the flood in Atbassar.

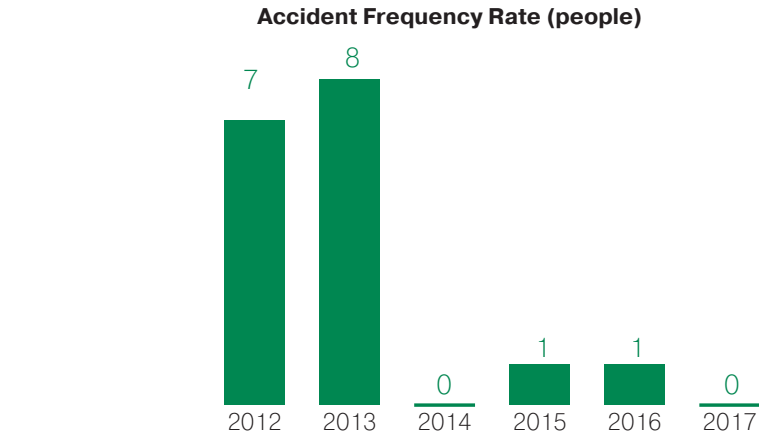
OCCUPATIONAL HEALTH AND SAFETY

The Company takes continuous efforts to create safe working conditions, reduce accident frequency rates, improve industrial and sanitary conditions and amenities for workers, reduce impact of harmful and adverse factors.

In order to prevent occupational accidents, the Company's group conducted induction, scheduled, extraordinary and unscheduled briefings.

The Company takes system measures to improve the occupational safety. The Company's subsidiaries fulfill the obligations undertaken, including those to:

- ▶ ensure the proper temperature at workplaces in autumn and winter;
- ▶ ensure the proper lighting at workplaces;
- ▶ analyze the reasons for occupational injuries and take preventive actions;
- ▶ perform preventive medical examinations;
- ▶ provide employees with protective clothing, shoes, protective personal equipment;
- ▶ insure the liability for occupational injuries when employees are on duty;



- ▶ ensure continuous monitoring of compliance with the occupational safety requirements; and
- ▶ provide workshops, first-aid station with necessary medicines to deliver medical emergency treatment to the plant employees.

In accordance with the requirements of the Law of the Republic of Kazakhstan On Mandatory Insurance of Employees against Occupational Injuries, civil liability of employer for occupational injuries on the job is insured.

No occupational accidents were documented in the Company's group in the reporting period.

The dynamics of accident frequency rates in the Company's group shows that compared to the period between 2012 and 2013 this rate was minimized.

In order to prevent and avoid industrial injuries, the Company's group takes corrective and preventive actions. The reimbursement for injuries of employees when fulfilling their job duties is monitored.

ENVIRONMENTAL PROTECTION

The Company's group enterprises consider the environmental protection activities as an integral part of their daily routine and pay major attention to the measures to minimize the negative impact of their activities on the environment.

The contribution to the sustainable development of the region of presence of the Company's group enterprises is provided by compliance with the regulations of the environmental legislation.

In accordance with the applicable environmental legislation of the Republic of Kazakhstan, the Company's group enterprise obtained authorizations for environmental emissions.

The Company's group enterprises developed the rates of maximum allowable

emissions and agreed such rates with the territorial environmental authorities with the new rates developed upon expiration.

The Company seeks to comply with the principles of maximum environmental care and rational use of natural resources, contributes to prevention of adverse environmental impact, takes initiatives aimed at increased environmental responsibility, contributes to development and distribution of environmentally safe and energy-saving technologies, environmental monitoring and open disclosure of environmental information.

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

- taking care of environment;
- complying with occupational health and safety standards;

- improving the energy performance; and
- introducing the reporting system.

The Company's power consumption consists of two components: electrical power and thermal power for domestic needs.

The best energy-saving effect is provided by the measures aimed at cutting energy intensity through the application of innovative energy-cutting technologies. The significant cost-cutting can be provided through significant cutting of volumes of consumed thermal power in the implementation of the enterprise upgrading project due to application of new materials, insulation of facades and window structures to reduce heat losses of the building.

LOCAL CONTENT IN PROCUREMENT

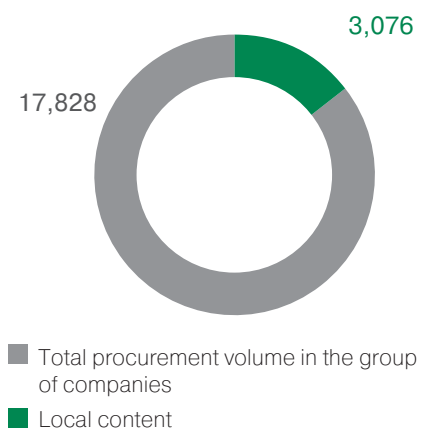
Total procurement volume of the Company's group based on the results of 2017 was 17,827.8M KZT; local content in procurement was 17.3% or 3,075.6M KZT. However, we should note that this amount does not include the state defense order contracts due to a confidential nature of such contracts.

Total volume of goods purchased for the amount of 14,366.6M KZT included the share of Kazakh suppliers in the amount of 671M KZT or 4.7% of local content. Total volume of contracts for performance of

works/delivery of services amounted to 3,461M KZT; local content was 69.5% or 2,404MKZT.

Suppliers are selected under the procedures at place based on the principles of publicity and transparency of procurement, purchase of high-quality goods, works, services, fair competition among potential suppliers. The integrity of suppliers is verified by checking the suppliers against the List of Unfair Potential Suppliers of the Holding and/or the Register of Unfair Participants of the State Procurement.

Total Procurement Volume of Kazakhstan Engineering NC JSC Group (M KZT)



The 2017 Report³ On Compliance/Noncompliance with the Corporate Governance Code

No.	Code provisions	Compliance/ noncompliance	Note
1. THE MANAGEMENT BOARD AS THE FUND'S SHAREHOLDER			
1.1	The members of the Government, officers of state authorities are not allowed to be the members of the Board of Directors of the entity	Noncompliance	<p>Resolution of the Government of Kazakhstan of January 26, 2017 (No. 18дсп) recommended the Ministry of Defense and Aerospace Industry of Kazakhstan to ensure election of A.U. Mamin, the First Deputy Prime Minister of Kazakhstan as the Chairperson of the Board of Directors of Kazakhstan Engineering NC JSC.</p> <p>By Resolution of the Minister of Defense and Aerospace Industry of Kazakhstan of January 30, 2017 No. (16/HK-ҚБПУ) the members of the Board of Directors of the Company were elected chaired by the First Deputy Prime Minister of Kazakhstan A.U. Mamin.</p> <p>By Resolution of the Minister of Defense and Aerospace Industry of Kazakhstan of October 11, 2017 (No. 180/HK/ҚБПУ), the Vice Minister of Defense and Aerospace Industry of the Republic of Kazakhstan A.K. Kurmangaliyev was elected a member of the Board of Directors of the Company.</p>
1.2	The Government provides the Fund and entities with a full operating independence and does not allow interference of the Government and state authorities with the operating (current) and investment activities of the Fund and entities, unless otherwise provided by the laws, acts and orders of the President of the Republic of Kazakhstan	Noncompliance	In accordance with Resolution of the Government of Kazakhstan of November 15, 2016 No. 704, Samruk-Kazyna JSC and the Ministry of Defense and Aerospace Industry of Kazakhstan signed the Agreement of Transfer of Shareholding of Kazakhstan Engineering NC JSC to the Ministry into Trust Management on December 23, 2016.
3. SUSTAINABLE DEVELOPMENT			
3.1	The Company shall have the sustainable development management system that includes the commitment to the sustainable development principles at the level of BoD, Management Board and employees.	Partial Compliance	<p>In accordance with the approved organizational chart of the Company of July 10, 2017 (minutes No. 4), functions and tasks in the area of sustainable development were transferred to the competence of the Strategic Development and Investment Activities Department of the Company. The Regulation on the Department was approved by the Resolution of the Management Board of the Company of November 21, 2017 (minutes No. 36/17).</p> <p>In Q1 2017, the Company's employees had studies in the Samruk-Kazyna Corporate University on the Sustainable Development Reporting in accordance with GRI.</p> <p>It is proposed to transfer development and approval of the Sustainable Development Guidelines to Q2 2018.</p>

³ The Report was approved by the Resolution of the Board of Directors of Kazakhstan Engineering NC JSC of April 4, 2018 (minutes No. 2)

No.	Code provisions	Compliance/ noncompliance	Note
3.3	<p>The Company shall have the sustainable development management system at place including, but not limited to the following elements:</p> <ul style="list-style-type: none"> — analyzing internal and external situation by three components (economy, environment, social issues); — identifying sustainable development risks in social, economic and environmental areas; — making up a map of stakeholders and stakeholder engagement methods; — identifying the sustainable development goals and KPI, developing a plan of actions and assigning responsible officers; — integrating sustainable development into the key processes, including risk management, planning, human resources management, investment, reporting, operating activities, etc., and into the development strategy and decision-making processes; and — monitoring and assessing the sustainable development events on a regular basis, assessing target and KPI achievement, taking corrective actions, implementing the culture of constant improvements. 	Partial Compliance	<p>The letter of February 23, 2017 (No. 278-И) concerning the required provision of proper and high-quality implementation of the sustainable development principles and analysis of the applicable sustainable development policies, procedures and internal controls was sent to the Company's subsidiaries. The subsidiaries provided the relevant information.</p> <p>It is proposed to transfer development and approval of the Sustainable Development Guidelines to Q2 2018.</p>
3.5	The Fund and the entities shall encourage and promote the application of the sustainable development principles by their partners.	Noncompliance	
5. PERFORMANCE OF THE BOARD OF DIRECTORS AND MANAGEMENT BOARD			
Members of BoD and Committees of BoD			
5.9	The Board of Directors, Committees and members of the Board of Directors shall be annually assessed within the structured process approved by the Board of Directors of the entity. This process shall comply with the Fund's methods. The assessment shall be performed by an independent professional organization every three years.	Noncompliance	The members of the Board of Directors were elected in Q1 2017. Performance assessment of the Board of Directors is planned for the first six months of 2018.
5.10	The assessment shall allow identifying the contribution of the Board of Directors and each member to the growth of the long-term value and sustainable development of the entity and identifying the areas and recommending the measures for improvement purposes. The assessment results shall be taken into account upon reelection or early termination of the powers of the members of the Board of Directors.		

No.	Code provisions	Compliance/ noncompliance	Note
6. RISK MANAGEMENT, INTERNAL CONTROLS AND AUDIT			
Risk management			
6.4	<p>Executive bodies of the Fund and entities shall ensure establishment and maintain operation of the efficient risk management system and internal controls. The risk management process shall be integrated into the planning process (development strategy and plans, annual budget) and entity's performance assessment process (management reporting).</p> <p>Each officer of the Fund or entity shall ensure proper consideration of risks in the decision-making process.</p> <p>The Fund's or entity's executive body shall ensure implementation of the risk management procedures for employees having the required qualifications and experience.</p> <p>The risk management system and internal controls of the Fund and entities shall be based on the high culture of risk management conducted by the executive body that provides for a mandatory nature of the procedures of identification, assessment and monitoring of all material risks and taking prompt and adequate actions to reduce the risks that may have a negative impact on achievement of strategic objectives, fulfillment of operating tasks and company's reputation.</p> <p>The risk management procedures shall ensure prompt response to new risks, clear identification of such risks and risk owners. In the event of any unforeseen changes in the competitive or economic environment of the Fund and entities, the risk map shall be immediately reassessed and made fit to the risk appetite.</p>	Partial Compliance	<p>The Resolution of the Board of Directors of the Company of February 15, 2017 (minutes No.1) approved the Company's organizational chart, in accordance to which the Risk Management and Internal Control Sector was established.</p> <p>The Resolution of the Board of Directors of the Company of July 10, 2017 (minutes No.4) approved the organizational chart without the Risk Management and Internal Control Sector; Risk Manager is assigned to be in charge of risks and internal controls.</p> <p>In the reporting period the Board of Directors of the Company considered and approved the risk reports for Q1-Q3.</p>
6.5	<p>The Fund and entities shall develop, approve, formalize and document control procedures in three key areas, such as operating activities, preparation of financial statements and compliance with the legislation of the Republic of Kazakhstan and internal regulations.</p>	Partial Compliance	<p>The Resolution of the Board of Directors approved the following elements in the Company:</p> <ul style="list-style-type: none"> — Matrices of Risks and Controls for Financial and Operating Risks (dated December 23, 2012; minutes No. 94); — Annual Consolidated Risk Register of the Company (dated December 14, 2016; minutes No. 10); — Annual Consolidated Risk Map of the Company (dated December 14, 2016; minutes No. 10); — Annual Plan of Actions for Risk Management of the Company's Group (dated December 14, 2016; minutes No. 10).

No.	Code provisions	Compliance/ noncompliance	Note
6.6	<p>The transparent principles and approaches to risk management and internal controls, practices of training of employees and officers on the risk management system and the process of documenting and prompt communication of required information to officers shall be at place in the Fund and entities.</p> <p>The knowledge of the risk management system shall be available to all employees and officers, who shall understand the principles and approaches to risk management and internal controls, have an idea of the best practices applied in this area. Employees of the Fund and entities shall have training/induction briefing on an annual basis and upon employment to familiarize with the risk management system and internal controls applied. Knowledge shall be tested after such training.</p> <p>A safe, confidential and available method (hotline) of communication of the facts of violation of the legislation of the Republic of Kazakhstan, internal procedures, Code of Business Ethics by any employee or officer to the Board of Directors (Audit Committee) and internal audit units shall be arranged within the risk management system and internal controls.</p>	Partial Compliance	<p>There is a risk management knowledge base formed in the Company with a shared access provided for the Company's employees.</p> <p>In the reporting period the newly appointed employees did not have training/induction briefing to familiarize with the risk management system and internal controls applied.</p>
6.7	<p>The Board of Directors of the Fund and entities shall take the relevant actions in order to ensure that the operating risk management system and internal controls meet the arrangement principles and approaches determined by the Board of Directors and operate efficiently. The Risk Reports shall be brought up to the meetings of the Board of Directors and duly discussed in full on a quarterly basis.</p> <p>The Board of Directors together with the Audit Committee are responsible for annual performance assessment of risk management system and internal controls. The Board of Directors shall form its own opinion on the system performance after proper and thorough examination of information based on reports and guarantees communicated by the internal audit unit or external expert, Audit Committee or executive body.</p> <p>The Board of Directors shall annually consider the issues related to the operation and performance of the risk management system and internal controls and give recommendations for improvement, as appropriate. The information on the results of consideration of the issues of internal control system by the Board of Directors is communicated to shareholders (members) as a part of the annual report.</p>	Partial Compliance	<p>In Q1 2017 the Internal Audit Service conducted the performance assessment of the internal control system; the results were considered at the meeting of the Board of Directors of the Company on July 10, 2017.</p> <p>KPMG: Tax and Advisory LLP conducted the performance assessment of the corporate risk management system and completed it on July 31, 2017.</p> <p>Based on the results of the assessment, the final performance assessment of the Company's ICS by five components was 63%, which means "above the medium" performance rating. However, the performance rating of the components, such as risk assessment and control procedures are 35% and 49%, which means "low" and "medium" performance ratings.</p>

EXTERNAL AUDITOR AND AUDITOR'S OPINION

The Consolidated Financial Statements for the year ended on December 31, 2017

To be published after the Annual Financial Statements have been approved by the Resolution of the Sole Shareholder of the Company (Management Board of Samruk-Kazyna JSC)

To be considered at the current meeting of the Board of Directors of the Company for preliminary approval.

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of JSC Kazakhstan Engineering National Company (the "Company") and its subsidiaries (the "Group") as at 31 December 2017, and the consolidated results of its operations, consolidated cash flows and consolidated changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRSs").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2017 were approved and authorized for issue by management of the Group on 3 March 2018.

On behalf of management of the Group



Orman Nurbayev
Chairman

3 March 2018
Astana, the Republic of Kazakhstan



Saya Mynsharipova
Deputy Chairman



Zhanetta Alibova
Chief Accountant



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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Joint Stock Company Kazakhstan Engineering National Company and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Emphasis of Matter

As described in Note 21 to the financial statements, 87% of the Group's sales for the year ended 31 December 2017 were to related parties. Our opinion is not modified in respect of this matter.

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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



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



Daulet Kuantbekov
Qualified auditor
of the Republic of Kazakhstan
Qualification certificate
No. 0000523
dated 15 February 2002
Republic of Kazakhstan

DELOITTE, LLP

Deloitte, LLP

State license on auditing activity in the Republic of
Kazakhstan No.0000015, type MFU-2, issued by the
Ministry of Finance of the Republic of Kazakhstan
on 13 September 2006




Nurlan Bekenov
General Director
Deloitte, LLP

3 March 2018

Almaty, the Republic of Kazakhstan

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2017***(in thousands of tenge)*

	Notes	31 December 2017	31 December 2016
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	5	22,977,934	23,255,690
Intangible assets		401,130	450,821
Investments in associates and joint ventures	7	6,309,423	5,802,533
Other non-current assets	8	2,086,505	1,809,983
Deferred tax assets	26	4,154,213	3,103,823
Total non-current assets		35,929,205	34,422,850
CURRENT ASSETS:			
Inventory	9	14,239,904	20,455,825
Trade accounts receivable	10	2,238,811	4,255,911
Income tax prepaid		1,651,527	1,608,078
Other taxes recoverable		535,885	543,930
Advances paid	11	10,964,636	11,138,580
Other current assets		300,598	515,801
Short-term financial investments	12	917,757	937,196
Cash and cash equivalents	13	8,094,176	9,585,854
		38,943,294	49,041,175
Assets classified as held for sale		288,519	435,263
Total current assets		39,231,813	49,476,438
TOTAL ASSETS		75,161,018	83,899,288
EQUITY AND LIABILITIES			
EQUITY:			
Charter capital	14	21,476,802	21,476,802
Additional paid-in-capital	15	841,018	841,018
Accumulated loss		(4,788,672)	(1,140,057)
Equity attributable to shareholder of the Company		17,529,148	21,177,763
Non-controlling interests	16	642,489	667,814
Total equity		18,171,637	21,845,577
NON-CURRENT LIABILITIES:			
Loans	17	10,400,000	4,932,492
Deferred tax liabilities	26	916,259	645,058
Finance lease obligations		364,552	492,782
Debt component of preferred shares		231,501	229,885
Other non-current liabilities		57,005	83,796
Total non-current liabilities		11,969,317	6,384,013

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

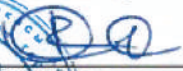
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2017

(in thousands of tenge)

	Notes	31 December 2017	31 December 2016
CURRENT LIABILITIES:			
Loans	17	18,358,183	25,079,205
Current portion of finance lease obligations		127,883	129,029
Trade accounts payable	18	5,305,433	8,449,026
Income tax payable		46,432	171,599
Other taxes payable	19	1,716,044	2,649,655
Advances received from related parties	30	15,218,001	15,142,306
Other current liabilities	20	4,248,088	4,048,878
Total current liabilities		45,020,064	55,669,698
Total liabilities		56,989,381	62,053,711
TOTAL EQUITY AND LIABILITIES		75,161,018	83,899,288

On behalf of management of the Group


Orman Nurbayev
 Chairman
 3 March 2018
 Astana, the Republic of Kazakhstan


Saya Mynsharipova
 Deputy Chairman


Zhanetta Alibova
 Chief Accountant

The notes below form an integral part of the consolidated financial statements. The independent auditor's report is on pages 2-4.

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017***(in thousands of tenge)*

	Notes	2017	2016
REVENUE	21	83,619,506	71,331,233
COST OF SALES	22	(77,163,934)	(65,071,209)
GROSS PROFIT		6,455,572	6,260,024
Administrative expenses	23	(6,790,992)	(6,369,488)
Selling expenses		(869,167)	(779,321)
Other expenses, net		(159,824)	(414,796)
Foreign exchange (loss)/gain, net		(285,562)	1,068,008
Share of gain/(loss) in associates and joint ventures	7	543,663	(1,074,868)
Finance income	24	1,028,505	2,908,946
Finance costs	25	(3,724,715)	(4,588,565)
LOSS BEFORE INCOME TAX		(3,802,520)	(2,990,060)
INCOME TAX BENEFIT	26	199,877	238,255
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(3,602,643)	(2,751,805)
Total comprehensive (loss)/income attributable to :			
Shareholders of the Company		(3,638,739)	(2,813,227)
Non-controlling interests	16	36,096	61,422
		(3,602,643)	(2,751,805)

On behalf of management of the Group

Orman Nurbayev
Chairman3 March 2018
Astana, the Republic of KazakhstanSaya Mynsharipova
Deputy ChairmanZhanetta Alibova
Chief Accountant

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of tenge)

	Notes	2017	2016
OPERATING ACTIVITY:			
Loss before income tax		(3,802,520)	(2,990,060)
Adjustments for:			
Depreciation and amortization		1,460,346	1,195,403
Allowance for doubtful accounts		380,431	217,431
Write-off of inventory to net realizable value	9	-	551,269
Accrual of allowance for obsolete inventories	9	1,322,552	492,046
Loss/(gain) from property, plant and equipment and intangible assets disposal		101,306	(46,176)
Foreign exchange loss/(gain)		285,562	(1,068,008)
Share of (profit)/loss in associates and joint ventures	7	(543,663)	1,074,868
Impairment of investments in associates		20,764	-
(Reversal)/accrual of provision for warranty repair	20	(107,192)	138,747
Unused vacation provision and other remunerations	20	872,385	1,051,696
Other provisions	20	582,620	14,602
Finance income	24	(1,028,505)	(2,908,946)
Finance costs	25	3,724,715	4,588,565
Cash flows from operating activity before changes in working capital		3,268,801	2,311,437
Changes in working capital and other balances:			
Inventory		3,699,223	(2,673,901)
Trade accounts receivable		2,167,656	(1,444,507)
Value added tax and other taxes recoverable		(35,404)	(471,171)
Other assets		400,987	(1,105,500)
Trade accounts payable		(3,889,311)	5,171,323
Other taxes payable		(947,554)	299,351
Advances received from related parties and other liabilities		(947,528)	5,337,214
Cash generated from operations		3,716,870	7,424,246
Interest paid		(3,796,041)	(3,272,006)
Interest received		852,649	2,066,183
Income tax paid		(690,536)	(681,135)
Net cash generated by operating activity		82,942	5,537,288
INVESTING ACTIVITY:			
Acquisition of property, plant and equipment and advances paid for non-current assets		(468,806)	(3,986,743)
Acquisition of Intangible assets		(6,504)	(11,483)
Loans given		(3,000)	(150,000)
Repayment of loans given		182,416	-
Dividends received		26,764	25,372
Proceeds from disposal of property, plant and equipment		2,378	83,402
Proceeds from selling of other non-current assets		21,330	61,380
Proceeds from sale of investments in associates and joint ventures		-	114,569
Contribution to charter capital of joint venture		-	(500,000)
Placement of short-term financial investments		(38,442,596)	(67,408,207)
Withdrawal of short-term financial investments		38,409,350	96,111,571
Net cash (used in)/generated by investing activity		(278,668)	24,339,861

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2017***(in thousands of tenge)*

	Notes	2017	2016
FINANCING ACTIVITY:			
Redemption of debt securities		-	(67,138,000)
Loans received	17	9,887,935	29,612,679
Loans repaid	17	(10,847,017)	(1,646,761)
Finance lease repaid	17	(129,142)	(128,230)
Dividends paid		(60,634)	(73,799)
Net cash used in financing activity		(1,148,858)	(39,374,111)
CHANGE IN CASH AND CASH EQUIVALENTS, net		(1,344,584)	(9,496,962)
CASH AND CASH EQUIVALENTS, at the beginning of the year	13	9,585,854	19,186,014
Effects of exchange rate changes on the balance of cash held in foreign currencies		(147,094)	(103,198)
CASH AND CASH EQUIVALENTS, at the end of the year	13	8,094,176	9,585,854




Saya Mynsharipova
 Deputy Chairman


Zhanetta Alibova
 Chief Accountant

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(in thousands of tenge)

	Notes	Charter Capital	Additional paid-in capital	Retained earnings/ (accumulated loss)	Equity attributable to the Shareholder of the Company	Non- controlling interests	Total Equity
At 1 January 2016		21,476,802	841,018	1,673,170	23,990,990	656,018	24,647,008
Total comprehensive (loss)/income for the year	16	-	-	(2,813,227)	(2,813,227)	61,422	(2,751,805)
Dividends		-	-	-	-	(49,626)	(49,626)
At 31 December 2016		21,476,802	841,018	(1,140,057)	21,177,763	667,814	21,845,577
Total comprehensive (loss)/income for the year		-	-	(3,638,739)	(3,638,739)	36,096	(3,602,643)
Measurement of debt component of preferred shares		-	-	(9,876)	(9,876)	-	(9,876)
Dividends	16	-	-	-	-	(61,421)	(61,421)
At 31 December 2017		21,476,802	841,018	(4,788,672)	17,529,148	642,489	18,171,637



On behalf of management of the Group

Saya Mynsharipova
Saya Mynsharipova
 Deputy Chairman

Zhanjetta Alibova
Zhanjetta Alibova
 Chief Accountant

3 March 2018
 Astana, the Republic of Kazakhstan

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