

**NATIONAL COMPANY  
KAZAKHSTAN ENGINEERING JSC**

**Consolidated Financial Statements for the  
Year Ended 31 December 2019  
and Independent Auditor's Report**

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**NATIONAL COMPANY KAZAKHSTAN ENGINEERING JSC**

**REPRESENTATION OF THE MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

The following statement, which should be read in conjunction with the responsibilities of the Independent Auditor described in the Independent Auditor's Report is made to distinguish the responsibilities of the Management of National Company Kazakhstan Engineering JSC (the 'Company') and its subsidiaries (the 'Group') and the Independent Auditor concerning the consolidated financial statements of National Company Kazakhstan Engineering JSC.

Management of the Group is responsible for the preparation of the financial statements that present fairly, in all material respects, the financial position of the Group as at 31 December 2019, its performance, cash flows, and changes in equity for the year then ended, under International Financial Reporting Standards (IFRS).

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently
- Applying reasonable judgements and estimates
- Compliance with Kazakhstan laws and International Financial Reporting Standards
- Preparation of the financial statements assuming that the Company will continue as a going concern, except where such an assumption is unlawful.

Management is also responsible for:

- Designing, implementing and maintaining reliable internal controls within the Company
- Record keeping that allows at any time to present the information on the Company's financial position with the sufficient degree of accuracy and ensuring financial statements comply with Management requirements
- Taking all reasonable efforts to ensure the safety of Company assets, and detecting and preventing financial fraud and other irregularities.

These consolidated financial statements for the year ended 31 December 2019 were approved for issue on 20 November 2020.


On behalf of Company management:


**A.Z. Sarsembayev**  
Chairman of the Board

**D.A. Lee**  
Managing Director

**G.S. Ikmatova**  
Chief Accountant

20 November 2020

Nur-Sultan, Republic of Kazakhstan



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## INDEPENDENT AUDITOR'S REPORT

### TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF NC KAZAKHSTAN ENGINEERING JSC

#### Qualified Opinion

We have audited the consolidated financial statements of NC Kazakhstan Engineering JSC and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of 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, except for the possible effect of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

#### Basis for Qualified Opinion

##### a) *Financial assets and revenue*

On 1 January 2018, the new IFRS 9 Financial Instruments was put into effect; the impact of the new standard implementation as of the IFRS implementation dates (1 January 2018 and 31 December 2018 and 2019) was not assessed being a deviation from IFRS. According to IFRS 9, it was necessary to design new methods for establishing provisions for financial assets. In particular, we were unable to obtain sufficient appropriate audit evidence for the estimate of expected credit losses for Trade and Other Receivables, Other Financial Assets and Cash and Cash Equivalents. As a result, the impact on these items has not been determined.

Also, as of 1 January 2018 IFRS 15 was put into effect. This standard replaces IAS 11 Construction Contracts and IAS 18 Revenue. The impact of the new standard implementation as of the IFRS implementation dates (1 January 2018 and 31 December 2018 and 2019) was not assessed being a deviation from IFRS. The Group has not provided information to support the application of the five-step model, analysis of relevant facts and judgements for revenue recognition. We were unable to obtain sufficient appropriate audit evidence for the accuracy of the revenue recognition and presentation for 2019 and 2018. As a result, the impact on these items has not been determined.

### **Basis for Qualified Opinion (continued)**

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and ethical requirements that are relevant to our audit of the financial statements in Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter**

#### *Income tax expenses, CIT liabilities and income tax*

We draw attention to Note 35 of the consolidated financial statements, which describes that in the period after the reporting date, the Group had a tax audit by the competent authorities for 2015-2017. According to the tax audit results, a tax audit report was drawn. In line with the report, the additional corporate income tax liability for 5,748,679 thousand tenge and the penalty for 775,504 thousand tenge were accrued.

The Group expressed its disagreement with the tax authorities, filed a complaint on the tax audit results with the Ministry of Finance of the Republic of Kazakhstan, and did not recognize this liability in the consolidated financial statements, as the management considers it unreasonable to exclude from deductions the costs of issue and placement of Eurobonds and the recognition of these costs apart from the statutory activity and not for the purpose of generating aggregate annual income. At these financial statements issue date, a response to the Company's complaint had not been received as the deadline for considering the complaint had not yet arrived. Our opinion is not modified in respect of this matter.

### **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 consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section, we have determined no other matters to be communicated in our report.

### **Other Information included in the Company's 2019 Annual Report**

The other information comprises the information included in the Annual Report but does not include the financial statements and our auditor's report thereon. Management is responsible for the Other Information. We expect to obtain the Company's Annual Report after the issue of this Auditor's Report.

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

### **Other Matter**

Another auditor who expressed a modified opinion on those statements on 19 July 2019 audited the consolidated financial statements of the Company for the year ended 31 December 2018.

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

Management of the Group is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the IFRS, and for such internal control as management determines is necessary to enable preparation of the 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 its operations or has no realistic alternatives but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it does not guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement in 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the internal control system that is relevant for the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- 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 the auditor's opinion.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

The engagement partner on the audit resulting in this independent auditor's report is Altnai Kyrykbayeva.



Auditor Altnai Kyrykbayeva  
Auditor's Qualification Certificate No. МҚ-0000995  
Issued by the Qualification Commission  
for Certification of Auditors of the RK on 17 January 2020

BDO Kazakhstan LLP

State License for Audit No. 15003448 issued by the Committee for Financial Control of the Ministry of Finance of the Republic of Kazakhstan on 19 February 2015



Director Falgat Omarov

BDO Kazakhstan LLP  
6, Gabdullin Street, Bostandykskiy District  
Almaty, Republic of Kazakhstan  
20 November 2020

NATIONAL COMPANY KAZAKHSTAN ENGINEERING JSC  
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2019  
(KZT thousand)

	Note	31 December 2019	31 December 2018	1 January 2018 (restated Note 3)
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS:</b>				
Property, plant and equipment	6	26,467,734	23,232,514	22,977,934
Intangible assets		456,982	344,220	401,130
Investments in associates and joint ventures	8	5,182,821	4,803,769	6,309,423
Deferred tax assets	35	2,503,879	3,416,002	4,154,213
Other financial assets		1,100	463	-
Trade and other receivables		2,284	14,949	-
Other non-current assets	9	882,028	1,990,424	2,086,505
<b>Total non-current assets</b>		<b>35,496,828</b>	<b>33,802,341</b>	<b>35,929,205</b>
<b>CURRENT ASSETS:</b>				
Inventories	10	25,198,163	18,374,644	14,239,904
Trade and other receivables	11	4,345,643	4,061,646	2,238,811
Income tax prepaid		543,636	359,907	349,518
Other taxes receivable	12	1,345,565	437,166	535,885
Advances paid	13	47,836,641	7,480,888	10,964,636
Other current assets	14	1,022,645	828,355	300,598
Other financial assets	15	381,557	701,355	917,757
Cash and cash equivalents	16	15,973,894	12,014,459	8,094,176
<b>Total current assets</b>		<b>96,647,744</b>	<b>44,258,420</b>	<b>37,641,285</b>
Assets held-for-sale	17	4,305,257	4,341,234	288,519
		<b>100,953,001</b>	<b>48,599,654</b>	<b>37,929,804</b>
<b>TOTAL ASSETS</b>		<b>136,449,829</b>	<b>82,401,995</b>	<b>73,859,009</b>
<b>EQUITY AND LIABILITIES</b>				
<b>EQUITY:</b>				
Issued capital	18	26,276,802	24,776,802	21,476,802
Additional paid-in capital	19	841,018	841,018	841,018
Retained earnings		(12,770,230)	(7,724,815)	(6,090,681)
<i>Equity holders of the parent</i>		<i>14,347,590</i>	<i>17,893,005</i>	<i>16,227,139</i>
<i>Non-controlling interests</i>	20	<i>691,303</i>	<i>661,904</i>	<i>642,489</i>
<b>TOTAL EQUITY</b>		<b>15,038,893</b>	<b>18,554,909</b>	<b>16,869,628</b>

**NATIONAL COMPANY KAZAKHSTAN ENGINEERING JSC  
AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2019**  
(KZT thousand)

	Note	31 December 2019	31 December 2018	1 January 2018 (restated Note 3)
<b>NON-CURRENT LIABILITIES:</b>				
Loans	21	399,788	11,678,193	10,400,000
Deferred income	21	-	723,503	-
Deferred tax liabilities	35	860,859	669,852	916,259
Finance lease liabilities		107,329	235,745	364,552
Trade payables	22	2,033	3,235,344	-
Debt component of the preference shares		136,722	136,722	231,501
Other non-current liabilities		25,689	1,206	57,005
<b>Total non-current liabilities</b>		<b>1,532,420</b>	<b>16,680,565</b>	<b>11,969,317</b>
<b>CURRENT LIABILITIES:</b>				
Loans	21	28,252,917	17,801,877	18,358,183
Current portion of finance lease liabilities		128,172	128,230	127,883
Trade payables	23	15,138,047	5,932,896	5,305,433
Income tax payable		173,507	68,544	46,432
Other taxes payable	24	1,756,909	2,108,443	1,716,044
Advances received	25	67,109,757	16,340,065	15,218,001
Other current liabilities	26	7,319,207	4,786,466	4,248,088
<b>Total current liabilities</b>		<b>119,878,516</b>	<b>47,166,521</b>	<b>45,020,064</b>
<b>Total liabilities</b>		<b>121,410,936</b>	<b>63,847,086</b>	<b>56,989,381</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>136,449,829</b>	<b>82,401,995</b>	<b>73,859,009</b>

On behalf of Group management:

  
**A.Z. Sarsambayev**  
**Chairman of the Board**

  
**D.A. Lee**  
**Managing Director**

  
**G.S. Ikmatova**  
**Chief Accountant**

20 November 2020  
Nur-Sultan, Republic of Kazakhstan

Notes are an integral part of these consolidated financial statements.

**NATIONAL COMPANY KAZAKHSTAN ENGINEERING JSC  
AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2019  
(KZT thousand)**

	Note	31 December 2019	31 December 2018
REVENUE	27	95,196,305	107,062,826
COST OF SALES	28	(85,493,170)	(100,656,247)
<b>GROSS PROFIT</b>		<b>9,703,135</b>	<b>6,406,579</b>
Administrative expenses	29	(6,246,493)	(4,373,429)
Selling and distribution expenses	30	(1,057,987)	(1,065,370)
Other income/(expenses), net	31	(2,689,910)	2,945,752
Foreign exchange gain/(loss), net	34	9,854	(1,738,242)
Share of profit/(loss) of associates and joint ventures	8	21,125	(357,928)
Finance income	32	823,162	142,194
Finance costs	33	(3,853,838)	(2,638,599)
<b>LOSS BEFORE TAX</b>		<b>(3,290,952)</b>	<b>(679,043)</b>
INCOME TAX EXPENSE	35	(1,703,856)	(899,581)
<b>LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(4,994,808)</b>	<b>(1,578,624)</b>
Total comprehensive (loss)/income attributable to:			
Equity holders of the parent		(5,054,228)	(1,634,134)
Non-controlling interests	20	59,420	55,510
		<b>(4,994,808)</b>	<b>(1,578,624)</b>

On behalf of Group management:

  
**A.Z. Sarsembayev**  
 Chairman of the Board  
 20 November 2020  
 Nur-Sultan, Republic of Kazakhstan

  
**D.A. Lee**  
 Managing Director

  
**G.S. Ikmatova**  
 Chief Accountant

Notes are an integral part of these consolidated financial statements.

NATIONAL COMPANY KAZAKHSTAN ENGINEERING JSC  
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019  
(KZT thousand)

Items	Note	31 December 2019	31 December 2018
<b>I. Operating activities</b>			
<b>1. Cash inflow, total</b>		<b>145,171,944</b>	<b>148,871,047</b>
Including:			
Sale of goods and services		22,198,002	39,364,035
Other revenue		52,893	(280,544)
Advances received from buyers, customers		121,455,714	84,261,823
Interest received		699,780	765,514
Other proceeds		765,555	24,760,219
<b>2. Cash outflow, total:</b>		<b>141,470,738</b>	<b>148,614,349</b>
Including:			
Payments to suppliers for goods and services		22,156,939	34,609,083
Advances to services and goods suppliers		96,418,015	71,520,995
Wages and salaries		8,717,018	7,623,948
Interest paid		1,964,741	608,947
Income tax and other governmental charges		7,547,759	6,144,202
Other payments		4,666,266	28,107,174
<b>3. Net cash flows from operating activities</b>		<b>3,701,206</b>	<b>256,698</b>
<b>II. Investing activities</b>			
<b>1. Cash inflow, total</b>		<b>12,825,041</b>	<b>17,896,542</b>
Including:			
Sale of property, plant and equipment		45,500	64,916
Sale of equity instruments of other entities (other than subsidiaries) and their share of participation in a joint venture		-	672,044
Consideration at control loss over subsidiaries		2,978,641	2,001,835
Sale of other financial assets		-	7,157,031
Dividends received		69,565	160,619
Other proceeds		9,731,335	7,840,097
<b>2. Cash outflow, total</b>		<b>12,852,814</b>	<b>18,057,514</b>
Including:			
Purchase of property, plant and equipment		3,350,968	903,781
Purchase of intangible assets		58,722	48,962
Purchase of other financial assets		-	6,850,618
Granting of loans		78,377	-
Investments in associates and subsidiaries		-	3,300,000
Other payments		9,364,747	6,954,153
<b>3. Net cash flows from investing activities</b>		<b>(27,773)</b>	<b>(160,972)</b>
<b>III. Financing activities</b>			
<b>1. Cash inflow</b>		<b>6,435,943</b>	<b>16,409,149</b>
Including:			
Issue of shares and other financial instruments		1,500,000	5,503,000
Borrowings		4,935,943	5,538,193
Other proceeds		-	5,367,956
<b>2. Cash outflow, total</b>		<b>6,179,581</b>	<b>12,623,152</b>
Including:			
Repayment of loans		5,990,041	12,538,907
Interest paid		-	53,985

**NATIONAL COMPANY KAZAKHSTAN ENGINEERING JSC  
AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019**  
(KZT thousand)

Payment of dividends		60,951	-
Payments to the equity holders of the entity		-	56
Other disposals		128,589	30,204
<b>3. Net cash flows from financing activities</b>		<b>256,362</b>	<b>3,785,997</b>
4. Effect of exchange rate on tenge		29,640	38,560
5. Increase +/- decrease in cash		3,959,435	3,920,283
6. Cash and cash equivalents at 1 January	16	12,014,459	8,094,176
7. Cash and cash equivalents at 31 December	16	15,973,894	12,014,459

On behalf of Group management:

  
  
**A.Z. Sarsembayev**  
**Chairman of the Board**

  
**D.A. Lee**  
**Managing Director**

  
**G.S. Ikmatova**  
**Chief Accountant**

20 November 2020  
 Nur-Sultan, Republic of Kazakhstan

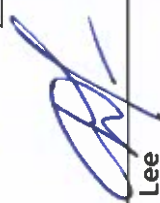
Notes are an integral part of these consolidated financial statements.

NATIONAL COMPANY KAZAKHSTAN ENGINEERING JSC  
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019  
(KZT thousand)

	Note	Issued capital	Additional paid-in capital	Retained earnings	Equity attributable to the equity holder of the parent	Non-controlling interests	Total equity
<b>As of 01 January 2018</b>		21,476,802	841,018	(4,788,672)	17,529,148	642,489	18,171,637
Adjustment of previous periods	3	-	-	(1,302,009)	(1,302,009)	-	(1,302,009)
<b>As of 1 January 2018</b>		21,476,802	841,018	(6,090,681)	16,227,139	642,489	16,869,628
Total comprehensive (loss)/income for the year		-	-	(1,634,134)	(1,634,134)	55,510	(1,578,624)
Share capital payment		3,300,000	-	-	3,300,000	-	3,300,000
Dividends paid	120	-	-	-	-	(36,095)	(36,095)
<b>As of 31 December 2018</b>		24,776,802	841,018	(7,724,815)	17,893,005	661,904	18,554,909
Total comprehensive (loss)/income for the year		-	-	(5,054,228)	(5,054,228)	59,420	(4,994,808)
(Loss)/income and total comprehensive (loss)/income of the previous periods		-	-	8,813	8,813	-	8,813
Share capital contribution	18	1,500,000	-	-	1,500,000	-	1,500,000
Dividends paid	20	-	-	-	-	(30,021)	(30,021)
<b>As of 31 December 2019</b>		26,276,802	841,018	(12,770,230)	14,347,590	691,303	15,038,893

On behalf of Group management:

  
A.Z. Sarsambayev  
Chairman of the boards  
20 November 2020  
Nur-Sultan, Republic of Kazakhstan

  
D.A. Lee  
Managing Director

  
G.S. Ikmatova  
Chief Accountant

Notes are an integral part of these consolidated financial statements.

**NATIONAL COMPANY KAZAKHSTAN ENGINEERING JSC  
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2019  
(KZT thousand)**

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**1. CORPORATE INFORMATION**

National Company Kazakhstan Engineering Joint-Stock Company ('Kazakhstan Engineering' or the 'Company') was established in accordance with Decree of the Government of the Republic of Kazakhstan No.244 dated 13 March 2003 for development of defence production industry management system in the Republic of Kazakhstan. The Company was registered as a legal entity in the Justice Department of Astana city on 16 April 2003 (registration number No.13659-1901-AO). On 20 May 2005, the Company was re-registered in the Justice Department of Astana city (registration number No.13659-1901-AO). On 26 March 2020 the Company's registration data were amended due to change of the Company's executive body address into Building 12A, Kerei, Zhanibek Khandar Street, Yessil District, Nur-Sultan, Kazakhstan.

These consolidated financial statements include the financial performance of the Company and its subsidiaries (the 'Group'). The Group structure is disclosed in Note 7.

As of 31 December 2019 and 31 December 2018 the Group also had investments in associates and joint ventures (Note 8).

As of 31 December 2017, the sole shareholder of the Company is Sovereign Wealth Fund Samruk-Kazyna JSC ('SWF Samruk-Kazyna' JSC or the 'Shareholder').

On 3 July 2018 under the Decree of the Government of the Republic of Kazakhstan No. 405 dated 3 July 2018 a 100% of the Company shares were transferred to the state ownership, with the transfer of the ownership and use of the Company's government's stake to the Ministry of Defence and Aerospace Industry of the Republic of Kazakhstan.

On 12 July 2019 under the Decree of the Government of the Republic of Kazakhstan No. 501 dated 12 July 2019, a 100% of the Company shares were transferred to the state ownership, with the transfer of the ownership and use of the Company's government's stake by the Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan.

The Group is primarily engaged in:

- Participation in state policy on development, production, sale and liquidation of goods and equipment of defence, twofold and civil purposes
- Participation in development and implementation of current and long-term intra-industry development and production programs of defence and twofold purpose products to satisfy internal and export needs
- Production and import of defence purposes equipment and twofold purpose products for armed forces and other military services of the Republic of Kazakhstan and its export
- Development and execution of conversion programs and defence-production complex programs
- Participation in the execution of state defence orders, forming and implementation of plans for forming and storing mobilization reserves
- Production of oil and gas, railway, aviation, agricultural, ship contracting equipment, production of civil goods.

In May 2015, the Group was appointed as a single operator of the state defence orders of the Republic of Kazakhstan. According to the Decree of the Government of the Republic of Kazakhstan No. 759 dated 14 October 2019, NC Kazakhstan Engineering JSC is not a single operator of the state defence order of the Republic of Kazakhstan. Consequently, contracts within the framework of the state order will be concluded directly with the executors of the state order, i.e. NC Kazakhstan Engineering JSC subsidiaries. However, long-term contracts concluded before 2020 will be executed in accordance with the terms of the concluded contracts.

## 1. CORPORATE INFORMATION (CONTINUED)

Due to the transfer of the Company's shares to the state ownership, a new Development Strategy of the Company for 2020 - 2029 was designed. The Company's Development Strategy was approved by the Decree of the Government of the Republic of Kazakhstan No. 969 dated 25 December 2019.

**Mission:** providing competitive high-tech solutions and products for the quality satisfaction of the needs of the Armed Forces of the Republic of Kazakhstan through the effective development of technological potential.

**Vision:** 'In the long term, NC Kazakhstan Engineering JSC will become an effective centre of innovative and technological competencies in military and civil engineering.'

For the effective implementation of the mission and vision, the Company plans active actions in the following strategic areas of activity:

1. Diversification of production
2. Innovative development
3. Development of production potential and operational efficiency increase
4. Organizational development
5. Sustainable development
6. Financial sustainability

For each strategic direction, strategic goals, objectives and key performance indicators are identified.

The Company is incorporated and operating at Building 12A, Kerei, Zhanibek Khandar Street, Yessil District, Nur-Sultan, 010000, Kazakhstan.

As of 31 December 2019, the Group staffed 4,165 employees (31 December 2018: 4,650 employees).

### Operating environment

Emerging countries markets, including Kazakhstan, are subject to economic, political, social, judicial and regulatory risks that are different from those of developed economies. Laws and regulations governing doing business in Kazakhstan can change rapidly and are subject to arbitrary interpretation. Kazakhstan's development largely depends on the tax and monetary policy of the state, adopted laws and regulations, as well as changes in the local political situation.

As Kazakhstan extracts and exports large volumes of oil and gas, the country's economy is especially sensitive to changes in oil and gas world prices.

In March 2020, world oil prices plummeted by more than 40%, leading to an immediate depreciation of the Kazakhstan tenge against major currencies.

The effect of changes in the economic environment on the Group's future performance and the financial position could be significant.

Besides, in early 2020, a new coronavirus (COVID-19) began to spread rapidly in the world so that the World Health Organization (WHO) announced the beginning of a pandemic in March 2020. Measures taken by many countries to contain the spread of COVID-19 pose significant operational difficulties for many companies and have a significant impact on global financial markets. As the situation evolves rapidly, COVID-19 may significantly affect the operations of many companies in various sectors of the economy, including but not limited to operational disruptions resulting from production interruptions or closings, supply chain disruptions, staff quarantines, reduced demand and difficulties in obtaining funding.

## 1. CORPORATE INFORMATION (CONTINUED)

Also, the Group may face an even greater impact from COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of COVID-19 impact on the Company's operations largely depends on the duration and extent of the virus impact on the global and Kazakhstan economies.

## 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRS')

New standards, interpretations and amendments to existing standards and interpretations

In 2019, the Group adopted IFRS 16 Leases for the first time and some other amendments to standards and interpretations that did not affect the Group's financial statements. The Group did not prematurely apply the standards, interpretations or amendments issued but not yet effective.

### IFRS 16 Leases

IFRS 16 was issued in January 2016 and replaces IAS 17 Leases, IFRIC 4 Interpretation Determining whether an Arrangement Contains a Lease, SIC 15 Interpretation Operating Leases - Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases.

Adoption of IFRS 16 did not have a significant impact on the Group's financial statements.

### IFRIC 23 *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances.

The Group has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

This clarification did not affect the financial statements of the Company.

### Amendments to IFRS 9 *Prepayment Features With Negative Compensation*

According to IFRS 9 debt instruments are subsequently measured at amortised cost, or fair value through other comprehensive income (FVOCI), based on their contractual cash flows that are Solely Payments of Principal and Interest (SPPI) and the instrument is held within a business model allowing such classification. Amendments to the IFRS 9 clarifies that a financial asset passes the SPPI test regardless of which event or circumstance leads to early termination of the contract, and also regardless of which party pays or receives a reasonable refund for the early contract termination. These amendments did not affect the Group's financial statements.

**2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRS')  
(CONTINUED)**

***Amendments to IAS 19 Plan Amendment, Curtailment or Settlement***

The amendments to IAS 19 Employee Benefits address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) map benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset)

These amendments do not apply to the Group.

***Amendments to IAS 28 Long-Term Investments in Associates and Joint Ventures***

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarify that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Venture.

These amendments did not affect the Group's financial statements.

***Annual Improvements to IFRS, 2015-2017 cycle***

***IFRS 3 Business Combinations***

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

These amendments did not affect the Group's financial statements.

***IFRS 11 Joint Arrangements***

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

***IAS 12 Income Taxes***

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

At initial application of these amendments, the entity must apply them to tax implications related to dividends recognised at or after the date of the earliest comparative period.

Since the Group's current policy complies with the requirements of the amendments, their adoption had no impact on the Group's financial statements.

## 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRS') (CONTINUED)

### IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale is complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

These amendments did not relate to the Group's activity.

### Standards and interpretations issued but not yet effective

Standards and interpretations issued but not yet effective on the Company's financial statements issuing date. The entity intends to adopt this standard, amendments and interpretations, if applicable since they come into effect.

### Insurance Contracts

In May 2017, the IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure.

Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach).
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods starting on or after 1 January 2021 with comparative figures required. Early application is permitted provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This Standard is not applied to the Group.

### Amendments to IFRS 3 *Definition of a Business*

The IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of business and outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments. The Group assesses the impact of these amendments.

### Amendments to IAS 1 and IAS 8 - *Definition of Material*

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

## 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRS') (CONTINUED)

It is expected that amendments to the definition of 'material' will not significantly affect the consolidated financial statements of the Group.

### *Amendments to IAS 1 Classification of Liabilities as Current or Non-Current (within the framework of Annual Improvements to IFRS, 2010-2010-2012 cycle)*

The amendments aim to clarify that the liabilities are classified as non-current if the entity has a substantive right to defer settlement for at least 12 months at the end of the reporting period within the current credit facility with the same borrower on the same or similar terms and conditions. The amendments only change the presentation of liabilities in the statement of financial position, i.e. not in terms of the amount, the moment of recognition or disclosure.

The amendments clarify that the classification should be based on the existence at the end of the reporting period of the right to defer settlement of the liability by at least 12 months. Therefore, the amendments explicitly state that only those rights existing 'at the end of the reporting period' should have an impact on the classification of the liability.

However, the classification does not depend on expectations about whether an entity will exercise the right to defer settlement of a liability, which means a transfer to a counterparty of cash, equity instruments or other assets or services.

The amendments are effective for periods beginning on or after 1 January 2022 and are applied retrospectively.

Earlier application is permitted.

### *Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7*

The amendments issued by the IASB will affect entities that apply the hedge accounting requirements of IFRS 9 or IAS 39 to all hedging relationships that are directly affected by the interest rate reform.

The amendments change some of the hedge accounting requirements so that entities will apply those hedge accounting requirements on the assumption that the base interest rate does not change as a result of the base interest rate reform.

The amendments are effective for annual periods beginning on or after 1 January 2020.

The amendments are applied retrospectively to the profit or loss recognized in other comprehensive income that has already existed at the beginning of the reporting period in which the amendments are applied by the entity for the first time.

### *Amendments to References to the Conceptual Framework in IFRS*

Along with the revised Conceptual Framework, which became effective when published on 29 March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRSs. This document discloses amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS ) 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32.

However, not all the amendments change these standards and interpretations in such a way that they would refer to and contain quotations from the revised Conceptual Framework.

In some standards and amendments, the updates indicate a version of the Conceptual Framework to which they refer (IASB Conceptual Framework adopted in 2001, IASB Conceptual Framework adopted in 2010, or new revised 2018 Conceptual Framework), or an indication that the definitions in the Standard have not been updated in accordance with the definitions presented in the newly issued Conceptual Framework.

**2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRS')  
(CONTINUED)**

The amendments (if they updated existing standards and interpretations) are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Statement of compliance**

Consolidated financial statements of National Company Kazakhstan Engineering JSC prepared in accordance with IFRS, except for applying IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, was presented for the public use by the Company operating in line with Kazakhstan laws and regulations. The consolidated financial statements are available in the headquarters of the parent located at Building 12A, Kerei, Zhanibek Khandar Street, Yessil District, Nur-Sultan, Kazakhstan.

**Basis of fair value measurement**

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

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

Fair value is the price that would be received when the asset had been sold or would be paid when the liability had been transferred in the ordinary-course-of-business transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. For estimates and disclosures in these consolidated financial statements, fair value is determined as described above, with the exception leases governed by IAS 17, and estimates that are comparable but not equal to fair value (net the possible selling price in the evaluation of inventories under IAS 2 or the value in use in assessing impairment under IAS 36).

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

**Functional and presentation currencies**

These consolidated financial statements are denominated in Kazakhstan tenges ('tenges') which is both the functional currency of the Group and these consolidated financial statements. All values presented in tenges are rounded to the nearest thousand.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Foreign currency transactions

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

Exchange differences arising from changes in exchange rates are recorded in profit or loss in the period they arise, except for the following:

- Exchange differences on loans in foreign currency relating to construction in progress meant for future use for production purposes are included in the cost of such assets as an adjustment of interest expenses on loans in foreign currency
- Exchange differences on hedges of certain currency risks; and
- Exchange differences on settlements of the Group with subdivisions operating abroad that are neither planned nor likely to occur (therefore forming part of the net investment), which are recognised initially in other comprehensive income and reclassified to profit or loss on repayment of the monetary items.

#### Going concern

These consolidated financial statements have been prepared in accordance with IFRS, on the going concern basis. This implies the realisation of the Group's assets and settlement of liabilities in the normal course of its business in the near future. Management believes that the Group will be able to realize its assets and discharge its liabilities in the normal course of business.

As at 31 December 2019, the Group's current liabilities exceeded current assets by 18,925,515 thousand tenges (31 December 2018: by 1,433,133 thousand tenges) due to the need to repay a current portion of the loan to Halyk Bank of Kazakhstan JSC and financial aid to Samruk-Kazyna JSC. Net loss for 2019 amounted to 4,994,808 thousand tenges (2018: 1,578,624 thousand tenges).

Management of the Group believes that the Group will continue as a going concern in the near future due to the following:

- In line with the Decree of the Republic of Kazakhstan No. 759 dated 14 October 2019 'National Company, 'Kazakhstan Engineering' JSC is not the single state operator of the government's defence order of the Republic of Kazakhstan. Consequently, contracts within the framework of the state order will be concluded directly with the executors of the state order, i.e. NC Kazakhstan Engineering JSC subsidiaries. However, long-term contracts concluded before 2020 will be executed
- The Company took on a task of amending the Decree of the Government of the Republic of Kazakhstan No. 1003 dated 28 December 2019 'On Amendments to the Decree of the Government of the Republic of Kazakhstan No. 1081 dated 13 November 2007 'On Determining the List of Financial Instruments for Investing Assets in State Social Insurance Fund JSC' according to which the list of financial instruments was supplemented with bonds issued by 'NC 'Kazakhstan Engineering' JSC  
Since 5 May 2020, the Company's bonds have been included in the official list of Kazakhstan Stock Exchange JSC under the 'Bonds' category of the 'Debt Securities' sector of the main trading floor. The funds raised will be used to repay loans from second-tier banks.
- In line with the Decree of the Government of the Republic of Kazakhstan No. 969 dated 25 December 2019, the Development Strategy of NC Kazakhstan Engineering JSC for 2020-2029 was approved. According to the Company's vision, the Company will become the centre of innovative and technological (production) competencies in the military and civil engineering.

• 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

By 2029, the Company is a holding structure with operational management elements. The Law of the Republic of Kazakhstan No. 236-VI dated March 18, 2019 On the Defence Industry and State Defence Order (Sub-clause 3 Article 5) provides for the incorporation of a Fund as part of the Company for Kazakhstan manufacturers of weapons and military equipment.

- During 'Army-2020' International Military-Technical Forum Kazakhstan Engineering Group of Companies contracted on import and export of dual-use goods, enablement for their assembly and overhaul and maintenance of products for totally over 6 billion tenge.

As a consequence, management believes that the Group will continue as a going concern shortly.

*Presentation of comparative information*

The Company restated the comparative information to bring it in line with the presentation in the reporting year.

Management believes that these comparative adjustments provide a clearer and more reliable understanding of the Company's performance.

*Adjustments of previous periods*

The adjustment for 1,302,009 thousand tenge includes the CIT written off at the source of payment for the previous periods. Management believes that this adjustment to the 2018 opening balance provides a more reliable understanding of the Group's performance. The statement of financial position on 1 January 2018 after adjustments is presented as follows:

	According to the financial statements at 31 December 2017	Adjustments	After restatement as of and for the year ended 1 January 2018
<b>Statement of financial position</b>			
<i>Current assets</i>			
Income tax prepaid	1,651,527	(1,302,009)	349,518
Total assets	75,161,018	(1,302,009)	73,859,009
<i>Equity</i>			
Retained earnings	(4,788,672)	(1,302,009)	(6,090,681)
Total equity and liabilities	75,161,018	(1,302,009)	73,859,009

NATIONAL COMPANY KAZAKHSTAN ENGINEERING JSC  
AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2019  
(KZT thousand)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Effect of adjustments as of 31 December 2018 is as follows:

Statement of financial position	According to the financial statements of the previous period	Adjustments	After restatement as of and for the year ended 31 December 2018
<i>Non-current assets</i>			
Property, plant and equipment	23,273,941	(41,427)	23,232,514
Intangible assets	359,161	(14,941)	344,220
Investments in associates and joint ventures	4,901,436	(97,667)	4,803,769
Deferred tax assets	2,849,901	566,101	3,416,002
Trade and other receivables	26,414	(11,465)	14,949
Other non-current assets	1,990,840	(416)	1,990,424
<i>Current assets</i>			
Inventories	18,554,184	(179,540)	18,374,644
Income tax prepaid	258,700	101,207	359,907
Trade receivables	4,061,485	161	4,061,646
Advances paid	7,479,880	1,008	7,480,888
Other current assets	1,321,133	(492,778)	828,355
<b>Total assets</b>	<b>82,571,752</b>	<b>(169,757)</b>	<b>82,401,995</b>
<i>Non-current liabilities</i>			
Loans	12,401,696	(723,503)	11,678,193
Deferred income	-	723,503	723,503
Deferred tax liabilities	624,061	45,791	669,852
Other non-current liabilities	-	1,206	1,206
<i>Current liabilities</i>			
Income tax payable	68,550	(6)	68,544
Advances received	16,593,024	(252,959)	16,340,065
Other current liabilities	5,736,942	(950,476)	4,786,466
<i>Equity</i>			
Retained earnings (loss)	(8,711,502)	986,687	(7,724,815)
<b>Total equity and liabilities</b>	<b>82,571,752</b>	<b>(169,757)</b>	<b>82,401,995</b>

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	According to the financial statements of the previous period	Adjustments	After restatement as of and for the year ended 31 December 2018
<b>Statement of comprehensive income</b>			
Revenue	107,968,993	(906,167)	107,062,826
Cost of sales	(101,850,406)	1,194,159	(100,656,247)
Administrative expenses	(4,482,034)	108,605	(4,373,429)
Selling and distribution expenses	(1,114,834)	49,464	(1,065,370)
Other expenses/income, net	3,228,338	(282,586)	2,945,752
Foreign exchange gain/(loss), net	(1,689,320)	(48,922)	(1,738,242)
Share in profit/loss of associates and joint ventures	(260,261)	(97,667)	(357,928)
Finance income	110,866	31,328	142,194
Finance costs	(2,909,530)	270,931	(2,638,599)
Income tax recovery	(1,567,123)	667,542	(899,581)
<b>Total comprehensive income/(loss)</b>	<b>(2,565,311)</b>	<b>1,166,227</b>	<b>(1,578,624)</b>

*Changes in accounting policies*

The Group applied IFRS 16 Leases for the first time. The substance and impact of changes arising from the application of this financial reporting standard are described below.

In 2019 the Group adopted some other amendments to the standards and interpretations for the first time, which did not affect the Group's financial statements.

The Group did not prematurely apply the standards, interpretations or amendments issued but not yet effective.

**IFRS 16 Leases**

IFRS 16 was issued in January 2016 and replaces IAS 17 Leases, IFRIC 4 Interpretation Determining whether an Arrangement Contains a Lease, SIC 15 Interpretation Operating Leases - Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases.

Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, IFRS 16 adoption did not affect the recognition of the lease where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective approach on 1 January 2019.

When the Group adopted the Standard, it has decided to use practical expedient allowing not repeating the analyses of whether the contract or contract components are a lease as of 1 January 2019.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Instead, the Group adopted the standard at the initial application date only for those contracts, which had been earlier identified as leases using IAS 17 and IFRIC 4.

The Group also decided to use recognition exemptions for leases with the commencement date not exceeding 12 months and which do not contain a purchase option (short-term lease), as well as for leases with an underlying asset having a low value ( low-value assets lease).

IFRS 16 application did not significantly affect the Group's financial statements.

*Significant accounting policies of the Group resulted from IFRS 16 application are disclosed below.*

#### Lease

At contract inception, the Group assesses whether the agreement is a lease or whether it contains signs of a lease. In other words, the Group determines whether a contract transfers the right to control the use of an identified asset over a specified period in exchange for consideration.

#### The Group as a Lessee

The Group used a unified approach to the recognition and measurement of all leases in which it is a lessee, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities for lease payments and right-of-use assets that represent the right to use underlying assets.

#### i) Right-of-use assets

The Group recognizes right-of-use assets at commencement of the lease (i.e. at the date on which the underlying asset becomes available for use). Right-of-use assets are measured at historical cost less accumulated amortisation and accumulated impairment losses, adjusted for remeasurement of lease liabilities.

The initial cost of the right-of-use assets includes the recognized lease liabilities, initial direct costs incurred and lease payments incurred on the date the lease commences or before that date, net of any incentives.

Right-of-use assets are amortized on a straight-line basis over the shorter of the estimated useful life or the lease term. The Group determined that the amortisation term equals the lease term.

If at the end of the lease term, the leased asset is transferred to the Group, or if the cost of the asset reflects the exercise of a call option, the asset is amortised over its estimated useful life. Right-of-use assets are tested for impairment.

#### ii) Lease liabilities

At the commencement date, the Group shall measure the lease liability at the present value of the lease payments that are paid during the lease term. Lease payments include fixed payments (including essentially fixed payments) less any incentives on a lease receivable, variable lease payments that depend on the index or rate, and the amount that is expected to be paid on guaranteed residual value. Lease payments also include the price of the exercising a purchase option, if it is likely that the Company will exercise this option, and penalties for lease termination, if the lease term covers the Company's potential exercise of the lease termination option.

Variable lease payments independent of the index or rate are recognized as an expense (except for the cases when expenses are incurred for inventories production) in the period in which an event or condition occurs that leads to such payments.

To calculate the present value of the lease payments, the Group uses the rate of raising additional borrowed funds on the date the lease commencement date, if the interest rate under the lease cannot be easily determined.

After the lease commencement date, lease liabilities increase to record the interest accruals and decrease to record the lease payments made.

Besides, the Group remeasures the carrying amount of lease liabilities in the event of a modification, a change in the lease term, a change in lease payments (for example, a change in future payments arising

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

from a change in the index or rate used to determine those payments) or a change in the estimate of an option to purchase the underlying asset.

#### iii) Short-term lease and low-value assets lease

The Group applies the short-term lease exemption to its short-term lease contracts for machinery and equipment (i.e., contracts with a lease term of 12 months or less at the commencement date and do not contain an option to purchase the underlying asset). The Group also applies the recognition exemption for leases of low-value assets to leases of office equipment that are considered to be of low value.

Short-term leases payments and low-value assets leases are recognized as an expense on a straight-line basis over the lease term.

#### The Group as a Lessor

Leases under which the Group retains substantially all the risks and rewards of the asset ownership are classified as operating leases. Rental income is recognised on a straight-line basis over the lease term and included in the revenue in the statement of profit or loss due to operating nature. Initial direct costs incurred in entering into an operating lease agreement are included in the carrying amount of the leased asset and recognised over the lease term on the same basis as lease income. Contingent rent is recognised in revenue in the period in which it is received.

#### Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Group and entities (including special purpose entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee
- Exposed to risks associated with variable income from its participation interest in the investee, or the Company has the right to receive such income
- Can use its power over the investee to affect the investor's returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders
- Potential voting rights held by the Company, other vote holders or other parties
- Rights arising from other contractual arrangements, and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of the investee begins when the Company obtains control over the investee and ceases when the Company loses control of the investee. Specifically, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net profit and each component of other comprehensive income are attributed to the owners of the Group and the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Group and the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup transactions, corresponding balances in calculations and retained profit or loss are eliminated in full on consolidation.

#### Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group's control loss over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests in a subsidiary are adjusted to reflect the changes in their relative interests. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the parent Group.

#### Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is initially recognised at cost and adjusted thereafter to recognise the Group's share of the profit or loss of the associate or joint venture. When the Group's share of losses of an associate or a joint venture equals or exceeds the Group's interest in that associate or joint venture, the Group derecognises its share of further losses.

After the entity's interest is reduced to nil, additional losses and liabilities are recognized only to the extent that the entity has entered into legal obligations or made payments on behalf of the associate or joint venture.

Investments are accounted for using the equity method from the date the entity becomes an associate or joint venture. When an investment is acquired, any difference between the investment's cost and the entity's share of the net fair value of the investee's identifiable assets and liabilities is treated as goodwill, which is included in the carrying amount of the investment.

The excess of the Group's share of the net fair value of the associate's identifiable assets and liabilities over the investment cost is recognized as income when determining the investor's share of the associate's or joint venture's profit or loss in the period in which the investment was acquired.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the entity measures a financial asset on initial recognition at fair value at that date. The Group recognizes in profit or loss the difference between the fair value of any remaining equity interest and any gain on disposal of part of the investment in the associate or joint venture and the fair value of the investment at the date the equity method is discontinued. The Group accounts for all amounts

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

#### Non-current assets held-for-sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

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

The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture under IFRS 9 unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Property, plant and equipment

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost of construction includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy.

Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for the intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Group of assets	Average useful lives
Buildings and structures	8 - 100 years
Plant, machinery and equipment	3 - 20 years
Vehicles	3 - 10 years
Other assets	3 - 20 years

Assets received under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

#### Intangible assets

Intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives at rates of 10-20%. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

#### Impairment of property, plant and equipment and intangible assets

The Company tests the carrying amount of property, plant and equipment and intangible assets for impairment at every reporting date. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Recoverable amount is determined as the higher of the two values: fair value of assets less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. When an impairment loss

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. The net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs to sell.

Costs of finished goods and work-in-progress are determined on a weighted-average basis and include direct costs of materials and direct costs for wages and those overheads that have been incurred to bring inventories to their current status and delivery to the existing location.

#### **Recognition of financial instruments**

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

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

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

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

#### **Financial assets**

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

#### Cash and cash equivalents

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

#### Short-term financial investments

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

#### Trade receivables

Trade receivables are recognised and reflected in the accounting records of the amounts billed for payment, net of allowance for doubtful debts. Allowance for doubtful debts accrued by the Group when receivable is not recovered within contractual terms. Allowance for doubtful debts is reviewed

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

periodically and, if there is a need for adjustments, the relevant amounts are recognised in the consolidated statement of comprehensive income of the reporting period, when such was revealed.

Bad debts are written off when revealed against the previously created allowance.

#### Trade and other receivables

Loans issued and receivables are non-derivative financial assets with fixed or determinable payments non-quoted on the active market. Loans and other receivables are measured at amortised cost using the effective interest method, less any impairment.

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

#### Other financial assets

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

#### Impairment of financial assets

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

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

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

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

#### Financial liabilities and equity instruments

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

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Financial liabilities are resented by contractual agreements which are recorded when the liability under the contracts arises.

#### Trade and other accounts payable

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

#### Loans and borrowings

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

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

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

#### Offsetting of financial instruments

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

#### Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss represent derivative instruments or securities (1) acquired principally to sell them short, (2) which are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit-taking, or (3) which are designated by the Group at fair value through profit or loss upon initial recognition. Financial assets and liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses estimates to determine fair value for financial assets and liabilities at fair value through profit or loss, including derivatives.

Fair value adjustment of financial assets and liabilities at fair value through profit or loss is recognized in the consolidated statement of comprehensive income. The Group does not reclassify financial instruments in or out of this category while they are held.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Derecognition of financial assets and liabilities

##### *Financial assets*

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

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

If the Group has transferred its rights to receive cash flows from the asset and neither passed nor kept all the risks and rewards of the asset, nor transferred control over the asset, the asset is recognized to the extent that the Group continues to participate in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

##### *Financial liabilities*

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

#### Revenue recognition

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

##### *Sale of goods*

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

##### *Rendering of services*

Revenue from rendering of services is recognized by the stage of completion of the contracting activity at the end of the reporting date. Stage of completion measured on the proportion of contracts costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. If the financial outcome of the contract cannot be estimated reliably, the revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

##### *Construction contracts*

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period to get ready for their intended use or sale, are added to the cost of those assets until the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### **Pension benefits**

The Group makes payments of 10% of employees' salaries as contributions to pension funds, but not more than 252,500 tenge per month (2018: not more than 212,500 tenge per month). Pension benefits are deducted from employees' salaries and included in the total cost of salaries and deductions in the consolidated statement of comprehensive income.

#### **Taxation**

The income tax expense represents the sum of the current income tax and deferred income tax.

#### **Current tax**

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

#### **Deferred tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that taxable profits will probably be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

#### *Current and deferred tax for the year*

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

#### **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) because of a past event, the Group will probably be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

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

#### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

##### Significant accounting judgements in applying accounting policies

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

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

Eurocopter Kazakhstan engineering LLP, Thales Kazakhstan engineering LLP and Kazakhstan ASELSAN engineering LLP are limited liability companies whose legal form assumes separation of joint arrangement from its participants. Furthermore, there is no contractual arrangement or any other facts and circumstances that indicate that the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the joint arrangement. Accordingly, investments in these joint arrangements are classified as investments in joint ventures (Note 7).

##### Key sources of estimation uncertainty

The following are the key assumptions concerning the Group's future operation and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

##### *Useful lives of property, plant and equipment*

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. The estimate of the useful life of an asset is dependent upon factors such as economic use, repair and maintenance programs, technological advancements and other business conditions. Management's estimate of the useful lives of property, plant and equipment reflects relevant information available to it as at the date of these consolidated financial statements.

##### *Taxation*

Various laws and regulations of Kazakhstan are not always clear, and their interpretation depends on the views of local tax inspectors of the Ministry of Finance of the Republic of Kazakhstan. There are frequent cases of difference of opinions between local, regional and national tax authorities. The current regime of fines and penalties for the alleged and detected breaches of laws, decrees and standards of Kazakhstan is very tough. Where additional taxes are imposed by the tax authorities penalties and interest applied are significant; penalties are generally assessed at 50% of the additional taxes accrued, and interest is assessed at 13.75% of taxes not settled on a timely basis. As a result, penalties and interest can exceed the amount of additional accrued taxes.

The Group's management believes that the Group has paid or accrued all applicable taxes. In unclear cases, the Group has accrued tax liabilities based on management's best estimate. Group policy requires the formation of reserves in the period in which there is a possibility of loss, the amount of which can be determined with reasonable accuracy. Due to the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, related to the years under audit and the subsequent years may be more than the amount expensed to date and accrued as at 31 December 2019. It is impracticable to determine the amount of any unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY  
(CONTINUED)

*Deferred tax assets*

Deferred tax assets are measured at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Estimates of this probability include judgements based on the expected quantity of production and output and the settlement of the Group's financial liabilities.

The management of the Group believes that no allowance should be made in respect to deferred tax assets as of the reporting date as there is the probability of more than 50% that deferred tax assets will be fully realized. As of 31 December 2019 and 2018, the Carrying amount of deferred tax assets amounted to 2,503,879 thousand tenge and 3,416,002 thousand tenge, respectively.

*Bad debt allowance and bad debt allowance and inventory provisions*

The management's determination of bad debt allowance and inventory provisions by the management requires management's assumptions based on the best estimate of the Group's ability to sell these assets. Because of changes in the general economy or other similar circumstances after the date of the consolidated statement of financial position, the management can make conclusions that will differ from conclusions made in the preparation of consolidated financial statements.

**NATIONAL COMPANY KAZAKHSTAN ENGINEERING JSC  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2019  
(KZT thousand)**

**5. SEGMENT INFORMATION**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the chief operating decision-maker ('CODM') and for which discrete financial information is available. Chief operating decision-maker's function could be fulfilled by a group of directors or an individual who allocate resources and assess the Group's performance.

*(a) Operating segments description*

The Group covers the following main operating segments:

- Civilian Products
- Speciality and Dual-Use Goods
- Other segments: other activities insignificant for the Group.

*(b) Factors used by the management for reportable segments identification*

The Group's segments are strategic business units that produce different goods with different benefit and target different customers.

Segments are managed separately since each business unit requires own sales market and its technologies.

*(c) Revenue breakdown by goods and services*

	2019	2018
Civilian products sales	9,275,236	7,621,921
Speciality and dual-use goods sales	85,921,069	98,183,066
Maintenance services (engineering)	-	1,257,839
<b>Total revenue</b>	<b>95,196,305</b>	<b>107,062,826</b>

*(d) Operating segments profit and loss, assets and liabilities estimates*

CODM assesses the performance of each segment based on gross profit under IFRS financial statements.

Settlements between segments are included in per segment performance estimate. The information on revenue from sales to third parties provided to the CODM is prepared based on the same accounting principles used in preparing the statement of profit or loss and other comprehensive income.

The Group does not provide information on the segment's assets and liabilities as such information is irregularly submitted to the CODM for review.

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5. SEGMENT INFORMATION (CONTINUED)

Segment information is as follows:

2019	Civilian products	Speciality and dual-use goods	Maintenance services (engineering)	Total
Revenue	9,275,236	85,921,069	-	95,196,305
Segment revenue	9,275,236	85,921,069	-	95,196,305
Gross profit	400,480	9,302,655	-	9,703,135
<i>Reconciliation</i>				
Administrative expenses				(6,246,493)
Selling and distribution expenses				(1,057,987)
Other income/(expenses), net				(2,680,056)
Finance income				823,162
Finance costs				(3,853,838)
Share in profit/(loss) of associates and joint ventures				21,125
Profit before tax				(3,290,952)
Income tax expenses				(1,703,856)
Profit for the year				(4,994,808)
2018	Civilian products	Speciality and dual-use goods	Maintenance services (engineering)	Total
Revenue	7,621,921	98,183,066	1,257,839	107,062,826
Segment revenue	7,621,921	98,183,066	1,257,839	107,062,826
Gross profit	488,952	5,607,971	309,656	6,406,579
<i>Reconciliation</i>				
Administrative expenses				(4,373,429)
Selling and distribution expenses				(1,065,370)
Other income/(expenses), net				1,207,510
Finance income				142,194
Finance costs				(2,638,599)
Share in profit/(loss) of associates and joint ventures				(357,928)
Profit before tax				(679,043)
Income tax expenses				(899,581)
Profit for the year				(1,578,624)

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**5. SEGMENT INFORMATION (CONTINUED)**

*(e) Breakdown by geographical regions*

Revenue per geographical region (in case it is material) is as follows:

	2019	2018
Kazakhstan	89,197,816	101,542,854
Russia	5,161,025	5,343,810
Poland	511,517	-
China	167,691	-
Tajikistan	89,844	-
India	55,271	-
Belarus	7,353	4,872
Spain	5,788	-
Finland	-	171,290
<b>As per the data in line with IFRS</b>	<b>95,196,305</b>	<b>107,062,826</b>

Non-current assets are located in the country of the Group's residence and reported separately as follows (excluding deferred tax assets and financial assets):

	31 December 2019	31 December 2018
Kazakhstan	26,532,059	23,232,514
<b>As per the data in line with IFRS</b>	<b>26,532,059</b>	<b>23,232,514</b>

*(f) Core customers*

Revenue from customers accounting for 10 or more per cent of the total revenue for 2019 and 2018 is presented as follows:

	2019	2018
Ministry of Industry and Infrastructural Development of the Republic of Kazakhstan SE	29,660,655	11,469
State Defence Order Committee of the Ministry of Industry and Infrastructural Development of the Republic of Kazakhstan RSE	25,586,228	-
National Guard of the Republic of Kazakhstan	6,313,201	8,307,888
Regional Department of the Coast Security of the Border Service under the National Security Committee of the Republic of Kazakhstan RSE	3,887,591	4,157,457
Ministry of Digital Development, Innovations and Aerospace Industry of the Republic of Kazakhstan SE	2,188,772	-
Government Communication Service of the National Security Committee of the Republic of Kazakhstan SE	1,267,211	1,078,704
Ministry of Defence of the Republic of Kazakhstan SE	-	70,157,077
Committee for Emergency Situations of the Ministry of Internal Affairs of the Republic of Kazakhstan	-	2,097,684
Committee of Sciences under the Ministry of Education and Science of the Republic of Kazakhstan RSE	29,000	23,000
Voiskovaya Chast 2020 RSE	-	44,926

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5. SEGMENT INFORMATION (CONTINUED)

<i>Core customers (continued)</i>	2019	2018
Tengizchervoil LLP	94,761	44,424
KTZh-Freight transportation LLP	1,228,400	1,226,446
Ulan-Ude Aviation Plant JSC	1,307,875	-
Rosoboronexport JSC	1,497,015	2,322,377
OOO THORMEX Poland	511,517	-
Shiprepairing Center 'Zvyozdochka' JSC	72,371	175,551
Ministry of Defence of India	55,271	-
SKBK JSC	386,840	-
GS-TEKHO OY/LTD (Finland)	-	171,290
Mangistaumunaigaz JSC	922,220	808,768
Ozenmunaigaz JSC (Zhanaozen)	2,127,241	1,506,501
NPK 'Energoinfotrans' OOO	125,967	-
Enigma International LLP	168,801	-
Almaty Power Plants JSC	-	708,839
West Kazakhstan Engineering Company JSC	23,016	-
Kamkor Vagon LLP	60,936	99,163
Embaminaigaz JSC	401,047	60,470
Cool Infinity LLP	100,178	-
<b>Total</b>	<b>78,016,114</b>	<b>93,002,034</b>

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6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and structures	Machinery, equipment and vehicles	Other	Construction in progress	Total
<b>Initial cost or estimated cost</b>						
As of 1 January 2018	402,312	16,933,836	12,736,774	1,401,701	528,187	32,002,810
Additions	712,053	507,592	665,067	99,489	628,455	2,612,656
Transfer from inventories	-	-	16,918	4,374	54	21,346
Transfer to inventories	-	-	(7,574)	(722)	(790)	(9,086)
Internal movement	-	302,149	294,186	82,528	(678,863)	-
Disposal	(9,251)	(71,019)	(78,650)	(25,876)	(477,043)	(661,839)
As of 31 December 2018	1,105,114	17,672,558	13,626,721	1,561,494	-	33,965,887
Additions	101,290	69,540	487,420	87,781	2,866,744	3,612,775
Transfers from inventories	-	-	39,439	4,865	1,568,426	1,612,730
Transfer to inventories	-	-	(23,864)	-	-	(23,864)
Internal movement	-	100,028	2,974,059	85,216	(3,159,303)	-
Disposal	(19,832)	(687,902)	(505,968)	(207,699)	58,505	(1,362,896)
As of 31 December 2019	1,186,572	17,154,224	16,597,807	1,531,657	1,334,372	37,804,632
<b>Accumulated depreciation and impairment</b>						
As of 1 January 2018	-	(2,224,411)	(6,047,245)	(753,220)	-	(9,024,876)
Accumulated depreciation for the year	-	(631,400)	(1,059,418)	(99,943)	-	(1,790,761)
Internal movement	-	(39,809)	(39,271)	79,080	-	-
Disposal	-	7,001	63,504	11,759	-	82,264
As of 31 December 2018	-	(2,888,619)	(7,082,430)	(762,324)	-	(10,733,373)
Depreciation charge	-	(512,659)	(1,038,689)	(127,683)	-	(1,679,031)
Disposal	-	61,159	930,092	84,255	-	1,075,506
As of 31 December 2019	-	(3,340,119)	(7,191,027)	(805,752)	-	(11,336,898)
<b>Carrying amounts:</b>						
As of 31 December 2019	1,186,572	13,814,105	9,406,780	725,905	1,334,372	26,467,734
As of 31 December 2018	1,105,114	14,783,939	6,544,291	799,170	-	23,232,514

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As of 31 December 2019, the balance sheet comprises depreciated property, plant and equipment with an initial cost of 1,981,470 thousand tenges (31 December 2018: 1,828,896 thousand tenges).

As of 31 December 2019 property, plant and equipment with a total value of 553,391 thousand tenges (31 December 2018: 573,362 thousand tenges) were pledged to third parties as collateral for loans.

**7. SUBSIDIARIES**

The list of subsidiaries of the Group, indicating the types of activities, location and share owned by the Group, as at 31 December 2019 is presented as follows:

Subsidiary	Activity	Location	Share-carrying voting rights	
			31 December 2019	31 December 2018
811 Motor-repair Plant KE JSC	Repair of defence purposes vehicles and machinery, motor assembly and power unit, modernization of equipment	Kazakhstan	100%	100%
Plant named after S.M. Kirov JSC	Navigation systems, radio stations, railway control console, oil and gas control units and automated machinery	Kazakhstan	100%	100%
Kirov Machinery Plant JSC	Kazakhstan submarine weapons and hydraulics and automatics for marine ships; pneumatic perforators for extracting industry; spare parts for the railway industry	Kazakhstan	98%	98%
Munaymash JSC	Downhole sucker rod pumps for the oil and gas sector, consumer goods	Kazakhstan	52%	52%
Research Institute Hydropribor JSC	Design and research, manufacture of marine, riverboats, ships, boats and other vessels and underwater vehicles, ground and aerial robots and boats, equipment for underwater inspection and repair of pipelines, oil rigs, underwater objects	Kazakhstan	90%	90%
Petropavlovsk Heavy Machinery Building Plant JSC	Special equipment for oil, vessels working under pressure, and tools for repair and maintenance railways, parts of rolling stock, production and sale of defence purposes products, production and modernization of modern specialised equipment	Kazakhstan	100%	100%
Semey Engineering JSC	Repair of defence purposes vehicles, engines, car shipping	Kazakhstan	100%	100%
Semipalatinsk Machinery Construction Plant JSC	Crawler-transporters tractors, manhole covers for the wagons, repair of engineering equipment	Kazakhstan	99%	99%
Tynys JSC	Medical equipment, gas drive fittings, aviation products, tubes, fire extinguishing equipment	Kazakhstan	99%	99%

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Subsidiary	Activity	Location	Share-carrying voting rights	
			31 December 2019	31 December 2018
Uralsk Plant Zenith JSC	Boats and ships for the Navy of RK, design and fabrication of steel structures, parts for oil and gas industry	Kazakhstan	95%	95%
R&D centre Kazakhstan Engineering LLP	Design and development of new types of special products for the MIC entities	Kazakhstan	100%	100%
Kazakhstan Aviation Industry LLP	Maintenance and support of aviation equipment	Kazakhstan	100%	100%
JV Korgau engineering LLP	Production and supply of personal protective equipment for the human respiratory system	Kazakhstan	100%	100%

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8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures are as follow:

Item	Activity	Location	31 December 2019		31 December 2018	
			Carrying amount	Ownership interest, %	Carrying amount	Ownership interest, %
Associates:						
KAMAZ engineering JSC	Manufacture and sale of buses, cars, special purpose equipment and its spare parts	Kazakhstan	250,872	25.00%	255,211	25.00%
Other			-	49.00%	53,340	49.00%
Allowance for impairment			(3,303)		-	
<b>Total investments in associates</b>			<b>247,569</b>		<b>308,551</b>	
Joint ventures:						
Kazakhstan ASELSAN engineering LLP	Manufacture of electronic and optical devices	Kazakhstan	3,734,782	50.00%	3,394,480	50.00%
Eurocopter Kazakhstan engineering LLP	Manufacture and technical maintenance of helicopters Development, manufacture and sale of electronic equipment, systems and/or software and provision of related services; manufacture, sale and technical maintenance of radio and communication equipment for defence services	Kazakhstan	1,200,470	50.00%	1,100,738	50.00%
Thales Kazakhstan engineering LLP		Kazakhstan	-	50.00%	-	50.00%
Allowance for impairment			-		-	
<b>Total investments in joint ventures</b>			<b>4,935,252</b>		<b>4,495,218</b>	

All the above-mentioned associates and joint ventures are strategic for the Group's activity.

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**8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)**

By the decision of Board of Directors of the Company dated 29 January 2016, assets restructuring plan for 2016 was approved, according to which it was planned to liquidate Thales Kazakhstan engineering LLP. In February 2017, by the decision of the general meeting of participants of Thales Kazakhstan engineering LLP, its liquidation was approved.

Consolidated financial information on the current joint ventures of the Group is presented below. The summary financial information below represents the amounts presented in the financial statements of the Group's material joint ventures prepared under IFRS.

	Eurocopter Kazakhstan engineering LLP		Kazakhstan ASELSAN engineering LLP	
	2019	2018	2019	2018
Income	1,899,603	2,416,451	5,352,935	3,808,660
Profit/(loss) and total comprehensive income/(loss) for the year	100,512	(98,954)	(238,071)	(918,675)
Share in profit/(loss) of joint ventures	50,256	(49,477)	(119,036)	(459,338)
	KAMAZ engineering JSC			
	2019	2018		
Income	20,714,233	16,399,376		
Profit/(loss) and total comprehensive income/(loss) for the year	376,807	394,162		
Share in profit/(loss) of joint ventures	94,202	98,541		

**9. OTHER NON-CURRENT ASSETS**

	31 December 2019	31 December 2018
Long-term inventories	428,267	994,495
Advances to suppliers for property, plant and equipment	219,917	7,778
Value-added tax	184,436	388,195
Long-term financial investments	1,768	1,000
Other	47,640	598,956
	<b>882,028</b>	<b>1,990,424</b>

184,436 thousand tenges of long-term value-added tax was charged on subsidiaries of Tynys JSC (2018: 388,195 thousand tenges). According to management, this amount will be reimbursed over 12 months.

Long-term inventories are represented by raw materials of subsidiaries of Semey Engineering JSC for 313,227 thousand tenges (2018: 316,570 thousand tenges) and Plant named after S.M. Kirov JSC for 3,675 thousand tenges.

Advances to suppliers for property, plant and equipment: Semey Engineering JSC for 3,591 thousand tenges, Tynys JSC for 10,527 thousand tenges and Petropavlovsk Plant of Heavy Machine Building JSC for 205,799 thousand tenges.

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**10. INVENTORIES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Raw materials	14,429,343	9,145,490
Construction in progress	7,440,190	8,161,199
Finished goods	6,407,462	3,147,385
Goods for resale	128,737	76,053
Other	9,130	3,242
	<u>28,414,862</u>	<u>20,533,369</u>
Less: allowance for obsolete inventories	(2,886,713)	(1,838,067)
Write-off to net realizable value (Note 28)	(329,986)	(320,658)
	<u><b>25,198,163</b></u>	<u><b>18,374,644</b></u>

Movement in the allowance for obsolete inventories for the years ended 31 December 2019 and 31 December 2018 is presented as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Allowance for obsolete inventories at 1 January	(2,158,725)	(1,985,406)
Accrued during the year (Note 28)	(1,171,832)	(372,314)
Reversed (Note 28)	35,168	273,255
Written-off against the previously established allowance	78,690	(74,260)
<b>Allowance for obsolete inventories at 31 December</b>	<u><b>(3,216,699)</b></u>	<u><b>(2,158,725)</b></u>

As of 31 December 2019 3,216,699 thousand tenges of allowances for obsolete inventories were accrued in the following subsidiaries: Plant named after S.M. Kirov JSC, Uralsk Plant Zenith JSC, Munaimash JSC, Semey Engineering, Semipalatinsk Machinery Construction Plant JSC, Tynys JSC, Petropavlovsk Plant of Heavy Machine Building JSC, Machine-Building Plant named after S.M. Kirov JSC (2018: 2,158,725 thousand tenges).

**11. TRADE RECEIVABLES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Trade receivables from related parties (Note 39)	2,710,473	255,583
Trade receivables from third parties	1,979,935	5,204,827
	4,690,408	5,460,410
Less: allowance for doubtful debts	(344,765)	(1,398,764)
	<u><b>4,345,643</b></u>	<u><b>4,061,646</b></u>

Movement in the allowance for doubtful debts for the years ended 31 December 2019 and 2018 is detailed below:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Allowance for doubtful debts at 1 January	(1,398,764)	(589,636)
Accrued during the year	(370,865)	(1,178,832)
Written-off against the previously established allowance	1,424,864	369,704
<b>Allowance for doubtful debts at 31 December</b>	<u><b>(344,765)</b></u>	<u><b>(1,398,764)</b></u>

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11. TRADE RECEIVABLES (CONTINUED)

As of 31 December 2019, trade receivables net of allowance for doubtful debts are denominated in the following currencies:

	31 December 2019	31 December 2018
Tenges	3,567,678	3,863,373
Russian roubles	561,696	185,081
US dollars	213,381	13,030
Euros	-	162
Kyrgyzstan som	2,888	-
	<u>4,345,643</u>	<u>4,061,646</u>

12. OTHER TAXES RECEIVABLE

	31 December 2019	31 December 2018
Value-added tax	1,250,380	181,011
Other taxes receivable	95,185	256,155
	<u>1,345,565</u>	<u>437,166</u>

13. ADVANCES PAID

	31 December 2019	31 December 2018
Short-term advances paid to third parties	46,515,081	7,980,384
Short-term advances paid to related parties (Note 39)	1,662,790	-
Less: allowance for doubtful debts	(341,230)	(499,496)
	<u>47,836,641</u>	<u>7,480,888</u>

Movement in the allowance for doubtful debts for the years ended 31 December is presented as follows:

	31 December 2019	31 December 2018
Allowance for doubtful debts at 1 January	(499,496)	(312,553)
Accrued during the year	(81,556)	(224,919)
Written-off against the previously established allowance	239,822	37,976
Allowance for doubtful debts at 31 December	<u>(341,230)</u>	<u>(499,496)</u>

As at 31 December, advances paid net of allowance for doubtful debts were denominated in the following currencies:

	31 December 2019	31 December 2018
Tenges	30,225,636	3,488,809
Russian roubles	15,907,550	1,770,404
Euros	990,974	2,028,618
US dollars	712,481	193,057
	<u>47,836,641</u>	<u>7,480,888</u>

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14. OTHER CURRENT ASSETS

	31 December 2019	31 December 2018
Other taxes and governmental charges	289,000	383,624
Deferred expenses	38,338	43,904
Other short-term receivables	25,272	243,883
Receivables from employees	17,959	13,079
Other	652,076	143,865
	<u>1,022,645</u>	<u>828,355</u>

15. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2019		31 December 2018	
	Interest rate	Amount	Interest rate	Amount
SB JSC Sberbank	8.5%	125,277	8-14.7%	2,150
Halyk Bank of Kazakhstan JSC	8%	100,000	7-9%	465,743
Eurasian Bank JSC	1.5%-11.5%	90,280	7%	174,701
Kazakhstanologii JSC	-	56,000	-	-
Steelmanufacturing LLP	-	10,000	-	-
First Heartland Jysan Bank JSC	6%	1,100	-	-
Tsesnabank JSC	-	-	1.5-13.5%	59,224
		<u>382,657</u>		<u>701,818</u>
Less: non-current portion		(1,100)		(463)
		<u>381,557</u>		<u>701,355</u>

As of 31 December 2019 and 2018, short-term financial investments are represented by bank deposits which mature in 3-12 months.

As of 31 December, short-term financial investments are denominated in the following currencies:

	31 December 2019	31 December 2018
Tenges	380,547	696,507
US dollars	1,010	-
Russian roubles	-	4,848
	<u>381,557</u>	<u>701,355</u>

16. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash held with banks, tenges	9,189,591	11,086,581
Cash held with bank accounts, foreign currency	6,765,454	706,680
Cash on hand, tenges	15,849	11,493
Short-term deposits	3,000	209,705
	<u>15,973,894</u>	<u>12,014,459</u>

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**16. CASH AND CASH EQUIVALENTS (CONTINUED)**

Cash and cash equivalents are denominated in the following currencies:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Tenges	9,208,440	11,307,779
Russian roubles	4,982,623	207,659
US dollars	1,111,410	333,786
Euros	671,396	165,235
Ukrainian hryvnias	25	-
	<b><u>15,973,894</u></b>	<b><u>12,014,459</u></b>

**17. ASSETS HELD-FOR-SALE**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Ownership interest sale	4,301,567	4,301,567
Equipment	3,189	3,189
Other non-current assets	501	36,478
	<b><u>4,305,257</u></b>	<b><u>4,341,234</u></b>

Ownership interest sold includes an ownership interest in ZIKSTO JSC, Kazakhstan Aviation Industry LLP and KazEng Electronics LLP in line with the Decree of the Government of the Republic of Kazakhstan No. 1141 dated 30 December 2015 On some Issues of Privatization in 2016-2020 based on the decision of the Board of Directors of NC Kazakhstan Engineering JSC (Minutes No. 7 and No. 9 as of 22 November 2017 and 21 November 2018, respectively).

The most significant among the above is the ownership interest in Kazakhstan Aviation Industry LLP for 3,851,323 thousand tenges.

After the reporting date, this ownership interest was sold.

**18. ISSUED CAPITAL**

As at 31 December 2019 authorized, issued and fully-paid issued capital of the Group consists of 26,276,802 ordinary shares with a par value of 1,000 tenges each (31 December 2018: 24,776,802 ordinary shares).

During 2019, the Company issued 1,500,000 ordinary shares with the par value of 1,000 tenges each. The Ministry of Defence and Aerospace Industry purchased these shares on 1 March 2019 in exchange for cash.

As of 31 December 2019, 100% of the Group's shares belong to the Ministry of Industry and Infrastructural Development of the Republic of Kazakhstan.

In 2019, the Company did not declare and pay dividends.

**Carrying amount of ordinary share**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Total assets	136,449,829	82,401,995
Intangible assets	(456,982)	(344,220)
Total liabilities	<u>(121,410,936)</u>	<u>(63,847,086)</u>
Net assets for ordinary shares	<u>14,581,911</u>	<u>18,210,689</u>
Quantity of ordinary shares for calculating the carrying amount per share (piece)	<u>26,276,802</u>	<u>24,776,802</u>
Carrying amount per ordinary share (tenges)	<b><u>0,555</u></b>	<b><u>0,735</u></b>

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**19. ADDITIONAL PAID-IN CAPITAL**

As of 31 December 2019 and 2018, additional paid-in-capital amounted to 841,018 thousand tenges. Additional paid-in-capital includes the following:

- A difference between the value of shares paid by Committee on State Property and Privatisation of the Ministry of Finance of Kazakhstan SE as a contribution to the share capital and the value of registered share capital of the Company of 428,612 thousand tenges
- A fair value adjustment, less deferred tax effect, on the below-market-rate loans from the Shareholder for 412,406 thousand tenges. These loans were fully repaid during 2013.

**20. NON-CONTROLLING INTERESTS**

	<b>31 December 2019</b>	<b>31 December 2018</b>
As of 1 January	661,904	642,489
Profit and total comprehensive income for the year referred to non-controlling interests	59,420	55,510
Dividends	(30,021)	(36,095)
<b>At 31 December</b>	<b>691,303</b>	<b>661,904</b>

The summarized financial information of the statement of financial position and profit or loss of subsidiaries in which there is significant non-controlling interest on 31 December 2019 and 2018 is presented as follows:

<b>Munaimash JSC (48%)</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Non-current assets	689,267	772,547
Current assets	1,352,611	1,856,042
Non-current liabilities	179,856	320,274
Current liabilities	749,919	1,257,509
Revenue	3,563,121	2,910,888
Gross profit	417,407	354,144
Profit/(loss) for the year	123,895	115,743
Total comprehensive income	123,895	115,743

The summarized financial information of the cash flows of subsidiaries with a significant non-controlling interest on 31 December 2019 and 2018 is presented in the table below:

<b>Munaimash JSC (48%)</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Operating activities	39,179	476,429
Investing activities	75,221	(154,535)
Financing activities	(208,684)	(199,091)
<b>Total net cash flows</b>	<b>(94,284)</b>	<b>122,803</b>

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**21. LOANS**

	Maturity date	Interest rate	31 December 2019	Interest rate	31 December 2018
Loans and financial aid:					
Halyk Bank of Kazakhstan JSC	February 2019 - August 2020	12.0% - 13.0%	17,150,050	12.0% - 13.0%	18,638,926
Samruk-Kazyna JSC	November 2021	-	5,327,956	-	5,327,956
ATF Bank JSC	December 2019 - December 2020	12.0% - 13.0%	2,574,131	12.0% - 13.0%	2,453,604
Temirzholenergo LLP		-	250,000	-	-
Kamkor Management LLP	February 2020	-	10,192	-	-
Individual (Omarov N.S.)		-	25,820	-	-
Individual (Suleimenov K.R.)		-	160	-	-
			<u>25,338,309</u>		<u>26,420,486</u>
Including/(less):			<u>3,314,396</u>		<u>3,059,584</u>
Accrued interests			3,314,396		3,783,087
Discount			-		(723,503)
Total loans and securities			<u>28,652,705</u>		<u>29,480,070</u>
Less: current portion of loans			(28,252,917)		(17,801,877)
Non-current portion of debt securities and loans			<u><u>399,788</u></u>		<u><u>11,678,193</u></u>

*Halyk Bank of Kazakhstan JSC*

In 2016 within the framework of the Credit Facility Agreement, the Group raised loans from Halyk Bank of Kazakhstan JSC at the interest rate of 14% per annum for 21,600,000 thousand tenges and 4,640,590 thousand tenges with maturity on 8 August 2017 and 31 August 2018, respectively.

In August 2017, the Group partially repaid the principal of 6,000,000 thousand tenges by a tranche for 21,600,000 thousand tenges sourced from the proceeds received from financial aid provided by Samruk-Kazyna JSC on 26 July 2017. Under additional agreement dated 4 August 2017, the Company extended the remaining part of the loan of 15,600,000 thousand tenges until 10 August 2020 at the interest rate of 12%.

In 2019, the Group repaid the principal under tranche 1 for 605,506 thousand tenges. Under tranche 2, the Group partially repaid the principal of 2,485,035 thousand tenges at the expense of funds from the privatization of assets; the remaining part of the principal for 2,155,556 thousand tenges matures on 1 February 2019. Thus, as of 31 December 2019, the Company has an overdue principal:

- Tranche 1 for 7,894,494 thousand tenges
- Tranche 2 for 2,155,556 thousand tenges.

The Group has recognized fines and penalties for 1,395,458 thousand tenges charged for delays in principal and penalty payments under 'Other Current Liabilities' (Note 26).

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**21. LOANS (CONTINUED)**

*Samruk-Kazyna JSC*

The Group entered into the loan agreement No. 824-И/1 dated 2 July 2018 with National Welfare Fund Samruk-Kazyna JSC (Samruk-Kazyna JSC) for 5,327,956 thousand tenges. The loan matures on 31 December 2021. Repayment of the principal under the loan agreement was planned annually, starting from 25 November 2019 with instalments for 2,000,000 thousand tenges, 2,150,000 thousand tenges and 1,177,956 thousand tenges, respectively. Due to delay in repayment of tranche 1 for 2,000,000 thousand tenges, the entire loan amount was recorded in the current entry 'Loans' (Note 21).

According to the loan agreement No. 824-И/1 dated 2 July 2018, the loan from Samruk-Kazyna JSC was recognized at the interest rate of 4% per annum. Due to the reduced interest rate, in 2018 the Group recognized the difference between the fair value of the loan, calculated using the market interest rate of 13.25% per annum, and the funds received for 753,354 thousand tenges; the discount is recognised in 'Deferred Income'. Discount for 2018 for 29,851 thousand tenges is amortised and recognized in 'Finance Costs' (Note 33).

In 2019, the Group delayed the first payment under the schedule, and therefore, recognized all debt as short-term loans due to a possible call from the creditor.

As of 31 December 2019 and 2018, all loans were denominated in tenges.

**22. LONG-TERM TRADE ACCOUNTS PAYABLE**

	31 December 2019	31 December 2018
Long-term receivables to reportable persons	1,206	240
Long-term accounts payable to suppliers and contractors	827	3,235,104
	<u>2,033</u>	<u>3,235,344</u>

**23. SHORT-TERM TRADE ACCOUNTS PAYABLE**

	31 December 2019	31 December 2018
Trade payables to suppliers and contractors	15,083,972	5,883,620
Payables to related parties (Note 39)	54,075	49,276
	<u>15,138,047</u>	<u>5,932,896</u>

Trade payables are presented in the following currencies:

	31 December 2019	31 December 2018
Tenges	1,586,298	4,278,186
Russian roubles	9,752,260	887,544
US dollars	2,861,775	708,377
Euros	937,697	58,789
Ukrainian hryvnias	17	-
	<u>15,138,047</u>	<u>5,932,896</u>

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**24. OTHER TAXES PAYABLE**

	<b>31 December 2019</b>	<b>31 December 2018</b>
VAT payable	1,341,898	1,578,417
Personal income tax	226,995	170,242
Social tax payable	150,376	85,261
Contributions under pension and healthcare plans	25,666	226,213
Other taxes	11,974	48,310
	<u><b>1,756,909</b></u>	<u><b>2,108,443</b></u>

**25. ADVANCES RECEIVED**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Advances received from related parties (Note 39)	61,627,580	16,340,065
Advances received from third parties	5,482,177	-
	<u><b>67,109,757</b></u>	<u><b>16,340,065</b></u>

Advances received from third parties included prepayments for the sale of interests in subsidiaries and associates. On 30 June 2020, Kamkor Management LLP fully repaid under the Sale and Purchase Agreement of the Issued Capital Shares in KAZAKHSTAN AVIATION INDUSTRY LLP No. ДГ/1 dated 27 July 2018; received advances for 3,571,024 thousand tenges were repaid (Note 17).

As of 31 December 2019, advances received are denominated in the following currencies:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Tenges	66,905,852	16,340,065
Russian roubles	203,905	-
	<u><b>67,109,757</b></u>	<u><b>16,340,065</b></u>

**26. OTHER CURRENT LIABILITIES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Provisions	727,199	610,278
Dividends payable to third parties	407,403	73,051
Wages and salary payable	283,089	372,320
Other payables	5,901,516	3,675,307
Other current liabilities	-	55,510
	<u><b>7,319,207</b></u>	<u><b>4,786,466</b></u>

Other current liabilities are denominated in tenges.

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**27. REVENUE**

For the years ended 31 December and 31 December 2018 revenues are presented as follows:

	31 December 2019	31 December 2018
Purchased goods and services sales revenue	64,899,452	68,899,937
Produced goods and services sales revenue	30,296,853	38,162,889
	<u>95,196,305</u>	<u>107,062,826</u>

Revenue from related party transactions for 2019 was 70,804,709 thousand tenges (2018: 94,551,404 thousand tenges), which comprises 74% of the total revenue (2018: 88%) (Note 39).

**28. COST OF SALES**

For the periods ended 31 December 2019 and 31 December 2018, the cost of produced goods and services is presented as follows:

	31 December 2019	31 December 2018
Production works and services	48,784,265	25,125,211
Raw materials	25,110,415	63,277,593
Salary and related taxes	7,633,379	5,625,525
Depreciation and amortisation	1,643,652	1,092,104
Other expenses as a part of the cost of sales	1,244,554	4,538,072
Travel expenses	301,505	189,135
Utilities	272,395	350,816
Repair and maintenance	167,521	275,021
Provision for unused vacations and other remunerations	141,660	31,020
Transportation costs	69,414	47,484
Insurance	30,962	16,491
Licenses, permits, charges, fees etc.	30,414	23,849
Security	20,213	16,520
Lease	19,401	17,239
Training of personnel	13,101	26,858
Communication services	10,319	3,309
	<u>85,493,170</u>	<u>100,656,247</u>

**29. ADMINISTRATIVE EXPENSES**

	31 December 2019	31 December 2018
Payroll and deductions	2,070,646	2,165,843
Allowance for doubtful debts	1,191,614	40,660
Outsourced services	376,609	486,231
Depreciation and amortisation	202,719	204,974
Travel and entertainment expenses	185,576	222,199
Financing costs	183,339	241,861
Taxes	134,513	247,219
Provision for unused vacations and other remunerations	48,991	31,020
Write-off of inventories to net realizable value (Note 9)	(1,428)	(320,658)
Allowance for obsolete inventories (Note 9)	-	(80,481)
Other	1,853,914	1,134,561
	<u>6,246,493</u>	<u>4,373,429</u>

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30. SELLING AND DISTRIBUTION EXPENSES

	31 December 2019	31 December 2018
Salary payable	401,086	314,170
Transportation costs	143,486	129,166
Travel expenses	135,438	126,985
Advertising expenses	48,365	47,160
Taxes and other governmental charges	39,087	4,779
Materials	24,976	144,308
Lease of premises	17,710	12,804
Depreciation and amortisation	15,297	17,337
Communication services	10,804	23,102
Utilities	3,379	2,381
Other expenses	218,359	243,178
	<u>1,057,987</u>	<u>1,065,370</u>

31. OTHER INCOME/ (EXPENSES), NET

	31 December 2019	31 December 2018
Income/ (expenses) on fines, penalties and forfeits	232,836	8,631
Income from cost-free property	136,232	75,420
Income/expenses from lease	88,499	100,103
Income/expenses from assets disposal	47,540	1,844,685
Reversal/ (Impairment) of other assets	(3,027,190)	854,152
Other	(167,827)	62,761
	<u>(2,689,910)</u>	<u>2,945,752</u>

Income from disposal of subsidiary 'Instrument-making Plant 'Omega' JSC was recognized within income from assets disposal for 2019 for 76,735 thousand tenges.

32. FINANCE INCOME

	31 December 2019	31 December 2018
Interest income on short-term deposits and current accounts	745,040	102,775
Other finance income	72,233	37,553
Interest income on loan issued	5,889	1,866
	<u>823,162</u>	<u>142,194</u>

33. FINANCE COSTS

	31 December 2019	31 December 2018
Interest on bonds and loans issued	1,573,069	-
Dividends on preference shares	43,782	40,163
Other finance costs	2,236,987	2,598,436
	<u>3,853,838</u>	<u>2,638,599</u>

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**34. FOREIGN EXCHANGE GAIN/(LOSS), NET**

	31 December 2019	31 December 2018
Income from the revaluation of assets/liabilities in foreign currency	102,628	29,338
Expenses from the revaluation of assets/liabilities in foreign currency	(92,774)	(1,767,580)
	<u>9,854</u>	<u>(1,738,242)</u>

**35. INCOME TAX**

	31 December 2019	31 December 2018
Current income tax expenses	600,726	407,777
Deferred income tax recovery	1,103,130	491,804
	<u>1,703,856</u>	<u>899,581</u>

Reconciliation between the expected income tax expenses by applying a 20% statutory rate:

	31 December 2019	31 December 2018
Loss before income tax from continuing operations	(2,790,447)	(499,503)
Estimated income tax at a statutory rate of 20%	(558,089)	(99,901)
Tax effect of permanent differences	2,239,074	952,945
Share of income/(loss) in associates and joint ventures	22,871	46,537
	<u>1,703,856</u>	<u>899,581</u>

Deferred tax assets/deferred tax liabilities:

	As of 1 January 2019	Recognised in profit or loss	As of 31 December 2019
Tax loss carried forward	2,773,959	(1,797,361)	976,598
Other liabilities	734,894	(467,896)	266,998
Provisions	677,083	965,966	1,643,049
Trade receivables	138,547	(130,466)	8,081
Loans issued	-	144,701	144,701
Taxes payable	24,642	4,976	29,618
Property, plant and equipment	(1,602,975)	176,950	(1,426,025)
	<u>2,746,150</u>	<u>(1,103,130)</u>	<u>1,643,020</u>
	As of 1 January 2018	Recognised in profit or loss	As of 31 December 2018
Tax loss carried forward	4,089,863	(1,315,904)	2,773,959
Other liabilities	197,911	536,983	734,894
Provisions	430,546	246,537	677,083
Trade receivables	122,069	16,478	138,547
Taxes payable	18,893	5,749	24,642
Property, plant and equipment	(1,621,328)	18,353	(1,602,975)
	<u>3,237,954</u>	<u>(491,804)</u>	<u>2,746,150</u>

### **35. INCOME TAX (CONTINUED)**

On 7 August 2020, a documentary tax audit of corporate income tax and value-added tax accruals for 2015-2017 was completed in NC Kazakhstan Engineering JSC. Based on the tax audit results additional corporate income tax was charged for 5,748,679 thousand tenge, as well as a penalty related to the corporate income tax for 775,504 thousand tenge. Additional CIT accruals arose when the Company deducted the costs of servicing the bond loan in the form of remuneration and exchange rate differences when determining taxable income. The Company expressed its disagreement with the tax authorities and filed a complaint on the tax audit results with the Ministry of Finance of the Republic of Kazakhstan, as the management considers it unreasonable to exclude from deductions the costs associated with the transaction for the issue and placement of Eurobonds and the recognition of these costs apart from the statutory activities and receiving the total annual income.

The Company management did not accrue these liabilities as it believes that following the Charter, the Law of the Republic of Kazakhstan On Joint-Stock Companies and other legislative acts, the bonds issue is not an entity's separate activity but is one of the financial instruments for replenishing working capital and sources of additional funds for the issuer, being the equivalent of a loan. At the time of the issue of these financial statements, no response to the Company's complaint was received as the deadline for responding had not come yet.

### **36. CONTINGENT LIABILITIES**

#### **Taxation and regulatory environment**

Currently, there are several Kazakhstan laws relating to various taxes imposed by both national and regional authorities. Laws related to these taxes were not effective for a considerable time compared to more developed markets, so the application of their provisions are often not clear or not developed. Accordingly, few precedents have been established in respect of tax matters, and there are different views on the legal interpretation of the laws.

Following legislation, tax authorities may impose substantial fines and penalties for the late or incorrect filing of tax returns and/or tax payments. These factors make tax risks in Kazakhstan more significant than in countries with more developed tax systems.

#### **Legal matters**

From time to time, the Group is being a subject to legal proceedings and court judgements, which individually or in aggregate have no material impact on the Group. Management believes that settlement of all business matters will have no material impact on the Group.

#### **Environmental laws compliance**

Management of the Group believes that it is compliant with all environmental laws and regulations existing in the Republic of Kazakhstan and does not have liabilities arising from environmental matters. Therefore, no provision for potential losses has been made in these consolidated financial statements.

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**36. CONTINGENT LIABILITIES (CONTINUED)**

**Insurance**

The Group has not insured its production assets or provided for the third party and employee liability insurance. Since the lack of insurance does not decrease the value of assets or increase liabilities, no provision for possible damages or losses of these assets has been made in these consolidated financial statements as at 31 December 2019.

**Market limitation**

One of the Group's main operating activities is the development, production and sale of defence purposes equipment. The Group's activities are strategic for the Republic of Kazakhstan and require licensing and approval by the Government, which is why the market for the products of the Group is limited.

**37. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES**

The major financial instruments of the Group include loans, cash, short-term deposits as well as receivables and payables. The main risk for the Group's financial instruments is credit risk. The Group also monitors the market risk and liquidity risk arising from all financial instruments.

**Capital risk management**

The Group's policy is aimed to maintain a sound capital base to underpin the confidence of shareholders, creditors and the market, as well as ensure the future business growth. Management of the Group monitors the return on (investment) capital, which the Group defines as net operating income divided by total equity, excluding non-controlling interests.

The Group manages its capital adequacy, to ensure that the Group will continue as a going concern while maximizing profits for the Shareholder through the optimization of the balance of debt and equity.

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed equity requirements.

The Group's capital structure includes net borrowed funds (comprising loans, finance lease, including embedded derivative and debt component of preference shares, after deducting cash and cash equivalents, restricted cash and short-term financial investments) and equity of the Group (comprising issued capital, additional paid-in capital, retained earnings and non-controlling interests as disclosed in Notes 17, 18 and 19).

	<b>31 December 2019</b>	<b>31 December 2018</b>
Borrowed funds	28,652,705	29,480,070
Cash and cash equivalents, short-term investments and restricted cash	(15,973,894)	(12,014,459)
<b>Net borrowed funds</b>	<b>12,678,911</b>	<b>17,465,611</b>
Equity	26,276,802	24,776,802
Net debt to equity ratio	48,25%	70,49%

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**37. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

**Categories of financial instruments**

	<u>31 December 2019</u>	<u>31 December 2018</u>
<b><i>Financial assets</i></b>		
Cash and cash equivalents	15,973,894	12,014,459
Short-term financial investments	382,657	701,818
Trade receivables	4,347,927	4,076,595
Other current assets	1,022,645	828,355
<b><i>Financial liabilities</i></b>		
Trade payables	15,140,080	9,168,240
Loans	28,652,705	29,480,070
Finance lease	235,501	363,975
Preference shares liabilities	136,722	136,722
Other liabilities	7,344,896	4,787,672

**Summary of significant accounting policies**

Significant accounting policies and methods applied by the Group including criteria for recognition, the basis for measurement and the basis on which income and expenses are recognized in respect of each class of financial assets, financial liabilities and equity instruments are disclosed in Note 3 to the consolidated financial statements.

**Financial risk management objectives**

Risk management is an important element of the Group's activity. The Company monitors and manages the financial risks relating to operations of the Group through internal risk reports that analyse the degree of exposure to risk and magnitude of risks. These risks include market risk (including currency risk, interest rate risk in respect of fair value and price risk), liquidity risk and interest rate risk on cash flows. The following is a description of the Group's risk management policies.

**Interest rate risk**

The risk associated with interest rates for the Group is a risk of changes in market interest rates, which may reduce the overall return on investment and increase the outflow of money for loans of the Group. This risk is not significant to the Group, since the interest-bearing financial assets and liabilities include fixed interest rates.

**Currency risk**

The Group is exposed to currency risk on sales and purchases, and borrowings that are denominated in a currency other than the functional currency of Group entities, which is the Kazakhstan tenge. The amounts of cash and cash equivalents, short-term investments, trade and other payables of the Group denominated in foreign currencies, which are mainly US dollars and Russian roubles, are presented in tenges in the consolidated financial statements. Consequently, gain or loss arises from the change in exchange rate of tenge against the foreign currencies.

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**37. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

*Currency risk exposure*

The Group's exposure to the currency risk, based on conventional (nominal) values, was as follows:

	US dollars		Russian roubles		Euros	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
<b>Financial assets:</b>						
Cash and cash equivalents	1,111,410	333,786	4,982,623	207,659	671,396	165,235
Short-term financial investments	1,010	-	-	4,848	-	-
Trade and other receivables	213,381	13,030	561,696	185,081	-	162
Advances paid	712,481	193,057	15,907,550	1,770,404	990,974	2,028,618
<b>Financial liabilities:</b>						
Loans	-	-	-	-	-	-
Trade payables	(2,861,775)	(708,377)	(9,752,260)	(887,544)	(937,697)	(58,789)
Advances received	-	-	(203,905)	-	-	-
<b>Net effect</b>	<b>(823,493)</b>	<b>(168,504)</b>	<b>11,495,704</b>	<b>1,280,448</b>	<b>724,673</b>	<b>2,135,226</b>

The following major weighted-average exchange rates applied during the year:

	Weighted-average exchange rate for 2019	Weighted-average exchange rate for 2018
US dollars	382.75	344.71
Euros	428.51	406.66
Russian roubles	5.92	5.50
Ukrainian hryvnias	14.87	-
Kyrgyzstan soms	5.49	-

Exchange rates as of 31 December:

	31 December 2019	31 December 2018
US dollars	381.18	384.20
Euros	426.85	439.37
Russian roubles	6.17	5.52
Ukrainian hryvnias	16.09	-
Kyrgyzstan soms	5.47	-

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**37. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

**Sensitivity analysis**

The following table details the Group's sensitivity to 10.00% (2018: 10.00%) increases and decreases in the value of tenge to U.S dollar, 16.00% (2018: 16.00%) to Russian roubles and 13.50% (2018: 13.50%) to Euro. 10.00%, 16.00% and 13.50% are the sensitivity rates used when key management assesses and records a reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign-currency-denominated monetary items and adjusts their translation at the period end. The sensitivity analysis includes a) open positions with external contractors as well as b) payables/receivables of intragroup transactions with foreign contractors of the Group if the transaction denominated in a currency other than the currency of the lender or the borrower.

The following table shows changes in financial assets and liabilities when tenge weakens by 10,00%, 16.00% and 13.50% compared to the relevant currency.

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

	US dollars		Russian roubles		Euros	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Profit or loss	(82,349)	(16,850)	1,839,313	204,872	97,831	288,256

**Credit risk**

Credit risk arising from non-performing by the counterparties of contract terms with the Group's financial instruments is usually limited to the amounts, if any, to which the value of counterparties' liabilities exceeds the liabilities of the Group to the contractors. The Group's policy provides for the financial instruments transactions with several creditworthy counterparties. The maximum value of the credit risk exposure is the carrying amount of each financial asset.

The Group believes that the maximum risk is its trade receivables (Note 11) and advances paid (Note 13) less allowance for doubtful debt recorded as of the reporting date.

The concentration of credit risk can arise when there are multiple amounts owed by a borrower or a group of borrowers with similar conditions for which there is a reason to expect that changes in economic conditions or other circumstances may equally affect their ability to fulfil its liabilities.

The maximum exposure to credit risk for current trade receivables and advances issued as of the reporting date, and by geographic regions was as follows:

	31 December 2019	31 December 2018
Exposure in Kazakhstan	33,793,314	7,352,182
Exposure outside Kazakhstan	18,388,970	4,190,352
	<b>52,182,284</b>	<b>11,542,534</b>

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**37. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

The Group has a monitoring policy ensuring that transactions are concluded with customers with an adequate credit history and do not exceed credit limits.

Credit risk is reduced because the Group works with the majority of their customers based on advances issued by a bank guarantee against the return of the advance payment.

The Group does not act as a guarantor for the obligations of third parties.

As of 31 December 2019 and 2018, ageing analysis of trade and other receivables is provided below:

	31 December 2019	31 December 2018
Not past due	699,887	2,263,083
Past due for 3-6 months	26,754	624,261
Past due for 6-12 months	415,622	87,457
Past due for over 12 months	3,203,380	1,086,845
	<b>4,345,643</b>	<b>4,061,646</b>

Concerning credit risk associated with cash and cash equivalents and short-term financial investments, the Group's risk of default of credit institutions in which funds are deposited, with a maximum exposure equal to the current value of these instruments, is considered to be insignificant.

As at 31 December 2019, the Group places cash and cash equivalents in the largest second-tier banks of Republic of Kazakhstan including cash and cash equivalents for 16,356,551 thousand tenges, including short-term deposits for 382,657 thousand tenges:

	Fitch Ratings	Standard&Poor`s	Moody's
SB JSC Sberbank	BBB-/Stable	-	Ba1/Stable
Eurasian Bank JSC	-	B-/Stable	B2/Stable
Halyk Bank of Kazakhstan JSC	BB+/Positive	BB/Stable	Ba1/Positive
First Heartland Jysan Bank JSC	-	B-/Positive	-
ATF Bank JSC	B-/Stable	B-/Stable	B2/Stable

The Group analyses liquidity, credit and currency risks when placing short-term financial investments in the second-tier banks. The Group controls credit risk through diversification of cash and cash equivalents in the second-tier banks.

**Market risk**

Market risk is the risk of possible fluctuations in the value of a financial instrument due to changes in market prices. The Group manages market risk through periodic estimation of potential losses that may occur due to adverse changes in market conditions.

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group monitors the liquidity risk of short-term, medium-term and long-term financing under the requirements of the Shareholder.

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**37. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

The ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, bank loans and available credit lines by continuously monitoring the forecast and actual cash flows and comparing the maturity of financial assets and liabilities (Note 3).

The following table discloses the expected maturity of non-derivative financial assets of the Group. The table is based on the undiscounted cash flows related to financial liabilities as of the earliest possible date at which the Group may be requested for the payment. The table comprises cash flows both for principal and interest repayment.

	Interest rate	1-6 months	6 months to one year	1-5 years	Over 5 years	Total
<b>2018</b>						
<u>Non-interest-bearing:</u>						
Trade payables	-	5,932,896	-	3,235,344	-	9,168,240
Other liabilities	-	4,786,466	-	1,206	136,722	4,924,394
<u>Interest-bearing:</u>						
Loans	12%-13%	17,801,877	-	11,678,193	-	29,480,070
Finance lease	5%	128,230	-	235,745	-	363,975
	Interest rate	1-6 months	6 months to one year	1-5 years	Over 5 years	Total
<b>2019</b>						
<u>Non-interest-bearing:</u>						
Trade payables	-	15,138,047	-	2,033	-	15,140,080
Other liabilities	-	7,319,207	-	25,689	136,722	7,481,618
<u>Interest-bearing:</u>						
Loans	12%-13%	28,252,917	-	399,788	-	28,652,705
Finance lease	5%	128,172	-	107,329	-	235,501

The following table presents the expected maturities of the Group's non-derivative financial assets. The table has been compiled based on the undiscounted contractual maturities of the financial assets, including interest to be earned on these assets, unless the Group expects the cash flows in a different period.

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**37. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

	Interest rate	One month to one year	1-5 years	Indefinite maturity date	Total
<b>2018</b>					
<i>Interest-bearing:</i>					
Short-term financial investments	-	-	-	-	-
Short-term deposits	11.84%	701,355	463	-	701,818
<i>Non-interest-bearing:</i>					
Cash and cash equivalents	-	12,014,459	-	-	12,014,459
Cash restricted in use	-	49,375	-	-	49,375
Trade receivables	-	4,061,646	-	14,949	4,076,595
Other assets	-	828,355	-	-	828,355

	Interest rate	One month to one year	1-5 years	Indefinite maturity date	Total
<b>2019</b>					
<i>Interest-bearing:</i>					
Short-term financial investments	-	66,000	-	-	66,000
Short-term deposits	15-11.5%	315,557	1,100	-	316,657
<i>Non-interest-bearing:</i>					
Cash and cash equivalents	-	15,973,894	-	-	15,973,894
Cash restricted in use	-	11,649	-	-	11,649
Trade receivables	-	4,345,643	-	2,284	4,347,927
Other assets	-	1,022,645	-	-	1,022,645

**38. FAIR VALUE**

Fair value is determined as the amount for which an instrument can be exchanged between knowledgeable parties on commercial terms, except for the cases of forced sale or realisation in liquidation. Since most of the Group's financial instruments are with no existing market mechanisms available to determine a fair value, assumptions based on current economic conditions and specific risks inherent in the instrument should be used for fair value measurement.

The following methods and assumptions used by the Group to calculate the fair value of financial instruments:

**Cash and cash equivalents**

The carrying amount of cash and cash equivalents approximates their fair value due to the short-term maturity of these financial instruments.

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**38. FAIR VALUE (CONTINUED)**

**Short-term financial investments**

The carrying amount of bank deposits with a maturity of less than twelve months approximates fair value due to the relatively short maturity of these financial instruments.

**Trade and other accounts receivable and payable**

For trade and other accounts receivable and payable with a maturity of less than twelve months, the carrying amount approximates fair value due to the relatively short maturity of these financial instruments.

**Loans**

The calculation in respect of bank loans was made by discounting the expected future cash flows on certain loan over the estimated repayment period using the market rates prevailing at the end of that year on loans with similar maturities and credit rating parameters.

**The fair value of assets and liabilities not measured at fair value regularly (but fair value disclosures are required)**

Management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

As of 31 December 2019 and 2018, the carrying amount of assets and liabilities of the Group were equal to its fair value.

**Fair value hierarchy as at 31 December 2018 and as of 31 December 2019**

	Level 1	As of 31 December 2018		Total
		Level 2	Level 3	
<b>Financial assets</b>				
Short-term financial investments	-	701,355	-	701,355
<b>Non-financial assets</b>				
Non-current assets held-for-sale	-	4,341,234	-	4,341,234
<b>Financial liabilities</b>				
Loans	-	29,480,070	-	29,480,070
Finance lease liabilities	-	363,975	-	363,975

	Level 1	As of 31 December 2019		Total
		Level 2	Level 3	
<b>Financial assets</b>				
Short-term financial investments	-	381,557	-	381,557
<b>Non-financial assets</b>				
Non-current assets held-for-sale	-	4,305,257	-	4,305,257
<b>Financial liabilities</b>				
Loans	-	28,652,705	-	28,652,705
Finance lease liabilities	-	235,501	-	235,501

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**38. FAIR VALUE (CONTINUED)**

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined following generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

**39. RELATED PARTY TRANSACTIONS**

Related parties include associates and subsidiaries of the Company and the Sole Shareholder of the Group, as well as branches and subsidiaries of the sole Shareholder of the Group, including state-owned profit-oriented companies, also ministries and agencies.

**Trade receivables (Note 11)**

	31 December 2019	31 December 2018
Ministries and agencies	2,702,666	249,883
ZIKSTO JSC	7,645	209,000
Kazakhstan engineering distribution LLP	162	-
KazEng ElectronicsJSC	-	17,575
	<u>2,710,473</u>	<u>476,458</u>
Less: allowance for the doubtful debt of related parties	(162)	(220,875)
	<u>2,710,311</u>	<u>255,583</u>

**Dividends receivable**

	31 December 2019	31 December 2018
KazEng ElectronicsJSC	17,575	17,575
	<u>17,575</u>	<u>17,575</u>

**Current trade payables (Note 22)**

	31 December 2019	31 December 2018
Ministries and agencies	54,075	-
Kazakhstan ASELSAN engineering LLP	-	25,276
KazEng Electronics JSC	-	10,000
Other	-	14,000
	<u>54,075</u>	<u>49,276</u>

**Advances paid (Note 13)**

	31 December 2019	31 December 2018
Ministries and agencies	3,557	-
Eurocopter Kazakhstan engineering LLP	1,641,293	-
Indra LLP	14,000	-
Korgau engineering LLP	3,940	-
	<u>1,662,790</u>	<u>-</u>
Less: allowance for the doubtful debt of related parties	(17,940)	-
	<u>1,644,850</u>	<u>-</u>

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**39. RELATED PARTY TRANSACTIONS (CONTINUED)**

**Advances received (Note 25)**

	31 December 2019	31 December 2018
Ministries and agencies	61,627,580	16,340,065
	<u>61,627,580</u>	<u>16,340,065</u>

**Sales of goods and services (Note 27)**

	31 December 2019	31 December 2018
Ministries and agencies	70,761,462	94,551,404
KAMAZ-Engineering JSC	43,247	-
	<u>70,804,709</u>	<u>94,551,404</u>

**Purchase of goods and services**

	31 December 2019	31 December 2018
Kazakhstan ASELNAN engineering LLP	474,107	2,969,313
ZIKSTO JSC	149,286	-
KAMAZ-Engineering JSC	-	4,536,161
KazEng Electronics JSC	-	252,650
Eurocopter Kazakhstan engineering LLP	-	263,766
	<u>623,393</u>	<u>8,021,890</u>

**Remuneration of key management personnel**

For the years ended 31 December 2019 and 2018, remuneration to key management personnel amounted to 513,293 thousand tenges and 87,075 thousand tenges, respectively.

**40. SIGNIFICANT NON-MONETARY TRANSACTIONS ON FINANCING ACTIVITIES**

	2019	2018
Balance of loans as of 1 January	29,480,070	28,758,183
Financing activities	(1,243,638)	(1,717,003)
Interest paid	(1,964,741)	(608,947)
<i>Non-monetary changes:</i>		
Accrued interest	1,984,608	2,771,405
Accrued fines/penalties on loans	348,264	-
Accrual of a discount	-	(753,354)
Effect of discounting	723,503	29,851
Other	(675,361)	999,935
<b>Balance of loans as of 31 December</b>	<u>28,652,705</u>	<u>29,480,070</u>

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**41. EVENTS AFTER THE REPORTING PERIOD**

***Business environment in Kazakhstan and the world***

On 16 March 2020, due to the pandemics of the COVID-19 virus, the Government of the Republic of Kazakhstan announced the state of emergency, which subsequently was prolonged until 11 May 2020. Several restrictions were imposed on movements of persons in Kazakhstan that led to a reduction of normal economic activities of many entities in the country. The governments of the other countries of the world imposed similar restrictions to limit the impact of the virus that resulted in a significant reduction of the global economic activity.

The extent of COVID-19 impact on operating and financial performance will depend on certain events, including the outbreak duration and spread, its impact on the Group customers, employees and suppliers which can be hardly predicted and identified.

Currently, the extent of COVID-19 impact on the Group financial standing and performance is uncertain and cannot be reasonably estimated.

However, the Group's management believes that the military-industrial sector is a priority in the country's economy, and the above circumstances will not materially affect the going concern and financial statements of the Group.

The global oil prices also significantly reduced in March 2020, and the rate of the Kazakhstan tenge to the US dollar decreased from 381.18 tenges for a US dollar as of 31 December 2019 approximately to 427.98 tenges of a US dollar as of 20 November 2020 (in April 2020, the US dollar rate reached the maximum level of 448.52 tenges for a US dollar).

The Group received 27,845,931 state-owned stakes of Kaztechnologii JSC as a payment for the Group's allocated shares. Kaztechnologii JSC state-owned stakes are evaluated at 27,845,931 thousand tenges. State-owned stakes were transferred in line with the Decree of the Government of the Republic of Kazakhstan No. 773 dated 17 October 2019 On some Issues of National Company Kazakhstan Engineering Joint-Stock Company, the Order of the Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan No. 131 dated 12 March 2020, the order of the Committee for State Property and Privatization of the Republic of Kazakhstan No. 192 dated 8 April 2020. The number of authorized shares of the Group was 56,261,100 ordinary shares.

On 8 April 2020, the Group's Assets Restructuring Plan for 2020 was approved by the Board of Directors Decision No. 3.

During 2020, 50% of the Group's interest in the issued capital of Kazakhstan Aviation Company LLP was purchased by Kamkor Management LLP, and the advances received were repaid accordingly. Previously, Kazakhstan Aviation Industry LLP was jointly managed following a trust management agreement.

On 21 September 2020 the Group signed a sales and purchase contract for purchasing 25% of KAMAZ-Engineering JSC ordinary shares (Company's associate) (Contract No. 05-1-5/2279 dated 21 September 2020).

On 6 November 2020 the Group signed a sales and purchase contract for purchasing 49% of share in equity of Kazakhstan engineering Distribution LLP (Company's associate) (Contract No. 05-1-5/2658 dated 6 November 2020).

JV Korgau engineering LLP (Tynys JSC subsidiary) was winded up by the order No. 614 dated 9 September 2020 issued by NJSC State Corporation 'Government for Citizens'. JV Korgau engineering LLP has paid off all its liabilities.

Tynys JSC within the framework of the Credit Facility Agreement with Halyk Bank of Kazakhstan JSC dated 25 November 2016 received loans for 1,399,395 thousand tenges for working capital replenishment.

Uralsk Plant 'Zenit' JSC received licenses for handling devices and installations generating ionizing radiation (No. 20005964 dated 08 April 2020) and licenses for importing products subject to export control (No. 000KZ20000001924 dated 13 July 2020).

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**41. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)**

As of the reporting date, Plant named after S.M. Kirov JSC is processing with signing a Credit Facility Agreement with Forte Bank JSC to increase the existing credit line to 1,100,000,000 (one billion one hundred million) tenges until 31 December 2021 designated for contingent liabilities and replenishment of working capital under the interest rate is 13% per annum. As of 18 August 2020, the Company's liability on loans within the credit facility opened with Forte Bank JSC equalled to 99,946,028 tenges.

Plant named after S.M. Kirov JSC Board of Directors decided on increasing the Company's liabilities by ten or more per cent of its shareholders' interest by signing agreements for 3,655,948,000 tenges (with ministries and agencies), 2,161,548 US dollars (with KB Radar JSC) and 100,744,800 Russian roubles (with NPO VEKTOR JSC).

In 2020, Semey Engineering JSC plans to manufacture and sell products under contracts concluded with the Customer for at least 11,982 million tenges.

As of 19 August 2020, the Company has agreements with the Customer for the overhaul of armoured vehicles until 2022 inclusive.

On 7 August 2020, at NC Kazakhstan Engineering JSC a documentary tax audit was completed. The tax audit was intended for reviewing corporate income tax and value-added tax accruals for 2015-2017. Based on the results of the tax audit, both additional corporate income tax for 5,748,679 thousand tenges and the penalty thereon for 775,504 thousand tenges were charged. Additional CIT accruals arose when the Company deducted the costs of servicing the bond loan in the form of remuneration and exchange rate differences when determining taxable income.

The Company expressed its disagreement with the tax authorities and filed a complaint on the tax audit results with the Ministry of Finance of the Republic of Kazakhstan, as the management considers it unreasonable to exclude from deductions the costs associated with the transaction for the issue and placement of Eurobonds and the recognition of these costs apart from the statutory activities and receiving the total annual income.

The Group's management believes that under the Charter, the Law of the Republic of Kazakhstan On Joint-Stock Companies and other legislative acts, the bond issue is not an entity's separate operation; management believes that it is one of the financial instruments for replenishing working capital and sources of additional funds for the issuer, being the equivalent of the loan. At the time of these financial statements issue, no response to the Group's complaint had been received because the deadline for the response had not come yet.

**42. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS**

These consolidated financial statements of the Group were approved for issue by the Group management on 20 November 2020.