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Kazakhstan Engineering National Company JSC

Consolidated financial statements

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

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Independent auditors' report

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INDEPENDENT AUDITORS' REPORT

Shareholder of «Kazakhstan Engineering» National Company» JSC

Opinion

We have audited the accompanying consolidated financial statements of Kazakhstan Engineering National Company JSC and its subsidiaries (hereinafter – the “Group”), which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, and its consolidated financial performance and its consolidated 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 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 (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 consolidated financial statements, as of 31 December 2021, the Group's accumulated loss amounted to KZT 14,375,698 thousand and its current liabilities exceeded current assets by KZT 8,671,657 thousand. These conditions indicate the existence of significant uncertainty, which may raise significant doubts about the Group's ability to continue as a going concern. Our opinion does not contain reservations regarding this issue.

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 matters described below to be the key audit matters to be communicated in our report:

Revenue recognition

Risk The Group recognizes the majority of its sales to customers over time. The key assumptions used in the analysis of the stage of completion of the contract and the recognition of the asset under the contract are based on management's estimates and are a source of uncertainty.

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

- Achieving an understanding of the Group's revenue recognition process;
- Study of the terms of contracts with customers, analyzed non-standard contract terms and reviewed the Group's approach to revenue recognition;
- Analysis of monthly revenue trends and revenue fluctuations for individual contracts, and examined revenue recognition around the reporting date;
- Assessment of the validity of the assumptions used by management in assessing the degree of completion of the contract, including the time and cost of completing contracts with customers;
- Verification of the acceptability and completeness of the disclosure of sales revenue to customers.

Recognition of reserves for illiquid inventories

Risk The Group analyzes the balance of reserves in order to identify unclaimed liquid and illiquid reserves and calculate reserves for them. The key assumptions used in the analysis of the expected life of realization and the recoverable amount of such assets based on management's estimates are a source of uncertainty.

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

- Achieving an understanding of the process of estimating a provision for illiquid inventories;
- Analysis of turnover ratios by inventory items;
- Assessment of the condition of the inventory during the inventory;
- Assessment of the reasonableness of the assumptions used by management in estimating the provision. These assumptions include the expected time and cost of sales/disposal of the inventory, as well as the possibility of their alternative use.
- Verification of the acceptability and completeness of the disclosure of illiquid inventories.

Responsibilities of Management and Those Charged with Governance for the Consolidated 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.

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



Auditors' 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 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 consolidated 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 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 auditors' 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 auditors' 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.

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.



TRANSLATED

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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 Stephens Kazakhstan LLP
13 June 2022



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
Consolidated statement of profit or loss and other comprehensive income
for the year ended 31 December 2021

KZT'000 (unless otherwise specified)

ONGOING ACTIVITIES

Revenues

Note	2021	2020
4	92,419,901	96,708,769
5	(85,145,479)	(85,926,578)

Cost of sales

Gross profit

	7,274,422	10,782,191
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Selling and distribution costs

6	(1,076,994)	(1,195,925)
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Administrative expenses

7	(4,564,070)	(4,539,860)
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Impairment losses, net

8	(1,115,416)	(3,937,545)
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Other operating income, net

9	768,512	1,495,892
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Operating profit

	1,286,454	2,604,753
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Share in income of associates and joint ventures

13	169,330	1,171,596
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Finance expenses, net

10	1,460,318	(2,328,574)
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Foreign exchange loss

	(187,611)	(838,140)
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Profit before taxation

	2,728,491	609,635
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Income tax expense

11(a)	(812,376)	(275,651)
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Profit for the year

	1,916,115	333,984
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DISCONTINUED OPERATIONS

Net (loss) income from discontinued operations

21(c)	(23,014)	129,922
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Net income for the year

	1,893,101	463,906
--	------------------	----------------

Other comprehensive income for the year

	-	-
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Total comprehensive income for the year

	1,893,101	463,906
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Attributable to:

The share of the Company's shareholders

	1,927,436	377,583
--	-----------	---------

from continuing operations

	1,939,412	309,972
--	-----------	---------

from discontinued operations

	(11,976)	67,611
--	----------	--------

Non-controlling interest

	(34,335)	86,323
--	----------	--------

Earnings per share, tenge

21(d)		
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from continuing operations

	33.49	6.63
--	-------	------

from discontinued operations

	(0.40)	2.58
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	33.09	9.21
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These consolidated financial statements have been approved for issue on 13 June 2022 and signed on behalf of the Group's management by:

Temirzhan Abdrakhmanov
Chairman of the Board



Garyp Ismatov
Acting Managing Director

Gulvira Ikmatova
Chief Accountant

KZT'000	Note	2021	2020
ASSETS			
Non-current assets			
Property, plant and equipment	12	42,903,940	43,625,220
Investment property		248,818	254,696
Intangible assets		336,041	314,028
Investments in joint ventures and associates	13	6,715,752	7,165,569
Deferred tax asset	11(b)	1,944,008	1,687,015
Loans receivable	14	2,192,197	2,101,514
Restricted cash	15	2,573,936	2,839,589
Other non-current assets	16	2,122,307	1,855,503
		59,036,999	59,843,134
Current assets			
Inventories	17	16,525,323	15,653,532
Corporate income tax prepaid		878,745	627,366
Advances paid and other current assets	18	13,775,882	28,614,546
Trade and other receivables	19	6,870,973	6,772,210
Restricted cash	15	516,486	821,413
Bank deposits		2,640	51,333
Cash and cash equivalents	20	28,228,867	30,698,097
		66,798,916	83,238,497
Assets held for sale		215,951	104,391
TOTAL ASSETS		126,051,866	143,186,022
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	21(a)	58,323,806	57,118,832
Additional paid in capital		412,406	412,406
Accumulated losses		(14,375,698)	(15,978,400)
Equity attributable to shareholders of the Company		44,360,514	41,552,838
Minority interests		338,777	879,720
		44,699,291	42,432,558
Non-current liabilities			
Borrowings and finance lease	22	4,048,878	–
Trade and other payables		780,701	731,873
Preference shares dividends payable	23	436,840	285,869
Deferred tax liability	11(b)	399,632	433,714
		5,666,051	1,451,456
Current liabilities			
Borrowings and finance lease	22	22,566,049	28,926,022
Deferred income - government grant	22	425,642	–
Trade and other payables	23	15,282,616	13,176,458
Provisions	24	5,277,132	2,979,947
Advances received	25	31,255,891	53,386,433
Preference shares dividends payable		469,507	492,834
Income tax payable		409,687	340,314
		75,686,524	99,302,008
TOTAL LIABILITIES		81,352,575	100,753,464
TOTAL EQUITY AND LIABILITIES		126,051,866	143,186,022

TRANSLATED

Kazakhstan Engineering National Company JSC
Consolidated statement of cash flows
for the year ended 31 December 2021

KZT'000	Note	2021	2020
OPERATING ACTIVITIES			
Cash receipts from customers		80,466,193	103,831,648
Cash paid to employees		(8,411,490)	(8,529,776)
Other taxes and obligatory payments paid		(10,561,125)	(8,117,832)
Cash paid to suppliers		(61,439,970)	(66,221,525)
Cash flows from operations before interest and income tax paid	26	53,608	20,962,515
Interest received		1,888,740	1,072,436
Interest paid		(1,188,516)	(218,759)
Income tax paid		(1,998,717)	(808,682)
Net cash from (used in) operating activities		(1,244,885)	21,007,510
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(1,475,551)	(7,014,284)
Proceeds from sale of property, plant and equipment		78,950	12,015
Purchases of intangible assets		(138,741)	(58,912)
Proceeds from sale of shares in subsidiaries and associates		1,401,735	2,769,280
Increasing the bank deposit		–	263,214
Dividends received	14	576,430	119,365
Net cash from (used in) investing activities		442,823	(3,909,322)
FINANCING ACTIVITIES			
Equity issuance	21(a)	–	2,715,570
Proceeds from borrowings	22	7,388,028	4,228,378
Repayment of borrowings	22	(8,843,355)	(8,223,443)
Dividends paid	21(d)	(327,023)	(50,464)
Net cash used in financing activities		(1,782,350)	(1,329,959)
Net increase (decrease) in cash		(2,584,412)	15,768,229
Additions of entities under common control	21(b)	(2,866)	4,068,127
Effect of exchange rate changes on cash		118,048	(3,477)
Cash and cash equivalents at the beginning of the year		30,698,097	10,865,218
Cash and cash equivalents at the end of the year	20	28,228,867	30,698,097

Reconciliation of cash flows from operating activities reported using the indirect method and non-cash transactions are provided in note 26.

TRANSLATED

Kazakhstan Engineering National Company JSC
Consolidated statement of changes in equity
for the year ended 31 December 2021

KZT'000	Note	Share capital	Additional paid in capital	Accumulated losses	Equity attributable to shareholders of the Company		Minority interests	Total
					Company	Shareholders		
At 1 January 2020		26,276,802	412,406	(15,349,072)	11,340,136	843,861	12,183,997	
Total comprehensive income		-	-	377,583	377,583	86,323	463,906	
Equity issuance	21(a)	30,842,030	-	-	30,842,030	-	30,842,030	
Additions of entities under common control		-	-	(1,006,911)	(1,006,911)	-	(1,006,911)	
Dividend declared	21(b)	-	-	-	-	(50,464)	(50,464)	
At 31 December 2020		57,118,832	412,406	(15,978,400)	41,552,838	879,720	42,432,558	
Total comprehensive income (expense)		-	-	1,927,436	1,927,436	(34,335)	1,893,101	
Equity issuance	21(a)	1,204,974	-	-	1,204,974	-	1,204,974	
Disposal of a subsidiary	21(c)	-	-	-	-	(495,705)	(495,705)	
Dividend declared	21(d)	-	-	(324,734)	(324,734)	(10,903)	(335,637)	
At 31 December 2021		58,323,806	412,406	(14,375,698)	44,360,514	338,777	44,699,291	

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.

These consolidated financial statements comprise the Company and its subsidiaries (hereinafter – the “Group”). Refer to note 30 for a list of all the Company's subsidiaries. The sole shareholder and ultimate controlling party of the Group is the Government of the Republic of Kazakhstan represented by the Ministry of Industry and Infrastructural Development of the Republic of Kazakhstan.

The Group's main activities are:

- participation in the implementation of state policy on the development, production, sale, and liquidation of goods and equipment for protection, dual and civilian use;
- participation in the development of current and long-term intersectoral programs for the development and production of defense and dual-use products to meet domestic needs and exports;
- production and import of defense equipment and dual-use products for the armed forces and other military formations of the Republic of Kazakhstan, as well as their export;
- development and implementation of conversion programs and programs for the development of the military-industrial complex;
- participation in the implementation of the state defense order; formation and implementation of plans for the formation and storage of mobilization reserves;
- production of oil and gas, railway, aviation, agricultural, shipbuilding equipment, production of civil goods.

As at 31 December 2021, the Group had 3,727 employees (2020: 4,462 employees).

(b) Kazakhstan business environment

The Group's operations are primarily located in Kazakhstan. Consequently, the Group 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 Group. Actual economic conditions can differ from those estimates.

2. Basis of preparation

(a) Statement of compliance

These consolidated 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.

(b) Going concern

As of 31 December 2021, the Group's accumulated loss amounted to KZT 14,375,698 thousand and its current liabilities exceeded current assets by KZT 8,671,657 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 Group 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 Group's cash flows. Management continues to apply the going concern principle in preparing these financial statements.

2. Basis of preparation, continue**(c) Basis of accounting**

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

(d) Basis of consolidation

The consolidated financial statements set out the Group's financial position as at 31 December 2021 and the Group's financial performance for the year ended 31 December 2021.

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to direct those activities of an enterprise that most significantly affect the returns the Group earns from its involvement with the enterprise. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This treatment may mean that amounts previously recognised in other comprehensive income are recycled through profit or loss.

The financial statements of subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from intragroup transactions, have been eliminated in full. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(e) 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 its subsidiaries and the currency in which these consolidated financial statements are presented. All financial information presented in tenge has been rounded to the nearest thousand (hereinafter – “KZT’000” or “KZT thousand”).

(f) Adoption of standards and interpretations

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.

(g) New standards and interpretations not yet adopted

The Group 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.

(h) Use of estimates and judgments

The Group'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 4 – Revenues. Management made an assessment of the degree of completion of contracts and assets under the contract;
- Note 11 – 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 12 – Property, plant and equipment. Estimates were made in relation to the useful lives of assets;
- Note 15 – Restricted cash. Management has made an assessment regarding the expected credit losses and the fair value of restricted cash based on market rates on bank deposits;

2. Basis of preparation, continue

- Note 17 – Inventories. Estimates were made in relation to the allowance for obsolete inventories;
- Note 18 – Advances paid and other current assets. Management made estimates in relation to the allowance for doubtful assets;
- Note 19 – Trade and other receivables. Management made estimates in relation to the allowance for expected credit losses;
- Note 24 – 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 27 – Financial risk management objectives and policies. Fair value analysis is based on estimated future cash flows and discount rates;
- Note 28 – Commitments and contingencies. These require management to make estimates as to amounts payable and to determine the likelihood of cash outflows in the future.

(i) Comparative information

If the format of presentation of consolidated financial statements is changed during the year, the comparative data are amended accordingly. Thus, the financial results of the disposed subsidiary were presented in the income statement as discontinued operations (see note 21 (c) "Disposal of the subsidiary").

3. Segment information

The information provided to the Group's Board of Directors for allocating resources and evaluating segment performance is prepared in accordance with the management and operating structure of the Group. For management purposes, the Group is divided into two segments, as described below, according to the nature of their activities, products and services provided. According to IFRS 8 Operating Segments, each of these segments is a separate operating segment.

The Group's operating segments are represented by the Civilian and Dual-Use segments.

Dual-use products

This segment includes the Group's divisions specializing in the production of special products and dual-use products. Its main activity is the production of military equipment and equipment, components for them, repair and modernization services.

Civilian products

This segment includes the divisions of the Group specializing in the production of civilian goods. Its main activity is the production of equipment and the provision of engineering services for the oil and gas, transport, and other industries of the Republic of Kazakhstan.

Management and valuation of operating segments

The key performance indicator of operating segments is revenue, as measured in accordance with IFRS 15. In addition, the valuation of operating segments is based on net income.

(a) Income and expenses

KZT'000	Dual-use products	Civilian products	Intra-grouping transactions	Total
2021				
Revenues	86,301,727	6,210,834	(92,660)	92,419,901
Depreciation and amortisation	(1,656,528)	(302,690)	–	(1,959,218)
Operating profit (loss)	3,345,558	(882,844)	(1,176,260)	1,286,454
Profit for the year	3,434,405	(1,249,686)	(291,618)	1,893,101
2020				
Revenues	100,433,865	13,560,575	(17,285,671)	96,708,769
Depreciation and amortisation	(1,119,292)	(457,784)	–	(1,577,076)
Operating profit	2,704,913	419,859	(520,019)	2,604,753
Profit for the year	2,882,205	(169,220)	(2,249,079)	463,906

3. Segment information, continue**(b) Capital expenditures**

KZT'000	Dual-use products	Civilian products	Total
2021			
Capital expenditures	1,973,381	315,609	2,288,990
2020			
Capital expenditures	1,930,672	577,182	2,507,854

(c) Assets and liabilities

KZT'000	Dual-use products	Civilian products	Intra-grouping balances	Total
2021				
Assets except for investments accounted for under the equity method	94,313,082	38,680,881	(13,657,849)	119,336,114
Investments accounted for under the equity method	6,715,752	–	–	6,715,752
Liabilities	(87,931,994)	(10,464,690)	17,044,109	(81,352,575)
2020				
Assets except for investments accounted for under the equity method	132,432,453	20,704,259	(17,116,259)	136,020,453
Investments accounted for under the equity method	7,165,569	–	–	7,165,569
Liabilities	(110,034,934)	(10,829,323)	20,110,793	(100,753,464)

4. Revenues

The item includes income from the production of military equipment and equipment, component materials for them, repair and modernization services, as well as equipment and the provision of engineering services for the oil and gas, transport and other industries of the Republic of Kazakhstan under 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	15,989,023	25,904,314
Goods and services are transferred during the period	76,430,878	70,804,455
	92,419,901	96,708,769
Balance of contract assets and liabilities		
Contract assets	21,758,384	1,529,678
Transaction price allocated to the unsatisfied performance obligations		
Within one year	25,578,949	35,610,471
More than one year	8,815,782	8,132,000
	34,394,731	43,742,471

As of 31 December 2021, assets under the contract in the amount of KZT 20,938,983 thousand (2020: zero) were offset against advances received under the relevant contracts with buyers. The remaining amount is disclosed as part of trade and other receivables in note 19.

5. Cost of sales

KZT'000	2021	2020
Supplies	58,820,354	54,017,134
Contractor services	16,484,262	21,085,423
Salary and related taxes	8,398,356	8,242,228
Depreciation and amortisation	1,427,547	1,354,011
Other	368,805	346,396
	85,499,324	85,045,192
Change in finished goods and work in progress	(353,845)	881,386
	85,145,479	85,926,578

6. Selling and distribution costs

KZT'000	2021	2020
Salary and related taxes	399,241	439,123
Contractor services	336,727	245,737
Travel and representation expenses	101,980	108,219
Depreciation and amortisation	14,545	14,284
Other	224,501	388,562
	1,076,994	1,195,925

7. Administrative expenses

KZT'000	2021	2020
Salary and related taxes	2,608,058	2,656,916
Contractor services	844,761	558,281
Depreciation and amortisation	517,126	208,781
Other taxes	262,455	358,395
Travel and representation expenses	99,363	106,111
Other	232,307	651,376
	4,564,070	4,539,860

8. Impairment losses, net

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

KZT'000	2021	2020
Loans receivable	34,502	91,869
Inventories	(456,418)	(3,110,046)
Advances paid and other current assets	(344,818)	(766,152)
Trade and other receivables	(355,409)	96,851
Restricted cash	–	(250,067)
Cash and cash equivalents	6,727	–
	(1,115,416)	(3,937,545)

9. Other operating income, net

The item includes income on the following operations:

KZT'000	2021	2020
Restoration of previously created (accrual) reserves for penalties and savings under contracts	491,002	(1,620,391)
Write-off of liabilities	219,631	421,871
Disposal of long-term assets	90,988	2,640,013
Other	(33,109)	54,399
	768,512	1,495,892

Restoration of previously created (accrual) reserves for penalties and savings under contracts 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 of the reserve in the amount of KZT 1,430,932 thousand);
- Restoration of the provision for a penalty on an overdue loan in the amount of KZT 532,796 thousand (2020: accrual of a provision 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 of the reserve in the amount of KZT 118,783 thousand);
- Expenses on penalties for violation of the terms of the contract with other counterparties in the amount of KZT 451,229 thousand (2020: income in the amount of KZT 390,120 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;

9. Other operating income, net, continue

Income from the write-off of liabilities includes income from the write-off of accounts payable of subsidiaries to suppliers for which the statute of limitations has expired.

The disposal of long-term assets for 2020 includes income and loss from the sale of a stake in the Kazakhstan Aviation Industry LLP of KAMAZ-Engineering JSC in the amount of KZT 1,333,664 thousand and KZT 407,080 thousand, respectively, as well as income from the sale of fixed assets in the amount of KZT 1,339,798 thousand and others.

10. Finance income (expenses), net

KZT'000

	2021	2020
Finance income		
Interest income on loans receivable	156,663	166,106
Unwinding of discount on loans receivable	151,780	174,393
Unwinding of discount on provisions	–	21,820
Discount on borrowings	789,568	200,850
Interest income on deposits	2,248,260	1,248,526
Government grant	436,892	452,876
Recovery of discount on loans receivable	–	123,394
Adjustment of the value of financial assets measured at fair value through income and losses	282,597	–
	4,065,760	2,387,965
Finance expenses		
Interest expense on borrowings	(2,094,830)	(4,047,653)
Unwinding of discount on borrowings	(455,888)	(452,876)
Unwinding of discount on provisions	(3,597)	(23,879)
Preference shares dividends	(51,127)	(192,131)
	(2,605,442)	(4,716,539)
	1,460,318	(2,328,574)

11. Income tax**(a) Income tax expenses**

The major components of income tax expense are as follows:

KZT'000

	2021	2020
Income tax	(1,050,041)	(1,143,155)
Origination and reversal of temporary differences	237,665	867,504
Income tax expense	(812,376)	(275,651)

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

KZT'000

	2021	2020
Profit before tax	2,822,409	609,635
Income tax rate	20.0%	20.0%
At statutory income tax rate	(564,482)	(121,927)
Non-deductible expenses	(875,337)	(149,570)
Recognition of previously unrecognised deferred tax assets	627,443	(4,154)
Income tax expense	(812,376)	(275,651)
Effective income tax rate	-28.8%	-45.2%

11. 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	(1,302,355)	(1,518,123)
Loans receivable	100,044	140,246
Trade and other receivables	(97,210)	46,353
Restricted cash	52,795	52,777
Borrowings	12,865	(40,170)
Provisions and taxes payable	1,340,962	705,680
Inventories	1,092,365	1,069,936
Tax losses carried forward	1,144,467	2,223,602
	2,343,933	2,680,301
Unrecognised deferred tax assets	(799,557)	(1,427,000)
	1,544,376	1,253,301
Deferred tax asset	1,944,008	1,687,015
Deferred tax liability	(399,632)	(433,714)

Movement in deferred tax asset is as follows:

KZT'000

	2021	2020
At 1 January	1,253,301	384,609
Attributed to income	237,665	867,504
Discontinued operations	–	14,738
Disposal (receipt) of subsidiaries	53,410	(13,550)
At 31 December	1,544,376	1,253,301

(c) Unrecognized deferred tax assets

The deferred tax asset was not recognized in respect of deferred tax losses in the amount of KZT 799,557 thousand (2020: KZT 1,427,000 thousand), due to the insufficient probability of future taxable income being received by the Group's enterprises, against which these losses can be offset. Tax losses can be transferred to the account of future taxable income for the next ten years inclusive to be repaid at the expense of taxable income of these tax periods.

12. Property, plant and equipment

KZT'000	Land and buildings	Machinery and equipment	Other	Construction in progress	Total
Cost					
At 1 January 2020	10,920,922	14,707,604	1,311,173	1,337,480	28,277,179
Additions	1,500	443,507	52,070	5,824,533	6,321,610
Additions of entities under common control	1,392,342	1,017,961	208,260	19,629,575	22,248,138
Transfers	1,471,805	1,264,795	(25,544)	(2,711,056)	–
Transfer to assets held for sale	(104,106)	–	–	–	(104,106)
Disposals	(751,884)	(400,026)	(27,531)	(10,590)	(1,190,031)
At 31 December 2020	12,930,579	17,033,841	1,518,428	24,069,942	55,552,790
Additions	114,702	568,559	60,569	1,420,023	2,163,853
Transfers	2,235,211	4,416,130	303,378	(6,954,719)	–
Transfer to assets held for sale	(132,633)	(15,065)	–	–	(147,698)
Disposals	(236,964)	(310,175)	(45,421)	(4,670)	(597,230)
Disposal of a subsidiary	(227,839)	(1,756,577)	(34,247)	(22,732)	(2,041,395)
At 31 December 2021	14,683,056	19,936,713	1,802,707	18,507,844	54,930,320
Depreciation					
At 1 January 2020	2,540,114	6,634,664	739,339	–	9,914,117
Additions of entities under common control	147,023	491,344	139,189	–	777,556
Depreciation charge	376,901	1,166,869	125,979	–	1,669,749
Transfers	(12,840)	139,093	(126,253)	–	–
Transfer to assets held for sale	(23,359)	–	–	–	(23,359)
Disposals	(47,942)	(338,359)	(24,192)	–	(410,493)
At 31 December 2020	2,979,897	8,093,611	854,062	–	11,927,570
Depreciation charge	421,794	1,390,767	144,437	–	1,956,998
Transfers	(11,743)	(2,028)	13,771	–	–
Transfer to assets held for sale	(34,882)	(1,256)	–	–	(36,138)
Disposals	(74,273)	(236,090)	(38,238)	–	(348,601)
Disposal of a subsidiary	(33,915)	(1,421,324)	(18,210)	–	(1,473,449)
At 31 December 2021	3,246,878	7,823,680	955,822	–	12,026,380
Net book value					
At 1 December 2020	9,950,682	8,940,230	664,366	24,069,942	43,625,220
At 31 December 2021	11,436,178	12,113,033	846,885	18,507,844	42,903,940

Assets acquired for long-term lease

As of 31 December 2021, there are no machines and equipment purchased on a long-term lease (2020: the current value was KZT 223,504 thousand).

Collateral

Fixed assets with a book value of KZT 1,043,763 thousand (2020: KZT 1,547,350 thousand) serve as collateral for the Group's loans (see note 22). The Group cannot sell these assets or pledge them to secure other loans.

13. Investments in joint ventures and associates

	2021		2020	
	Ownership interest	Net book value	Ownership interest	Net book value
«Kazakhstan aviation industry» LLP	50%	1,537,832	50%	1,246,378
«Kazakhstan ASELSAN Engineering» LLP	50%	3,350,908	50%	3,869,364
«Eurocopter Kazakhstan Engineering» LLP	50%	1,811,191	50%	2,034,006
Other		15,821		15,821
		6,715,752		7,165,569

13. Investments in joint ventures and associates, continue

Movement of investments

KZT'000	2021	2020
At 1 January	7,165,569	7,024,271
Receipt of organizations under general control	–	16,468
Share in income of associates and joint ventures	169,330	1,171,596
Dividends received	(619,147)	(119,365)
Disposal	–	(927,401)
At 31 December	6,715,752	7,165,569

Information about the financial situation

KZT'000	Kazakhstan Aviation Industry LLP	Kazakhstan ASELSAN Engineering LLP	Eurocopter Kazakhstan Engineering LLP
2021			
ASSETS			
Non-current assets	7,458,398	7,315,801	1,610,173
Current assets	28,538,019	4,913,303	9,181,258
including cash and cash equivalents	8,726,841	1,104,277	2,552,269
LIABILITIES			
Non-current liabilities	(20,720)	(873,633)	(1,586,712)
including finance liabilities	–	–	–
Current liabilities	(32,900,033)	(4,653,656)	(5,582,337)
including finance liabilities	(3,210,579)	–	–
2020			
ASSETS			
Non-current assets	7,207,953	7,665,044	1,475,072
Current assets	12,284,751	6,126,621	4,817,928
including cash and cash equivalents	3,677,978	2,608,226	1,948,035
LIABILITIES			
Non-current liabilities	(722,536)	(1,296,547)	(52,373)
including finance liabilities	(576,976)	–	–
Current liabilities	(16,277,413)	(4,756,389)	(2,172,614)
including finance liabilities	(3,791,528)	–	–

13. Investments in joint ventures and associates, continue

Information about income and expenses

KZT'000	Kazakhstan Aviation Industry LLP	Kazakhstan ASELSAN Engineering LLP	Eurocopter Kazakhstan Engineering LLP
2021			
Revenues	7,254,317	714,746	2,117,644
Depreciation and amortisation	(432,634)	(372,251)	(212,313)
Interest income	402,094	84,371	–
Interest expense	(248,371)	–	(62,195)
Income tax expense	(84,100)	(40,134)	(40,691)
(Loss) profit for the year	582,910	(368,185)	123,936
Other comprehensive income for the year	–	–	–
Total comprehensive (expense) income for the year	582,910	(368,185)	123,936
2020			
Revenues	7,349,888	16,575,787	7,368,368
Depreciation and amortisation	(432,634)	(363,560)	(183,369)
Interest income	–	5,600	925
Interest expense	(227,233)	–	–
Income tax expense	58,378	(31,654)	276,154
(Loss) profit for the year	(294,649)	1,825,475	813,664
Other comprehensive income for the year	–	–	–
Total comprehensive (expense) income for the year	(294,649)	1,825,475	813,664

14. Loans receivable

The article includes loans issued to associates of the Group for replenishment of working capital and implementation of investment projects at low interest rates. 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 movement of the amortized cost of loans issued and the provision for expected credit losses is presented as follows:

KZT'000	2021	2020
Nominal amount		
At 1 January	2,802,745	3,186,683
Interest accrued	156,663	166,106
Non-monetary transactions	(266,991)	(550,044)
At 31 December	2,692,417	2,802,745
Discount on initial recognition		
At 1 January	(492,820)	(790,607)
Discount	14,729	123,394
Discount depreciation	151,780	174,393
At 31 December	(326,311)	(492,820)
Provision for expected credit losses		
At 1 January	(208,411)	(300,280)
Restored	34,502	91,869
At 31 December	(173,909)	(208,411)
	2,192,197	2,101,514

13. Investments in joint ventures and associates, continue

Information about income and expenses

KZT'000	Kazakhstan Aviation Industry LLP	Kazakhstan ASELSAN Engineering LLP	Eurocopter Kazakhstan Engineering LLP
2021			
Revenues	7,254,317	714,746	2,117,644
Depreciation and amortisation	(432,634)	(372,251)	(212,313)
Interest income	402,094	84,371	–
Interest expense	(248,371)	–	(62,195)
Income tax expense	(84,100)	(40,134)	(40,691)
(Loss) profit for the year	582,910	(368,185)	123,936
Other comprehensive income for the year	–	–	–
Total comprehensive (expense) income for the year	582,910	(368,185)	123,936
2020			
Revenues	7,349,888	16,575,787	7,368,368
Depreciation and amortisation	(432,634)	(363,560)	(183,369)
Interest income	–	5,600	925
Interest expense	(227,233)	–	–
Income tax expense	58,378	(31,654)	276,154
(Loss) profit for the year	(294,649)	1,825,475	813,664
Other comprehensive income for the year	–	–	–
Total comprehensive (expense) income for the year	(294,649)	1,825,475	813,664

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At 31 December	2,692,417	2,802,745
Discount on initial recognition		
At 1 January	(492,820)	(790,607)
Discount	14,729	123,394
Discount depreciation	151,780	174,393
At 31 December	(326,311)	(492,820)
Provision for expected credit losses		
At 1 January	(208,411)	(300,280)
Restored	34,502	91,869
At 31 December	(173,909)	(208,411)
	2,192,197	2,101,514

15. Restricted cash

KZT'000	2021	2020
Nominal amount	3,340,489	3,911,069
Allowance for expected credit losses	(250,067)	(250,067)
	3,090,422	3,661,002
Non-current	2,573,936	2,839,589
Current	516,486	821,413

The item includes targeted undeveloped funds from the state budget within the framework of investment projects.

16. Other non-current assets

KZT'000	2021	2020
Advances issued and other assets	1,402,272	1,527,685
Financial assets measured at fair value through income and losses	379,198	–
Inventory	320,726	313,228
Trade and other accounts receivable	14,598	14,590
Other	5,513	–
	2,122,307	1,855,503

17. Inventories

KZT'000	2021	2020
Raw and materials	15,685,240	16,465,211
Finished products and work in progress	4,876,124	4,522,279
Construction materials	1,861,509	567,784
	22,422,873	21,555,274
Allowance for obsolete inventories	(5,576,824)	(5,588,514)
	16,846,049	15,966,760
Non-current	320,726	313,228
Current	16,525,323	15,653,532

Non-current inventory consists of components of special military equipment that will be used for more than 12 months after the reporting date.

Movement in the allowance for obsolete inventories is as follows:

KZT'000	2021	2020
At 1 January	5,588,514	2,656,851
(Disposal) receipt of a subsidiary	(8,157)	22,398
Accrued	456,418	3,110,046
Written off	(459,951)	(200,781)
At 31 December	5,576,824	5,588,514

18. Advances paid and other current assets

KZT'000	2021	2020
Advances paid	14,918,369	29,742,754
VAT reclaimable	2,489,762	1,445,203
Other taxes prepaid	111,854	197,409
Other	101,132	1,253,224
	17,621,117	32,638,590
Allowance for impairment of assets	(2,442,963)	(2,496,359)
	15,178,154	30,142,231
Non-current	1,402,272	1,527,685
Current	13,775,882	28,614,546

16. Advances paid and other current assets, continue

Movement in the allowance for doubtful assets is as follows:

KZT'000	2021	2020
At 1 January	2,496,359	1,778,165
Accrued	344,818	766,157
Written off	(398,214)	(47,963)
At 31 December	2,442,963	2,496,359

19. Trade and other receivables

KZT'000	2021	2020
Trade receivables	6,544,562	4,649,044
Contract assets	819,401	1,529,678
Other	268,828	1,031,625
	7,632,791	7,210,347
Allowance for expected credit losses	(747,220)	(423,547)
	6,885,571	6,786,800
Non-current	14,598	14,590
Current	6,870,973	6,772,210

Movement in the allowance for expected credit losses is as follows:

KZT'000	2021	2020
At 1 January	423,547	536,043
(Recovered) accrued	355,409	(94,576)
Written off	(31,307)	(17,920)
Disposal of a subsidiary	(429)	–
At 31 December	747,220	423,547

20. Cash and cash equivalents

KZT'000	2021	2020
Cash deposits with maturities of less than three months	19,669,295	21,109,355
Cash at bank	8,551,850	9,558,905
Petty cash	14,449	29,837
	28,235,594	30,698,097
Provision for expected credit losses	(6,727)	–
	28,228,867	30,698,097

21. 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.

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 2,715,570 thousand). The non-monetary settlement for the 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 block of shares of Kaztechnology JSC worth KZT 27,845,931 thousand).

(b) Additions of entities under common control

In October 2019, the Government of the Republic of Kazakhstan adopted a resolution on the transfer of a 100% stake in Kaztechnology JSC to the Group to pay for the issue of shares of the Company. Also in 2020, the Group terminated the contract for the transfer of a stake in Kazinzh Electronics LLP for violating the payment schedule for 2019. The Group classified these transactions as proceeds from entities under common control.

21. Equity, continue**(c) Disposal of a subsidiary**

In June 2021, the Group sold 30% of its 52.04% stake in Munaymash JSC for KZT 455,198 thousand at open electronic auctions.

Income and Expense Statement

The statement of income and expenses of the retired subsidiary is presented below:

KZT'000	Note.	6 months 2021	2020
Revenues		1,896,919	3,209,997
Cost of sales		(1,896,845)	(2,877,187)
Selling and distribution costs		(44,324)	(92,408)
Administrative expenses		(34,893)	(96,132)
Impairment losses, net		–	(2,280)
Other operating income, net		(18,006)	4,424
Finance expenses, net		1,425	9,100
Foreign exchange loss		(21,208)	9,443
Profit before taxation		(116,932)	164,957
Income tax expense		–	(35,035)
Profit for the year		(116,932)	129,922
Income from disposal of a subsidiary		93,918	–
Net (loss) income for the period from discontinued operations		(23,014)	129,922

Statement of financial position

The statement of financial position of the subsidiary at the date of disposal is presented below:

KZT'000	as of June 30 2021
Non-current assets	515,323
Current assets	1,314,717
Current liabilities	(796,459)
Net assets	1,033,581
Shareholders' share in net assets	537,876
The remaining part of the investment	(244,442)
Retired share in net assets	(293,434)
Refund received	455,198
Income tax expenses	(67,846)
Income from disposal of a subsidiary	93,918

Movement of net cash flows

The net cash flows of the subsidiary are reflected in the consolidated statement of cash flows and are presented below:

KZT'000	6 months 2021	2020
Operational activities	72,300	228,607
Investment activity	(64,399)	951
Financial activities	(23,177)	(243,142)
	(15,276)	(13,584)

(d) Dividends

In 2021, the Company declared and paid dividends on common shares in the amount of 324,734 thousand tenge (2020: zero) at the rate of 5.57 tenge (2020: zero) per share. Also in 2021, subsidiaries declared dividends to holders of non-controlling interests in the amount of KZT 10,903 thousand (2020: KZT 50,464 thousand). The guaranteed amount of dividends on preferred shares of subsidiaries in the amount of KZT 51,127 thousand (2020: KZT 192,131 thousand) is reflected in financial expenses (see note 10).

21. Equity, continue**(e) Earnings per share**

Basic earnings (losses) per share is determined by dividing net income (losses) for the year, intended for holders of ordinary shares, by the weighted average number of ordinary shares outstanding during the period.

KZT'000 (unless otherwise stated)

	2021	2020
Profit for the year	1,893,101	463,906
Average number of ordinary shares, pieces	57,219,247	50,383,329
Basic and diluted earnings per share, tenge	33.09	9.21

(f) 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	126,051,866	143,186,022
Intangible assets	(336,041)	(314,028)
Liabilities	(81,352,575)	(100,753,464)
Net assets	44,363,250	42,118,530
Number of ordinary shares, pieces	58,323,806	50,383,329
Book value of share, tenge	760.64	835.96

22. Borrowings and long-term lease

KZT'000

	Maturity	Interest rate	2021	2020
Borrowings				
Halyk Bank of Kazakhstan JSC	2024	12-13%	20,821,667	22,855,091
Samruk-Kazyna Sovereign Wealth Fund	2024	4%	4,798,136	5,588,433
ForteBank JSC	2022	11-12%	977,626	–
First Heartland Jusan Bank JSC	2022	12-13%	–	375,502
Non-financial organizations			17,498	–
			26,614,927	28,819,026
Long-term lease				
Industrial Development Fund JSC	2021	5%	–	106,996
			26,614,927	28,926,022
Non-current			4,048,878	–
Current			22,566,049	28,926,022

In May 2021, the Group 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 Group 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.

In 2021, the Group opened a credit line in ForteBank JSC for replenishment of working capital from with a rate of 11.5%-12.0% per annum.

22. Borrowings and long-term lease, continue

Movement of borrowings and long-term lease

KZT'000	2021	2020
Nominal amount		
At 1 January	29,126,872	29,990,558
Proceeds	7,388,028	4,228,378
Repayment of principal	(8,843,355)	(8,223,443)
Interest accrued	2,096,718	4,056,237
Interest paid	(1,188,516)	(218,759)
Non-cash transactions	(524,992)	(891,899)
Additions of entities under common control	(42,764)	185,800
At 31 December	28,011,991	29,126,872
Discount at initial recognition		
At 1 January	(200,850)	–
Accrued (reversed)	(1,652,102)	(653,726)
Discount depreciation	455,888	452,876
At 31 December	(1,397,064)	(200,850)
Net book value	26,614,927	28,926,022

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 10).

Collateral for loans

Fixed assets with a book value of KZT 1,043,763 thousand (2020: KZT 1,547,350 thousand) serve as collateral for loans of the Group.

23. Trade and other payables

KZT'000	2021	2020
Trade payables	11,897,248	7,300,561
Preference shares dividend provision	957,931	1,030,958
Other	910,356	401,543
Financial instruments within trade payables	13,765,535	8,733,062
Other taxes and mandatory payments payable	1,953,921	4,729,265
	15,719,456	13,462,327
Non-current	436,840	285,869
Current	15,282,616	13,176,458

Other taxes and mandatory payments as of 31 December 2021 primarily include VAT, taxes, and payments on wages and salaries. The main part of the obligation was for the 4 quarter of 2021 and was repaid in February 2022.

24. Provisions

KZT'000	2021	2020
Settlement of return of savings under contracts with customers	4,962,620	1,964,204
Penalties for overdue loans	314,512	436,164
Warranty obligations under contracts with customers	–	460,796
Financial instruments within provisions	5,277,132	2,861,164
Penalties for tax obligations	–	118,783
	5,277,132	2,979,947

24. Provisions, continue

The movement of estimated liabilities is presented as follows:

KZT'000	2021	2020
At 1 January	2,979,947	217,605
Accrued, net	2,297,185	2,762,342
At 31 December	5,277,132	2,979,947

25. Advances received

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

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

KZT'000	Note	2021	2020
Income from continuing operations before taxation		2,728,491	609,635
(Loss) income from discontinued operations before taxation		(116,932)	164,957
Adjustments for:			
Impairment losses, net	8	1,115,416	3,939,825
Finance expenses, net	10	(1,460,318)	2,319,474
Depreciation and amortisation		1,959,218	1,717,535
(Gain) loss on disposal of non-current assets		(90,988)	(11,708)
Share of net assets of associates	13	(169,330)	(1,171,596)
Unrealised foreign exchange loss (gain)		187,611	828,697
Operating cash flows before changes in working capital		4,153,168	8,396,819
Increase in inventories		(863,368)	(1,685,756)
Decrease in advances issued and other current assets		14,397,531	28,423,588
Increase in trade and other receivables		(204,057)	(1,824,133)
Decrease (increase) of funds limited in use		570,580	(3,911,069)
Increase in estimated liabilities		2,297,185	2,762,342
Decrease in advances received		(22,840,039)	(6,253,237)
Increase (decrease) in trade payables		2,542,608	(4,946,039)
Cash flows from operations before interest and income tax paid		53,608	20,962,515

Non-cash transactions

There were the following non-cash transactions:

KZT'000	Note	2021	2020
Transfer of shares of organizations under common control	21(a)	–	27,845,931
Contributions into share capital	21(a)	1,204,974	280,529
Offset of loans issued against trade payables	14	(266,991)	(550,044)
Recognition of discount on loans issued	14	14,729	123,394
Offsetting of the asset under the contract and advances received	4	20,938,983	–
Recognition (reversal) of the discount on borrowings	22	(1,652,102)	(653,726)
Offset of borrowings against trade receivables	22	(524,992)	(891,899)

27. Financial instruments and financial risk management objectives and policies

(a) Overview

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

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

27. Financial instruments and financial risk management objectives and policies, continue

Management of the Group has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, 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 Group's activities. The Group, 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 Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

(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	14	2,192,197	2,101,514
Restricted cash	15	3,090,422	3,661,002
Trade and other receivables	19	6,885,571	6,786,800
Bank deposits		2,640	51,333
Cash and cash equivalents	20	28,228,867	30,698,097
		40,399,697	43,298,746
Financial assets at amortised costs			
Borrowings	22	(26,614,927)	(28,926,022)
Trade and other payables	23	(13,765,535)	(8,733,062)
Provisions	24	(5,277,132)	(2,861,164)
Preference shares dividends payable		(1,250,208)	(1,224,707)
		(46,907,802)	(41,744,955)

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 Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This risk arises mainly from the Group's loans receivable to related parties, trade 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	2,192,197	2,101,514
Restricted cash	3,090,422	3,661,002
Trade and other receivables	6,885,571	6,786,800
Bank deposits	2,640	51,333
Cash (less petty cash)	28,221,145	30,668,260
	40,391,975	43,268,909

Loans receivable

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

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

27. Financial instruments and financial risk management objectives and policies, continue

The allowance for impairment of loans receivable is created at loan issuance, which is a calculated estimate of the amount of expected credit losses. The analysis of expected losses rate by the terms of occurrence as of December 31 is presented below:

KZT'000	2021	2020
Past due	2,692,417	2,802,745
Expected loss rate	19%	25%
Impairment	500,220	701,231

Trade receivables

The Group'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 Group regularly monitors its exposure to bad debts in order to minimise this exposure.

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

In 2021, 76% (2020: 80%) of the Company's revenues came from state defense orders. Dependence on these customers is significant, and the potential negative consequences in case of its loss might be significant.

The Group 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	6,507,510	9%	553,467
Past due 0-90 days	215,656	0%	880
Past due 91-180 days	155,129	5%	8,198
Past due 181-270 days	47,714	0%	–
More than 270 days	706,782	26%	184,675
	7,632,791	10%	747,220
2020			
Not past due	5,072,375	2%	80,031
Past due 0-90 days	447,888	4%	19,986
Past due 91-180 days	198,454	56%	111,632
Past due 181-270 days	257,625	0%	518
More than 270 days	1,234,005	17%	211,380
	7,210,347	6%	423,547

Cash and bank deposits

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-»	21,048,212	26,365,950
Ratings from «BB+» to «BB-»	8,574,177	4,028,355
Ratings from «B+» to «B-»	1,898,025	4,234,422
Without ratings	50,587	1,935
	31,571,001	34,630,662
Impairment	256,794	250,067
Expected loss rate	1%	1%

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.

27. Financial instruments and financial risk management objectives and policies, continue**(d) Liquidity risk**

The Group 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 Group'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	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
2021						
Borrowings	17,498	629,287	24,327,024	4,752,445	–	29,726,254
Preference shares dividends payable	422,507	–	49,742	198,968	994,841	1,666,058
Trade and other payables	1,282,443	10,287,446	1,758,805	436,841	–	13,765,535
Provisions	–	–	4,962,620	–	–	4,962,620
	1,722,448	10,916,733	31,098,191	5,388,254	994,841	50,120,467
2020						
Borrowings and long-term lease	–	–	28,926,022	200,850	–	29,126,872
Preference shares dividends payable	374,988	–	50,256	155,354	776,769	1,357,367
Trade and other payables	103,061	7,832,641	760,398	79,549	157,568	8,933,217
Provisions	–	2,861,164	–	–	–	2,861,164
	478,049	10,693,805	29,736,676	435,753	934,337	42,278,620

Loans and long-term lease include expected future interest payments calculated on the basis of interest rates effective at the reporting date. Dividends on preferred shares payable includes provisions for future payments for 25 years are presented on an undiscounted gross basis.

(e) Price risk

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

(f) Interest rate risk

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

(g) Currency risk

The Group is not exposed to currency risk as at the reporting dates there are no significant financial instruments denominated in foreign currencies.

The exposure of the Group's financial assets and liabilities to interest rate risk was as follows:

KZT'000	USD	RUB	EUR
2021			
Trade and other receivables	519,860	1,277,273	3,613
Cash and cash equivalents	479,701	277,531	15,619
Trade and other payables	(2,029,957)	(3,504,543)	(40,806)
	(1,030,396)	(1,949,739)	(21,574)
2020			
Trade and other receivables	776,693	322,972	7,226
Cash and cash equivalents	166,889	1,175,854	483,506
Trade and other payables	(2,339,944)	(1,085,928)	(220,135)
	(1,396,362)	412,898	270,597

Sensitivity analysis

A 10% weakening of tenge against the following currencies as at 31 December would have increased (decreased) income after tax by the amounts shown below. This analysis assumes that all other variables remain constant.

27. Financial instruments and financial risk management objectives and policies, continue

KZT'000	2021	2020
USD	(82,432)	(111,709)
RUB	(155,979)	33,032
EUR	(1,726)	21,648

A 10% strengthening of tenge against the above currencies as at 31 December would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(h) Capital management

The overriding objectives of the Group'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 Group's cost of capital. The Group's overall policy remains unchanged from 2020.

28. Commitments and contingencies

(a) Kazakhstan's taxation contingencies

Inherent uncertainties in interpreting tax legislation

The Group 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 Group may be challenged by the relevant tax authorities and, as a result, the Group may be claimed for additional tax payments, including fines, penalties and interest charges that could have a material adverse effect on the Group'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.

Possible additional tax liabilities

Management believes that the Group 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 Group 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 Group 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 Group. As at 31 December 2021, the Group was not involved in any significant legal proceedings.

(d) Capital expenditure commitments

The Group has capital expenditure commitments for the purchase of property, plant and equipment. The total commitments for property, plant and equipment as at 31 December 2021 amounted to KZT 1,925,342 thousand.

29. Related party disclosures

Related parties include the following:

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

(a) Management remuneration

KZT'000

	2021	2020
Short-term employee benefits	389,930	417,652
Number of job positions	44	49
Number of persons	48	58

Rewards received by key executives are included in personnel costs of administrative expenses (see note 8)

(b) Transactions with related parties

The Company had the following transactions and balances with joint ventures and associates

KZT'000

	2021	2020
Transactions		
Purchases	(3,860,954)	(448,222)
Loans issued and accrued interest	124,698	166,106
Outstanding balances		
Loans and accounts receivable	3,373,569	5,790,011
Provisions for doubtful debts	(500,220)	(701,231)
Borrowings and accounts payable	(5,359,737)	(2,923,985)

(c) Transactions with organizations related to the State

The Group delivered goods (received financial services) the following government agencies and organizations that have significant influence on the Company:

KZT'000

	2021	2020
Ministry of Industry and Infrastructural Development of the Republic of Kazakhstan	26,659,604	47,104,799
Ministry for Emergency Situations of the Republic of Kazakhstan	29,994,624	19,925,642
Sovereign Wealth Fund Samruk-Kazyna JSC	(213,118)	(213,118)
National Security Committee of the Republic of Kazakhstan	4,017,583	5,521,193
Ministry of Defense of the Republic of Kazakhstan	–	4,299,836
KazMunayGas National Company JSC	–	2,242,657
Akimat of Akmola region	–	2,210,304
Kazakhstan temir zholy National Company JSC	1,290,112	1,845,570
Akimat of Kostanay region	–	1,726,040
Ministry of Internal Affairs of the Republic of Kazakhstan	1,246,670	–
Ministry of Labor and Social Protection of the Republic of Kazakhstan	–	1,169,318
Akimat of North Kazakhstan region	–	494,433
State security service of the Republic of Kazakhstan	220,704	139,950
Ministry of Education and Science of the Republic of Kazakhstan	252,701	75,925
Ministry of Health of the Republic of Kazakhstan	542,218	–
Akimat of Pavlodar region	–	111,550

(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.

30. Group information

The consolidated financial statements include the financial statements of the Company and its subsidiaries in Kazakhstan listed in the following table:

	Main activity	Ownership %	
		2021	2020
Semey Engineering JSC	Mechanical engineering	100.0%	100.0%
Tynys JSC	Mechanical engineering	99.2%	99.2%
Plant named after S.M. Kirov JSC	Mechanical engineering	98.9%	98.9%
Petropavlovsk Heavy Engineering Plant JSC	Mechanical engineering	100.0%	100.0%
Ural Plant Zenit JSC	Mechanical engineering	95.4%	95.4%
Engineering Plant named after S.M. Kirov JSC	Mechanical engineering	97.7%	97.7%
Semipalatinsk machine-building plant JSC	Mechanical engineering	99.4%	99.4%
Kaztechnology JSC	Mechanical engineering	100.0%	100.0%
SRI Hidropribor JSC	Research and development	90.0%	90.0%
811 auto repair plant KE JSC	Mechanical engineering	100.0%	100.0%
Research&Development Center Kazakhstan Engineering LLP	Research and development	100.0%	100.0%
KazEng Electronics LLP	Mechanical engineering	100.0%	100.0%
Munaymash JSC	Mechanical engineering	–	52.0%

31. Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group 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 consolidated financial statements:

	2021		2020	
	Year-end	Average	Year-end	Average
US dollar	431.67	426.03	420.71	412.95
EURO	487.79	503.88	516.13	471.44
Russian rouble	5.77	5.79	5.65	5.73

(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.

31. Significant accounting policies, continue

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 Group, 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 24-53 years;
- machinery and equipment 7-15 years;
- other 4-6 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 Group 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) Investment property

The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure (like example, professional fees for legal services, property transfer taxes and other transaction costs).

After initial recognition, investment property is accounted at historical cost.

(e) Investments in joint ventures and associates

Investments in joint ventures and associates are accounted for using the equity method. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost. The carrying amount of investments subsequently increases or decreases due to the recognition of the Group's share of post-acquisition movements in net assets of joint ventures and associates

The consolidated statement of profit or loss reflects the Group's share of the financial results of operations of joint ventures and associates. In addition, if there has been a change directly recognized in the equity of a joint venture or associate, the Group recognizes its share of that change and discloses that fact, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses arising from transactions between the Group and joint ventures and associates are eliminated to the extent of the interest in the joint venture or associate.

The financial statements of joint ventures and associates are prepared for the same reporting period as the statements of the Group. If necessary, adjustments are made to it in order to bring the accounting policy in line with the accounting policy of the Group.

In the event of a loss of significant influence over a joint venture or associate, the Group measures and recognizes the remaining investment at fair value. Any difference between the carrying amount of the investment in a joint venture or associate upon loss of significant influence or joint control and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss.

31. Significant accounting policies, continue**(f) 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.

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 Group'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.

(g) 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.

(h) 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.

(i) Cash

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

(j) 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.

(k) Retirement employee benefits

The Group 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.

31. Significant accounting policies, continue**(l) Revenues**

At contract inception, the Group 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.

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.

31. Significant accounting policies, continue**(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.

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.

31. Significant accounting policies, continue**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.

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

32. 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.