Kazakhstan Engineering National Company JSC

Separate financial statements

for the year ended 31 December 2021
prepared in accordance with IFRSs

Nur-Sultan 2022

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INDEPENDENT AUDITORS' REPORT

Shareholder of Kazakhstan Engineering National Company JSC

Opinion

We have audited the accompanying separate financial statements of Kazakhstan Engineering National Company JSC (hereinafter – the "Company"), which comprise the separate statement of financial position as at 31 December 2021, and the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter – "IFRSs").

Basis for Opinion

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

Important information – Going Concern

As indicated in note 2(b) to the financial statements, the Company incurred a net loss of KZT 6,929,641 thousand during the year ended 31 December 2021 and, as at that date, the Company's current liabilities exceeded its current assets by KZT 17,912,731 thousand. These conditions indicate the existence of significant uncertainty, which may raise significant doubts about the Company's ability to continue as a going concern. Our opinion does not contain reservations regarding this issue.

Important information - consolidated financial statements issued separately

Without qualifying our opinion, we draw your attention to note 2 (a) to the separate financial statements, which states that the Company is the parent company and that the consolidated financial statements of the Company prepared in accordance with IFRS, have been issued separately. We have audited these consolidated financial statements of the Company as of 31 December 2021 and expressed an unmodified opinion on them in our auditor's report dated 13 June 2021.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters, continue

We have determined the matter described below to be the key audit matter to be communicated in our report:

Recoverable amount of investment in subsidiaries, joint ventures, and associates

The risk The Company measures investments in subsidiaries, joint ventures, and associates at cost less impairment losses. The key assumptions used in the analysis of the recoverable amount of investments (in the event of events leading to a loss) are based on management's estimates and are a source of uncertainty.

Our Measures Our audit procedures in this area included the following:

- Confirmation of the occurrence (non-occurrence) of events leading to a loss and their impact on the estimated future cash flows for net investments;
- Achieving an understanding of the process of analysis by the Company's management of the recoverable value of investments (when these events occur);
- Examination of reports on the valuation of interests in significant subsidiaries, review of the approach to valuation and clarification of the data used by an external expert.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Auditors' Responsibilities for the Audit of the Financial Statements, continue

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

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Approve

Serik Kozhikenov
Engagement manager
Auditor Qualification Certificate
No. 0000557 issued 24 December 2003 by Ministry of
Finance of the Republic of Kazakhstan
Chief Executive
Moore Kazakhstan LLP
13 June 2021

Aidar Aitov
Audit partner

General licence No. 21027383 for audit activity issued 24 September 2021 by Ministry of Finance of the Republic of Kazakhstan

TRANSLATED

Kazakhstan Engineering National Company JSC

Separate statement of profit or loss and other comprehensive income

for the year ended 31 December 2021

KZT'000	Note	2021	2020
Revenues	3	49,707,813	64,447,100
Cost of sales	4	(48,020,398)	(62,749,348)
Gross profit		**1,687,415**	**1,697,752**
Selling and distribution costs		(133,447)	(18,958)
Administrative expenses	5	(1,625,240)	(1,780,316)
(Losses) recovery of impairment losses, net	6	(2,047,365)	443,323
Other operating income, net	7	1,198,995	169,052
Operating (loss) profit		**(919,642)**	**510,853**
Dividend income		2,863,939	1,687,403
Finance expenses, net	8	1,927,999	(1,182,141)
Foreign exchange (loss) gain		37,520	(22,388)
Profit before taxation		**3,909,816**	**993,727**
Income tax expense	9(a)	255,811	201,325
Profit for the year		**4,165,627**	**1,195,052**
Other comprehensive income for the year		–	–
Total comprehensive income for the year		**4,165,627**	**1,195,052**

These separate financial statements have been approved for issue on 13 June 2022 and signed on behalf of the Company's management by:

Temirzhan Abdrakhmanov	**Garyp Ismatov**	**Gulvira Ikmatova**
Chairman of the Board	Acting Managing Director	Chief Accountant

«Казақстан инжиниринг» (Kazakhstan Engineering) Ұлттық компаниясы

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Kazakhstan Engineering National Company JSC
Separate statement of financial position
as at 31 December 2021

KZT'000	Note	2021	2020
ASSETS			
Non-current assets			
Property, plant and equipment		203,246	246,257
Intangible assets		88,827	74,232
Investments in subsidiaries, associates and joint entities	10	57,988,188	59,750,421
Deferred tax asset	9(b)	2,310,295	1,846,789
Loans receivable	11	12,800,658	13,095,065
Other non-current assets		379,966	768
		73,771,180	75,013,532
Current assets			
Inventories		1,242,521	41,091
Corporate income tax prepaid		529,076	242,208
Advances paid and other current assets	12	4,813,042	20,332,074
Trade and other receivables	13	3,598,027	4,198,339
Cash and cash equivalents	14	18,691,442	19,600,865
		28,874,108	44,414,577
Assets held for sale	15	132,625	101,202
TOTAL ASSETS		**102,777,913**	**119,529,311**
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	16(a)	58,323,806	57,118,832
Additional paid in capital		412,406	412,406
Accumulated losses		(6,926,641)	(10,767,534)
		51,809,571	46,763,704
Non-current liabilities			
Borrowings	18	4,048,878	–
		4,048,878	–
Current liabilities			
Borrowings	18	21,213,309	27,632,673
Deferred income – state subsidy	18	425,642	–
Trade and other payables	19	8,645,950	7,932,087
Provisions	20	4,962,620	2,615,783
Advances received	21	11,671,943	34,585,064
		46,919,464	72,765,607
TOTAL LIABILITIES		50,968,342	72,765,607
TOTAL EQUITY AND LIABILITIES		**102,777,913**	**119,529,311**

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KZT'000	Note	2021	2020
OPERATING ACTIVITIES			
Cash receipts from customers		30,250,654	41,962,931
Cash paid to employees		(704,930)	(679,331)
Other taxes and obligatory payments paid		(4,213,064)	(2,216,744)
Cash paid to suppliers		(27,595,636)	(24,709,893)
Cash flows from operations before interest and income tax paid	21	(2,262,976)	14,356,963
Interest received		1,522,195	400,633
Interest paid	17	(1,060,985)	–
Income tax paid		(71,039)	–
Net cash from (used in) operating activities		**(1,872,805)**	**14,757,596**
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(30,371)	(54,335)
Proceeds from sale of property, plant and equipment		–	8,308
Purchases of intangible assets		(35,000)	(18,885)
Contributions to share capital of subsidiaries and associates	10	–	(1,827,265)
Proceeds from sale of shares in subsidiaries and associates		1,401,735	2,769,280
Loans issued	11	(414,069)	(571,387)
Repayment of loans issued	11	510,758	253,258
Dividends received	11	2,017,099	1,847,571
Net cash from investing activities		**3,450,152**	**2,406,545**
FINANCING ACTIVITIES			
Equity issuance	16(a)	–	1,827,265
Repayment of borrowings	17	(2,139,643)	(3,052,620)
Payment of dividends	16(б)	(324,734)	–
Net cash (used in) from financing activities		**(2,464,377)**	**(1,225,355)**
Net increase in cash		(887,030)	15,938,786
Effect of exchange rate changes on cash		(22,393)	(106,759)
Cash and cash equivalents at the beginning of the year		19,600,865	3,768,838
Cash and cash equivalents at the end of the year	14	**18,691,442**	**19,600,865**

Reconciliation of cash flows from operating activities reported using the indirect method and non-cash transactions are provided in note 21.

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1. General information

(a) Organisation and operation

Kazakhstan Engineering National Company JSC (hereinafter – the "Company") - a joint-stock company established by the decree of the Government of the Republic of Kazakhstan in March 2003.

The Company's registered office and principal place of business is 12A Kerey Zhanibek Khandar str., Nur-Sultan, Kazakhstan.

The sole shareholder and ultimate controlling party of the Company is the Government of the Republic of Kazakhstan represented by the Ministry of Industry and Infrastructural Development of the Republic of Kazakhstan.

The main activity of the Company is the management of mechanical engineering organizations of the defense and civil industries.

As at 31 December 2021, the Company had 75 employees (2020: 75 employees).

(b) Kazakhstan business environment

The Company's operations are primarily located in Kazakhstan. Consequently, the Company is exposed to country risk being the economic, political and social risks inherent in doing business in Kazakhstan. These risks include matters arising from the policies of the government, economic conditions, imposition or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights.

The financial statements include management's estimates of Kazakhstan economic conditions and their impact on the results and financial position of the Company. Future economic conditions can differ from those estimates.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRSs") as issued by the International Accounting Standards Board (hereinafter – "IASB") and interpretations issued by the International Financial Reporting Interpretations Committee (hereinafter – "IFRIC") of the IASB.

As indicated in note 11, the Company has investments in subsidiaries. The consolidated financial statements of the Company and its subsidiaries prepared in accordance with IFRS are issued separately and are available on the website of the Kazakhstan Stock Exchange (hereinafter - "KASE").

(b) Going concern

These financial statements have been prepared on a going concern basis.

As of 31 December 2021, the Company's accumulated loss amounted to KZT 6,926,641 thousand and its current liabilities exceeded current assets by KZT 17,912,731 thousand. As of the specified date, the Company's current liabilities include expected loan payments during 2022 to "Halyk Bank of Kazakhstan" JSC (hereinafter referred to as "Halyk Bank of Kazakhstan") and "National Welfare Fund "Samruk–Kazyna" JSC (hereinafter referred to as "Samruk-Kazyna") in the amounts of KZT 18,757,503 thousand and KZT 4,689,403 thousand accordingly. These conditions indicate that there is a significant uncertainty that may cast doubt on the Company's ability to continue its operations.

In May 2022, the Company appealed to these creditors with a proposal to restructure the debt due to the delay in the planned sale of shares of subsidiaries, as part of the privatization plan of the Government of the Republic of Kazakhstan for 2021-2025.

Management has assessed the financial position of the Company, received loans and the preliminary results of the negotiations with the borrowers regarding the prolongation of maturities, and believes that there is adequate funding to meet the anticipated needs of the Company's cash flows. Management continues to apply the going concern principle in preparing these financial statements.

(c) Basis of accounting

The financial statements have been prepared on a historical cost basis.

(d) Functional and presentation currency

The national currency of the Republic of Kazakhstan is the Kazakhstan tenge (hereinafter – "tenge" or "KZT"), which is the functional currency of the Company and the currency in which these financial statements are presented. All financial information presented in tenge has been rounded to the nearest thousand (hereinafter – "KZT'000" or "KZT thousand").

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2. Basis of preparation, continue

(e) Adoption of standards and interpretations

I In preparing the financial statements, the Company has applied the following standards and amendments effective from 1 January 2021:

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16);
- COVID-19 Rent Related Concessions (Amendments to IFRS 16).

The standards and amendments listed above did not have a material impact on these financial statements.

(f) New standards and interpretations not yet adopted

The Company has not early adopted new standards, interpretations or amendments that were issued but are not yet entered into force, and their requirements have not been considered when preparing the financial statements. These standards and interpretations are not expected to have a material impact on these financial statements.

(g) Use of estimates and judgments

The Company's management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRSs. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments made by management for preparation of these financial statements is described in the following notes:

- Note 3 – Revenues. Management made an assessment of the degree of completion of contracts and assets under the contract;
- Note 9 – Income tax. Management made estimates in relation to the level of taxes payable which may then be audited by the tax authorities and timing of realisation of temporary differences;
- Note 10 – Investments in subsidiaries, joint ventures and associates. Management made estimates in relation to the recoverable value of the investment;
- Note 11 – Loans issued Management made estimates in relation to the allowance for expected credit losses and the fair value of loans based on market interest rates on loans;
- Note 13 – Advances paid and other current assets. Management made estimates in relation to the allowance for doubtful assets;
- Note 13 – Trade and other receivables. Management made estimates in relation to the allowance for expected credit losses;
- Note 19 – Provisions. The assessment is made with respect to the completeness of obligations arising from past events, the settlement of which is expected to result in the disposal of resources containing economic benefits from the organization;
- Note 22 – Financial risk management objectives and policies. Fair value analysis is based on estimated future cash flows and discount rates;
- Note 23 – Commitments and contingencies. These require management to make estimates as to amounts payable and to determine the likelihood of cash outflows in the future.

(h) Segment information

Information provided to the Company's management for the purposes of planning and performance assessment is prepared in accordance with the operational structure of the Company. For management and operational purposes, the Company is considered as one business segment, according to the nature of operations, end-products and services rendered.

3. Revenues

The article includes income from the sale of dual-use products under state order contracts with fixed prices. Detailed information on revenue from contracts with customers was as follows:

KZT'000	2021	2020
Performance obligation in time		
Goods and services are transferred at a certain point in time	–	1,169,318
Goods and services are transferred during the period	49,707,813	63,277,782
	49,707,813	**64,447,100**
Balance of contract assets and liabilities		
Contract assets	14,255,003	130,381
Transaction price allocated to the unsatisfied performance obligations		
Within one year	2,923,617	17,329,646

Assets under the contract are offset against advances received under the relevant contracts with customers.

4. Cost of sales

KZT'000	2021	2020
Supplies	39,310,300	44,903,832
Contractor services	8,710,098	17,845,516
	48,020,398	**62,749,348**

5. Administrative expenses

KZT'000	2021	2020
Salary and related taxes	1,043,672	916,939
Contractor services	364,793	320,683
Other taxes	87,109	250,133
Depreciation and amortisation	59,355	65,686
Travel and representation expenses	22,721	36,667
Other	47,590	190,208
	1,625,240	**1,780,316**

6. Reversal of impairment losses (losses), net

The item includes (losses) recovery of impairment losses on the following items:

KZT'000	2021	2020
Investments in subsidiaries and associates	(670,582)	–
Loans receivable	(929,102)	458,013
Advances paid and other current assets	537	–
Trade and other receivables	(448,218)	(14,690)
	(2,047,365)	**443,323**

7. Other operating income, net

The article includes income (losses) on the following operations:

KZT'000	2021	2020
Accrual of penalties and fines, net	955,699	(1,602,599)
Disposal of non-current assets, net	339,826	1,771,651
Other	(96,530)	–
	1,198,995	**169,052**

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7. Other operating income, net, continue

Restoration of previously created (accrual) reserves for penalties include the following items:

- Restoration of the previously created reserve for the settlement of the return of savings under state order contracts in the amount of KZT 304,120 thousand (2020: accrual in the amount of KZT 1,413,140 thousand);
- Restoration of the provision for a penalty on an overdue loan in the amount of KZT 532,796 thousand (2020: accrual in the amount of KZT 460,796 thousand);
- Restoration of the reserve for additional tax payments in the amount of KZT 118,783 thousand (2020: accrual in the amount of KZT 118,783 thousand);
- Income from the penalty for violation of the terms of the contract for the sale of an interest in an associated company for 2020 in the amount of KZT 390,120 thousand.

Income from the disposal of long-term assets mainly includes income from the sale of an interest in Munaymash JSC in the amount of KZT 339,841 thousand (2020: sale of interests in Kazakhstan Aviation Industry LLP and KAMAZ-Engineering JSC in the amount of KZT 1,333,664 thousand and KZT 369,565 thousand, respectively).

8. Finance expenses, net

KZT'000	2021	2020
Finance income		
Interest income on loans receivable	520,631	642,205
Unwinding of discount on loans receivable	478,046	1,215,718
Unwinding of discount on provisions	–	204
Discount on borrowings	789,568	200,850
Interest income on bank deposits	1,783,445	471,526
Government grant	436,892	452,876
Adjustment of the value of financial assets measured at fair value	282,597	–
	4,291,179	2,983,379
Finance expenses		
Interest expense	(1,907,292)	(3,712,644)
Unwinding of discount on borrowings	(455,888)	(452,876)
	(2,363,180)	(4,165,520)
	1,927,999	**(1,182,141)**

9. Income tax

(a) Income tax recovery

The major components of income tax recovery are as follows:

KZT'000	2021	2020
Corporate income tax	(207,695)	–
Origination and reversal of temporary differences	463,506	201,325
Income tax recovery	**255,811**	**201,325**

A reconciliation of income tax recovery applicable to accounting profit before tax at the statutory rate to income tax expense at the effective tax rate is as follows:

KZT'000	2021	2020
Profit before taxation	**3,909,816**	**993,727**
Income tax rate	20.0%	20.0%
At statutory income tax rate	(781,963)	(198,745)
(Non-deductible expenses) non-taxable income	(358,078)	400,070
Recognition of previously unrecognized deferred tax assets	1,395,852	–
Income tax recovery	**255,811**	**201,325**
Effective income tax rate	6.5%	20.3%

9. Income tax, continue

(b) Deferred tax asset

The amounts of deferred tax assets (liabilities) are as follows:

KZT'000	2021	2020
Property, plant and equipment	(2,969)	(10,201)
Loans receivable	1,167,316	1,252,922
Trade and other receivables	118,915	26,964
Borrowings	12,865	(40,170)
Provisions and taxes payable	1,014,168	516,320
Tax losses carried forward	–	1,496,806
	2,310,295	**3,242,641**
Unrecognized deferred tax assets	–	(1,395,852)
	2,310,295	**1,846,789**

Movement in deferred tax asset is as follows:

KZT'000	2021	2020
At 1 January	1,846,789	1,645,464
Credited to profit or loss	463,506	201,325
At 31 December	**2,310,295**	**1,846,789**

(c) Recognition of previously unrecognized deferred tax assets

In 2021, the Company recognized previously unrecognized deferred tax assets for tax losses of previous years in the amount of KZT 1,395,852 thousand. Tax losses can be offset against future taxable income within the limitation period, which is currently 10 years.

10. Investments in subsidiaries, associates and joint entities

The movement of the initial cost of investments is presented as follows:

KZT'000	2021	2020
At 1 January	59,750,421	28,832,061
Cash contributions	–	1,827,265
Non-monetary contributions	–	1,168,834
Discount of loans receivable	(879,084)	(195,794)
Entry of organizations under common control	–	27,845,931
Disposals	(212,567)	(157,665)
Transfer from assets held for sale	–	429,789
Impairment	(670,582)	–
At 31 December	**57,988,188**	**59,750,421**

In June 2021, the Company sold at open electronic auctions 30% of the shares of 52.04% of the shares of Munaymash JSC owned by it for KZT 455,198 thousand (2020: in accordance with the decree of the Government of the Republic of Kazakhstan, 100% of the shares of Kaztechnology JSC worth KZT 27,845,931 thousand was transferred to pay for the issue of shares of the Company).

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10. Investments in subsidiaries, associates and joint entities, continue

The Company had the following interests in subsidiaries, joint ventures and associated enterprises of the machine-building industry of the Republic of Kazakhstan as of December 31:

	2021	2020
Subsidiaries		
Semey Engineering JSC	100.0%	100.0%
Tynys JSC	99.2%	99.2%
Plant named after S.M. Kirov JSC	98.9%	98.9%
Petropavlovsk Heavy Engineering Plant JSC	100.0%	100.0%
Ural Plant Zenit JSC	95.4%	95.4%
Engineering Plant named after S.M. Kirov JSC	97.7%	97.7%
Semipalatinsk machine-building plant JSC	99.4%	99.4%
Kaztechnology JSC	100.0%	100.0%
SRI Gidropribor JSC	90.0%	90.0%
811 auto repair plant KE JSC	100.0%	100.0%
Research&Development Center Kazakhstan Engineering LLP	100.0%	100.0%
KazEng Electronics LLP	100.0%	100.0%
Munaymash JSC	–	52.0%
Joint ventures and associates		
Kazakhstan Aviation Industry LLP	50.0%	50.0%
Kazakhstan ASELSAN Engineering LLP	50.0%	50.0%
Eurocopter Kazakhstan Engineering LLP	50.0%	50.0%
Kaz-ST Engineering Bastau LLP	49.0%	49.0%
Indra Kazakhstan Engineering LLP	49.0%	49.0%

11. Loans receivable

The article includes loans issued to subsidiaries and associates of the Company for replenishment of working capital and implementation of investment projects at low interest rates. In October 2020, the Company set an expected schedule for the payment of outstanding dividends of subsidiaries until 2023-2025, which were also classified as loans issued. These loans were discounted at a rate of 12.2% to the net present value of future cash flows, reflecting the fair value of the loans at the time of their issuance. The corresponding discount at initial recognition was attributed to the cost of investments in subsidiaries, joint ventures and associates.

Flow of amortized cost of loans issued and allowance for expected credit losses are presented as follows:

KZT'000	2021	2020
Nominal ammount		
At 1 January	19,359,673	21,336,336
Loan provided	414,069	571,387
Interest accrued	520,631	642,205
Loans repaid (including dividends received)	(517,025)	(2,100,829)
Non-cash transactions	(1,140,110)	(1,089,426)
At 31 December	18,637,238	19,359,673
Discount at initial recognition		
At 1 January	(5,003,838)	(6,415,350)
Discount	879,084	195,794
Unwinding of discount	478,046	1,215,718
At 31 December	(3,646,708)	(5,003,838)
Provision for expected credit losses		
At 1 January	(1,260,770)	(1,718,783)
(Accrued) recovered	(929,102)	458,013
At 31 December	(2,189,872)	(1,260,770)
Net book value	**12,800,658**	**13,095,065**

12. Advances paid and other current assets

KZT'000	2021	2020
Advances paid	5,144,858	20,319,287
VAT recoverable	887,515	–
Other taxes prepaid	7,621	13,634
Other	7,276	1,234,544
	6,047,270	21,567,465
Allowance for impairment of assets	(1,234,228)	(1,235,391)
	4,813,042	**20,332,074**

The change in the allowance for impairment of assets is presented as follows:

KZT'000	2021	2020
At 1 January	1,235,391	1,239,331
Recovered	(537)	–
Written off	(626)	(3,940)
At 31 December	**1,234,228**	**1,235,391**

13. Trade and other receivables

KZT'000	2021	2020
Trade receivables	4,175,929	4,158,094
Contract assets	–	130,381
Other receivables	16,671	56,219
	4,192,600	4,344,694
Provision for expected credit losses	(594,573)	(146,355)
	3,598,027	**4,198,339**

The change in the provision for expected credit losses is presented as follows:

KZT'000	2021	2020
At 1 January	146,355	132,138
Accrued	448,218	14,690
Written off	–	(473)
At 31 December	**594,573**	**146,355**

14. Cash and cash equivalents

KZT'000	2021	2020
Cash deposits with maturities of less than three months	18,639,795	19,588,851
Cash at bank	51,647	12,014
	18,691,442	**19,600,865**

15. Assets held for sale

The item describes the shares of participation in associated enterprises, which were included in the privatization program. The flow of assets held for sale is as follows:

KZT'000	2021	2020
At 1 January	101,202	4,301,567
Transfer to investments in subsidiaries	–	(429,789)
Transfer from property, plant and equipment	31,423	80,748
Disposals	–	(3,851,324)
At 31 December	**132,625**	**101,202**

In 2020, the Company terminated the preliminary agreement dated 15 October 2018 for the sale of a 100% stake in Kazinzh Electronics LLP due to a violation of the payment schedule by the buyer. As a result, the Company ceased to classify this asset as intended for sale and transferred it to investments in subsidiaries.

The disposal in 2020 includes the transfer of a 50% stake in Kazakhstan Aviation Industry LLP in accordance with a preliminary agreement with the buyer dated 27 July 2018 and full payment of the transaction value.

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16. Equity

(a) Share capital

As of 31 December 2021, the declared, issued and fully paid-up share capital of the Company consisted of common shares in the amount of 58,323,806 shares (2020: 57,118,832 shares), with a par value of 1,000 tenge each. At the same time, a non-monetary payment made in 2020 in the amount of 888,505 shares was not registered.

During 2021, the Company placed 1,204,974 ordinary shares (2020: 30,842,030) with a nominal value of 1,000 tenge each, which were acquired by the sole shareholder. There were no cash receipts from the issue of shares (2020: KZT 1,827,265 thousand). The non-monetary settlement for shares included payment for the issue of shares by transferring tangible assets in the amount of KZT 1,204,974 thousand (2020: transfer of tangible assets in the amount of KZT 280,529 thousand and transfer of a stake in Kaztechnology JSC worth KZT 27,845,931 thousand).

(b) Dividends

In 2021, the Company declared dividends on common shares to the sole shareholder in the amount of KZT 324,734 thousand at the rate of 5.57 tenge per share (2020: zero).

(c) Earnings per share

In accordance with paragraph 4 of IAS 33 "Earnings per Share", the Company presents earnings (losses) per share in its consolidated financial statements. As stated in Note 2 (a), the consolidated financial statements of the Company prepared in accordance with IFRS are issued separately and are available on the KASE website.

(d) Book value of share

The book value of the share is calculated in accordance with the requirement of the listing rules of the Kazakhstan Stock Exchange. As of December 31, the share price was presented as follows:

KZT'000 (unless otherwise stated)	2021	2020
Assets	102,777,913	119,529,311
Intangible assets	(88,827)	(74,232)
Liabilities	(50,968,342)	(72,765,607)
Net assets	51,720,744	46,689,472
Number of ordinary shares, pieces	58,323,806	50,383,329
Book value of share, KZT	**886.79**	**926.68**

17. Borrowings

KZT'000	Maturity date	Interest rate	2021	2020
Halyk Bank of Kazakhstan	2024	12-13%	20,336,168	22,044,239
Samruk-Kazyna	2024	4%	4,798,136	5,588,434
Non-financial organizations	2022	0%	127,883	–
			25,262,187	**27,632,673**
Non-current			4,048,878	–
Current			21,213,309	27,632,673

In May 2021, the Company signed an additional agreement to the bank loan agreement with the Halyk Bank of Kazakhstan dated 23 August 2016 and extended the repayment period of the loan amount until 1 August 2021, and also agreed on a rate of 0.1% per annum on overdue remuneration. The latter was discounted at a rate of 12.2% to the net present value of future cash flows reflecting the fair value of the loan at the time of issue. The corresponding discount at initial recognition was recorded as finance income in the statement of income and expenses.

The loan agreement on financial assistance with Samruk-Kazyna dated 2 July 2018 established an interest rate of 4.0% per annum and a revised repayment schedule until December 2021.

On 23 August 2021, the Company signed an agreement with these creditors on the procedure for repayment of debt, which establishes a schedule for repayment of debt and accrued interest on it at the expense of funds from the sale of the Company's assets until February 2024, including KZT 5,451,945 thousand during 2021, KZT 20,920,906 thousand – 2022, KZT 1,891,026 thousand – 2023 and KZT 2,861,418 thousand – 2024. In December 2021, the Company agreed with creditors to pay by the deadline of 2021 in the amount of KZT 2,526,000 thousand in 2022.

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17. Borrowings, continue

Deferred income – state subsidy

The effect of the benefit received under the loan agreement with Samruk-Kazyna, at a below-market interest rate, was accounted for as part of financial income as income from a state subsidy (see note 8).

Movement of borrowings

KZT'000	2021	2020
Nominal ammount		
At 1 January	27,833,523	27,173,499
Repayment of principal	(2,139,643)	(3,052,620)
Interest accrued	1,907,292	3,712,644
Interest paid	(1,060,985)	–
Non-cash transactions	119,064	–
At 31 December	26,659,251	27,833,523
Discount at initial recognition		
At 1 January	(200,850)	–
Discount	(1,652,102)	(653,726)
Discount depreciation	455,888	452,876
At 31 December	(1,397,064)	(200,850)
Net book value	**25,262,187**	**27,632,673**

18. Trade and other payables

KZT'000	2021	2020
Trade payables	8,514,252	6,585,218
Employee benefit liabilities	108,766	60,583
Other	14,921	19,709
Financial instruments within trade payables	8,637,939	6,665,510
Other taxes and mandatory payments payable	8,011	1,266,577
	8,645,950	**7,932,087**

19. Provisions

KZT'000	2021	2020
Settlement of return of savings under contracts with customers	4,962,620	1,964,204
Penalties for overdue loans	–	532,796
Financial instruments within provisions	4,962,620	2,497,000
Penalties for tax obligations	–	118,783
	4,962,620	**2,615,783**

The movement of estimated liabilities is presented as follows::

KZT'000	2021	2020
As of January 1	2,615,783	–
Accrued, net	2,346,837	2,615,783
Used	–	–
As of December 31	**4,962,620**	**2,615,783**

20. Advances received

The article includes advances received under contracts with customers for the performance of works and the supply of finished products.

21. Reconciliation of profit (loss) before taxation to cash flows from operating activities

KZT'000	Note	2021	2020
Profit (loss) before taxation		**3,909,816**	**993,727**
Adjustments for:			
Impairment losses (recovery of losses), net	6	2,047,365	(443,323)
Financial (income) expenses, net	8	(1,927,999)	1,182,141
Depreciation and amortization		59,355	65,686
Income from disposal of non-current assets		(339,826)	(1,535,104)
Dividend income		(2,863,939)	(1,687,403)
Unrealized (income) foreign exchange loss		(37,520)	22,388
Cash flow from operating activities before changes in working capital		**847,252**	**(1,401,888)**
Decrease in inventories		3,544	2,194
Decrease in advances issued and other current assets		15,519,569	34,282,071
Decrease in trade receivables		837,153	211,768
Increase in estimated liabilities		2,346,837	2,615,783
Decrease in advances received		(23,859,658)	(24,245,756)
Increase in trade and other payables		2,042,327	2,892,791
Cash from operating activities before interest and income tax payments		**(2,262,976)**	**14,356,963**

Non-cash transactions

There were the following non-cash transactions:

KZT'000	Note	2021	2020
Transfer of shares of organizations under common control	16(a)	–	27,845,931
Contributions into share capital	16(a)	1,204,974	1,168,834
Offset of loans issued against trade payables	11	(1,140,110)	(1,089,426)
Recognition of discount on loans issued	11	879,084	195,794
Offsetting of the asset under the contract and advances received	3	14,255,003	–
Discount at initial recognition	17	(1,652,102)	(200,850)
Offset of borrowings against trade receivables	17	119,064	–

22. Financial risk management objectives and policies

(a) Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

Management of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Management oversees compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

22. Financial risk management objectives and policies, continue

(b) Categories and fair values of financial assets and financial liabilities

Categories of financial assets and financial liabilities

KZT'000	Note	2021	2020
Financial assets at amortised costs			
Loans receivable	11	12,800,658	13,095,065
Trade and other receivables	13	3,598,027	4,198,339
Cash and cash equivalents	14	18,691,442	19,600,865
		35,090,127	**36,894,269**
Financial liabilities at amortised cost			
Borrowings	17	(25,262,187)	(27,632,673)
Trade and other payables	18	(8,637,939)	(6,665,510)
Provisions	19	(4,962,620)	(2,497,000)
		(38,862,746)	**(36,795,183)**

Fair values

The fair values of each category of financial asset and liability are not materially different from their carrying values as presented.

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This risk arises mainly from the Company's trade and other receivables and cash.

The carrying value of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at 31 December was:

KZT'000	2021	2020
Loans receivable	12,800,658	13,095,065
Trade and other receivables	3,598,027	4,198,339
Cash	18,691,442	19,600,865
	35,090,127	**36,894,269**

Loans receivable

The Company's loans receivable are represented by receivables from subsidiaries and associates of the Company . In making decision to provide such loans, the Company performs an analysis to ensure that the overall credit exposure on these loans does not exceed the distributable reserves of the Company.

The Company's exposure to credit risk relates entirely to Kazakhstan debtors.

The Company creates an estimated provision for the impairment of loans issued, which is an estimated estimate of the amount of expected credit losses and discounts at initial recognition. The analysis of expected losses rate by the terms of occurrence as of December 31 is presented below:

KZT'000	2021	2020
Past due	18,637,238	19,359,673
Expected loss rate	31%	32%
Impairment	5,836,580	6,264,608

Trade receivables

The Company's exposure to credit risk is influenced by the individual characteristics of each customer. These trade receivables relate to customers that make payment in instalments. The Company regularly monitors its exposure to bad debts in order to minimise this exposure.

The Company's exposure to credit risk relates entirely to Kazakhstan customers.

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22. Financial risk management objectives and policies, continue

In 2021, 100% (2020: 100%) of the Company's revenues came from state defense orders. Dependence on these orders is significant, and the potential negative consequences in case of its loss might be significant.

The Company creates an allowance for impairment of trade receivables, which represents its estimate of expected credit losses. The ageing of trade receivables at 31 December was:

KZT'000	Gross	Expected loss rate	Impairment
2021			
Not past due	4,025,843	13%	513,576
Overdue from 91 to 180 days	63,995	13%	8,199
More than 270 days	102,762	71%	72,798
	4,192,600	**14%**	**594,573**
2020			
Not past due	3,460,330	1%	28,940
More than 270 days	884,364	13%	117,415
	4,344,694	**3%**	**146,355**

Cash

Credit risk related to cash and bank deposits is monitored by management in accordance with the policies of the Company. Free funds are held with banks in Kazakhstan with following ratings of Fitch Ratings:

KZT'000	2021	2020
Rating «BBB-»	15,640,096	19,588,857
Ratings from «BB+» to «BB-»	3,050,569	142
Ratings from «B+» to «B-»	777	11,866
	18,691,442	**19,600,865**

The purpose of this policy is to reduce concentration of credit risk and minimise possible financial loss due to banks' failure to meet their contractual obligations. The possible provision for cash impairment at the reporting dates was insignificant.

(d) Liquidity risk

The Company manages liquidity risk by monitoring forecast cash flows and ensuring continuity of funding and flexibility through the use of bank loans and purchases on credit.

Maturity of financial liabilities

The table below provides an analysis of the Company's financial liabilities to be settled on a gross basis by relevant maturity groups from the balance sheet date to the contractual settlement date:

KZT'000	Less than 3 months	3 to 12 months	From one to five years	Total
2021				
Borrowings	629,287	22,817,619	4,880,329	28,327,235
Trade and other payables	8,623,018	14,920	–	8,637,938
Provisions	–	4,962,620	–	4,962,620
	9,252,305	**27,795,159**	**4,880,329**	**41,927,793**
2020				
Borrowings	27,997,463	–	–	27,997,463
Trade and other payables	6,764,584	19,708	–	6,784,292
Provisions	2,497,000	–	–	2,497,000
	37,259,047	**19,708**	**–**	**37,278,755**

Borrowings include expected future interest payments calculated on the basis of interest rates effective on the balance sheet date.

(e) Price risk

The Company is not exposed to market risk as it concludes contracts without price change adjustment for goods (services) after their sale.

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22. Financial risk management objectives and policies, continue

(f) Interest rate risk

At the reporting dates the Company is not exposed to interest rate risk as there are no financial instruments with floating interest rates.

(g) Currency risk

The Company is exposed to currency risk when performing transactions denominated in a currency other than its functional currency.

The Company 's exposure to currency risk was as follows:

KZT'000	US Dollar	Russian Ruble	Euro
2021			
Cash and cash equivalents	31,069	–	–
Trade and other payables	–	(2,964,294)	(11,707)
	31,069	**(2,964,294)**	**(11,707)**
2020			
Trade and other payables	(22,421)	–	–
	(22,421)	**–**	**–**

(h) Sensitivity analysis

A 10% depreciation of the tenge against the following currencies as at December 31 would have resulted in an increase (decrease) in after-tax income by the amounts shown below. This analysis assumes that all other variables remain unchanged.

KZT'000	2021	2020
US Dollar	2,486	(1,794)
Euro	(937)	–
Russian Ruble	(237,144)	–

Strengthening of the tenge exchange rate by 10% against the currencies listed above as of December 31 would have an equivalent, but opposite effect, provided that all other variables remain unchanged.

(i) Capital management

The overriding objectives of the Company's capital management policy are to safeguard and support the business as a going concern and to maintain an optimal capital structure with a view to maximising returns to owners and benefits to other stakeholders by reducing the Company's cost of capital. The Company's overall policy remains unchanged from 2020.

23. Commitments and contingencies

(a) Kazakhstan's taxation contingencies

Inherent uncertainties in interpreting tax legislation

The Company is subject to uncertainties relating to the determination of its tax liabilities. Kazakhstan tax legislation and practice are in a state of continuous development and, therefore, are subject to varying interpretations and changes which may be applied retrospectively.

Management interpretations of such legislation in applying it to business transactions of the Company may be challenged by the relevant tax authorities and, as a result, the Company may be claimed for additional tax payments, including fines, penalties and interest charges that could have a material adverse effect on the Company's financial position and results of operations.

Period for additional tax assessments

Tax authorities in Kazakhstan have the right to raise additional tax assessments for three or five years after the end of the relevant tax period, depending on the taxpayer category or tax period. In certain cases, as determined by the tax legislation, the terms could be extended for three years.

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23. Commitments and contingencies, continue

Possible additional tax liabilities

Management believes that the Company is in compliance with the tax laws and any contractual terms entered into that relate to tax which affect its operations and that, consequently, no additional tax liabilities will arise. However, due to the reasons set out above, the risk remains that the relevant tax authorities may take a differing position with regard to the interpretation of contractual provisions or tax law.

The resulting effect of this matter is that additional tax liabilities may arise. However, due to the range of uncertainties described above in assessing any potential additional tax liabilities, it is not practicable for management to estimate the financial effect in terms of the amount of additional tax liabilities, if any, together with any associated penalties and charges for which the Company may be liable.

(b) Insurance

The insurance industry in Kazakhstan is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. Available insurance programs may not provide full coverage in the event of a major loss.

(c) Legal commitments

In the ordinary course of business, the Company is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a materially adverse effect on the financial condition or results of operations of the Company. As at 31 December 2021, the Company was not involved in any significant legal proceedings.

(d) Capital expenditure commitments

The Company has no significant capital expenditure commitments for the purchase of property, plant and equipment.

24. Related party disclosures

Related parties include the following:

- Key executives.
- Subsidiaries.
- Joint ventures and associates.
- State bodies and organizations.

(a) Management remuneration

KZT'000	2021	2020
Short-term employee benefits	125,254	110,517
Number of job positions	10	10
Number of officials	11	15

Rewards received by key executives are included in personnel costs of administrative expenses (see note 5).

24. Related party disclosures, continue

(b) Transactions with related parties

The Company had the following transactions and balances with organizations under common control:

KZT'000	Subsidiaries	Associates
2021		
Transactions		
Purchases	(80,617)	(4,278,895)
Outstanding balances		
Loans and accounts receivable	15,882,263	4,790,475
Provisions for doubtful debts	(3,204,564)	(500,220)
Borrowings and accounts payable	(221,006)	(5,359,737)
2020		
Transactions		
Purchases	(20,127,768)	(448,222)
Borrowings	1,047,485	166,106
Outstanding balances		
Loans and accounts receivable	16,858,745	5,790,011
Provisions for doubtful debts	(5,665,703)	(701,231)
Borrowings and accounts payable	(4,142,246)	(2,923,985)

(c) Transactions with organizations related to the State

The Company has delivered goods and received financial services from the following government agencies and organizations that have a significant influence on the Company:

KZT'000	2021	2020
Ministry of Industry and Infrastructural Development of the Republic of Kazakhstan	5,851,529	39,489,736
Ministry of Emergency Situations of the Republic of Kazakhstan	29,955,624	19,923,614
Samruk-Kazyna Sovereign Wealth Fund JSC	–	(213,118)
Ministry of Defense of the Republic of Kazakhstan	–	2,882,350
Ministry of Labor and Social Protection of the Republic of Kazakhstan	–	1,169,318

(d) Terms and conditions of transaction with related parties

Prices for related party transactions are determined by the parties on an ongoing basis depending on the nature of the transaction.

25. Significant accounting policies

The following significant accounting policies have been consistently applied in the preparation of the financial statements

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rate ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange ruling rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate ruling at the date when their fair value was determined. Foreign currency differences arising on retranslation at the exchange rate on the date of the transaction as well as those from retranslation of monetary assets and liabilities at the reporting date are recognised in profit or loss.

The following exchange rates were used in preparing the financial statements:

	2021		2020	
	Year-end	Average	Year-end	Average
US dollar	431.67	426.03	420.91	412.95
Euro	487.79	503.88	516.13	471.44
Russian rouble	5.77	5.79	5.65	5.73

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25. Significant accounting policies, continue

(b) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain (loss) on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income (other expenses) in profit or loss.

Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful life of the individual asset to its estimated residual value. The expected remaining useful lives as follows:

- buildings and constructions 6-14 years;
- machinery and equipment 3-6 years;
- other 2-4 years.

Useful lives and residual values of property, plant and equipment are analysed at each reporting date.

(c) Intangible assets

Intangible assets relate largely to software purchases, which are acquired by the Company and which have finite useful lives, are stated at cost (which comprises purchase price plus any directly attributable costs of preparing the asset for intended use) less accumulated amortisation and impairment losses.

Amortisation

Amortisation of intangible assets, which have expected useful lives of 2 to 5 years, is computed under the straight-line method over the estimated useful lives of the assets.

(d) Investments in subsidiaries, joint ventures and associates

Investments in subsidiaries, joint ventures and associates are carried at cost less impairment losses.

The Company assesses investments for impairment whenever events or changes in the situation indicate that the carrying amount of the investment may not be recoverable. If there are signs of impairment, the Company evaluates the recoverable amount. If the carrying amount of an investment exceeds its recoverable amount, it is considered that the investment has depreciated and its value is reduced to the cost of compensation. In the event of any positive change in the amount or time of future estimated cash flows, or the discount rate, resulting in an increase in the fair value of the Company's investments, the issue of restoring the previously recognized impairment will be considered.

(e) Impairment

The carrying amounts of non-current assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. If there are indicators of impairment, an exercise is undertaken to determine whether the carrying values are in excess of their recoverable amount. Such review is undertaken on an asset-by-asset basis, except where such assets do not generate cash flows independent of other assets, in which case the review is undertaken at the cash generating unit level.

If the carrying amount of an asset or its cash-generating unit exceeds the recoverable amount, a provision is recorded to reflect the asset or cash-generating unit at the lower amount. Impairment losses are recognised in profit or loss.

25. Significant accounting policies, continue

Calculation of recoverable amount

The recoverable amount of assets is the greater of their value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The Company's cash-generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Reversals of impairment

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The actual cost of inventories is based the weighted average cost method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(g) Accounts receivable

Accounts receivable are normally recognised at their nominal value less any expected credit loss and do not generally carry any interest. Expected credit losses are recognised in an allowance account if recoverable. Otherwise, the carrying amount of accounts receivable is written off.

Accounting policies for accounts receivable are provided in the *Financial instruments* section.

(h) Cash

Cash comprise cash at bank which is available on demand and subject to insignificant risk of changes in value and petty cash.

(i) Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method.

(j) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate thereof can be made. If the effect of the time value of money is material, provisions are measured by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The provision is discounted, where material, and the unwinding of the discount is included in finance costs. Over time, the discounted provision is increased (decreased) for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. At the time of establishing the provision, a corresponding asset is capitalised where it gives rise to a future benefit and depreciated using a unit of production method.

Other

Other provisions are accounted for when the Company has a legal or constructive obligation for which it is probable there will be an outflow of resources and for which the amount can be reliably estimated.

(k) Retirement employee benefits

The Company does not have any pension arrangements separate from the state pension system of the Republic of Kazakhstan, which requires current contributions by the employer and employee calculated as a percentage of current gross salary payments.

(l) Revenues

At contract inception, the Company assesses the goods or services (assets) promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either an asset that is distinct or series of distinct assets that are substantially the same and that have the same pattern of transfer to the customer.

25. Significant accounting policies, continue

Sale of goods

Sale of goods is recognised when control of the products has transferred. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Sale of services

Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the extent of progress toward completion.

Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost-plus margin. If contracts include the installation of equipment, revenue for the equipment is recognised at a point in time when the equipment is delivered, the legal title has passed and the customer has accepted the equipment.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

Financing components

There are no contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the transaction prices are not adjusted for the time value of money.

(m) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur.

(n) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Deferred tax is determined using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax asset is recognised only to the extent that it is probable to receive taxable income in future, which can be utilised against this asset. Amount of deferred tax assets are reduced to the extent that it is not probable that appropriate tax savings would be used.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(o) Financial instruments

The Company recognises financial assets and liabilities on its balance sheet when it becomes a party to the contractual provisions of the instrument.

TRANSLATED

25. Significant accounting policies, continue

Financial assets

Classification and initial measurement

Financial assets within the scope of IFRS 9 are classified as financial assets at amortised cost, fair value through profit or loss or fair value through other comprehensive income. The Company determines this classification at initial recognition depending on the business model for managing the financial asset and the contractual terms of the cash flows.

Financial assets are classified and measured at amortised cost or fair value through OCI if the related cash flows are 'solely payments of principal and interest' on the principal amount outstanding. Financial assets with cash flows that are not 'solely payments of principal and interest' are classified and measured at fair value through profit or loss, irrespective of the business model.

At initial recognition financial assets are measured at fair value being the consideration received plus directly attributable transaction costs. Any gain or loss at initial recognition is recognised in the statement of profit or loss.

Subsequent measurement

Financial assets held for the collection of contractual cash flows that are solely payments of principal and interest (and classified as amortised cost) are subsequently measured at amortised cost using the effective interest rate method ("EIR"). Amortised cost is calculated by taking into account any discount or premium and fees or costs on acquisition. Unwinding of the difference between nominal and amortised values is included in finance income in the statement of profit or loss.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Derecognition

A financial asset is derecognised when the Company loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered.

Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit losses that might arise on financial assets measured at amortised cost. This assessment considers the probability of a default event occurring that could result in the expected cash flows due from a counterparty falling short of those contractually agreed.

Expected credit losses are estimated for default events possible over the lifetime of a financial asset measured at amortised cost. However, where the financial asset is not a trade receivable measured at amortised cost and there have been no significant increases in that financial asset's credit risk since initial recognition, expected credit losses are estimated for default events possible within 12 months of the reporting date.

Financial liabilities

Classification and initial measurement

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at amortised cost or fair value through profit or loss. The Company determines the classification of its financial liabilities at initial recognition.

At initial recognition financial liabilities are measured at fair value being the consideration given. Financial liabilities at amortised cost additionally include directly attributable transaction costs.

Subsequent measurement

Trade and other payables and other financial liabilities are subsequently measured at amortised cost using the EIR method after initial recognition. Amortised cost is calculated by taking into account any discount or premium and fees or costs on acquisition. Unwinding of the difference between nominal and amortised values is included in finance costs in the statement of profit or loss.

Financial liabilities measured at fair value through profit or loss are carried on the balance sheet at fair value with subsequent changes recognised in finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

TRANSLATED

25. Significant accounting policies, continue

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

At each reporting date, the fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices, without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

26. Events after the reporting period

Russia's operation on the territory of Ukraine

Russia's special military operation on the territory of Ukraine, which began on 24 February 2022, caused an unprecedented tightening of economic sanctions against Russia by Western countries. The continuation of the military operation and the further tightening of economic sanctions against Russia by Western countries may have an impact on the economy of Kazakhstan and the Company's activities. As of 1 April 2022, the international rating agency Standard and Poor's announced the preservation of the sovereign credit rating of the Republic of Kazakhstan at the level of "BBB-" the forecast is "stable".

There were no other significant events after the reporting period.