



UST-KAMENOGORSK TITANIUM AND MAGNESIUM PLANT JSC
Consolidated Financial Statements
for the Year Ended on December 31, 2020
with Independent Auditor's Report

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Independent Auditor's Report

To the President and the Board of Directors of Ust-Kamenogorsk Titanium and Magnesium Plant JSC

Opinion

We have audited the consolidated financial statements of Ust-Kamenogorsk Titanium and Magnesium Plant JSC (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under these standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Group in accordance with the Code of Ethics of Professional Accountants of the Council of International Ethics Standards for Accountants (ISEC Code) and ethical requirements applicable to our audit of financial statements in Kazakhstan, and we have fulfilled other ethical obligations in accordance with these requirements and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants.

We believe that the audit evidence we have obtained is sufficient and appropriate to warrant the expression of our opinion.

Key Audit Matters

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

We have fulfilled the obligations described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report, including with respect to these matters. Accordingly, our audit included the implementation of procedures developed in response to our risk assessment of material misstatement of the financial statements. The results of our audit procedures, including those performed during the consideration of the matters below, serve as the basis for expressing our audit opinion on the accompanying consolidated financial statements.

Key Audit Matters

How relevant key audit matters were addressed during the audit

Capital expenditures capitalized in property, plant and equipment

The Group incurred significant capital expenditures during the year that were capitalized into property, plant and equipment, and capital expenditures included several areas with significant judgments and estimates that represented a risk to our audit.

We performed substantive control tests to gain confidence regarding authorization, accuracy and completeness of registration and classification of capital expenditures. We also conducted verification testing of the costs of supporting documentation such as invoices and contracts.

In particular, the appropriateness of the allocation of costs between operating expenses and capital expenditures allocated to property, plant and equipment was a key task for our audit to ensure that costs are allocated appropriately.

We critically evaluated the management's policy on capitalization and management's allocation of costs between operating expenses and capital expenditures allocated to property, plant and equipment to assess the distribution of such costs based on the substance of the core business, confirmed by spot checks and meetings with the planning and finance departments.

Information on capital expenditures capitalized in property, plant and equipment is disclosed in Note 5 to the consolidated financial statements.

Measurement of rehabilitation liabilities

We consider this issue to be one of the most important in the audit since the measurement of rehabilitation liabilities requires significant judgment due to the inherent difficulty in assessing future costs. Most of these liabilities are expected to be settled in the long run, which causes uncertainty in their measurement. Measurement of rehabilitation liabilities includes an understanding of legal or constructive obligations regarding the liquidation of each asset based on contractual agreements and relevant local legislation. Measurement of rehabilitation liabilities takes into account the impact of changes in local laws, the management's expected approach to liquidation and the discount rate, along with the effects of changes in inflation rates.

Our procedures for estimating the rehabilitation provision included an analysis of the methodology used by management. We analyzed contractual agreements. We examined the relevant assumptions used by management, such as discount rates and inflation rates, and compared them with the available data recommended for calculations.

Measurement of rehabilitation liabilities is disclosed in Note 16 to the consolidated financial statements; an overview of significant accounting policies and judgments and estimates is disclosed in Note 3 to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon. We assume that the annual report will be presented to us after the date of this audit report.

Our opinion on the consolidated financial statements does cover the other information and we will 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 consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Qualified Auditor Yelena Novikova



(Qualification certificate of the auditor №0000441 issued by the Qualification Commission for the certification of auditors of RK on November 14, 1998)

BDO Kazakhstan LLP

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

Talgat A. Omarov

Director

BDO Kazakhstan LLP

6 Gabdullin Street, Bostandykский District

Almaty, Republic of Kazakhstan



29 May 2021

UST-KAMENOGORSK TITANIUM AND MAGNESIUM PLANT JSC
 Consolidated Statement of Financial Position as at 31 December 2020

| <i>In thousand tenge</i> | Notes | 31.12.2020 | 31.12.2019 |
|---------------------------------|-------|--------------------|--------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 5 | 68,869,636 | 56,743,396 |
| Intangible assets | 6 | 1,150,443 | 779,299 |
| Right-of-use asset | 7 | 301,688 | 179,873 |
| Investments in associate | 8 | 1,100,980 | 817,914 |
| Other non-current assets | 9 | 867,880 | 960,096 |
| Total non-current assets | | 72,290,627 | 59,480,578 |
| Current assets | | | |
| Inventory | 10 | 45,204,057 | 35,618,489 |
| Receivables | 11 | 17,577,745 | 21,276,086 |
| Income tax overpayment | | 546,647 | 506,205 |
| Value-added tax and other taxes | 12 | 5,637,099 | 7,826,822 |
| Cash and cash equivalents | 13 | 3,323,707 | 3,090,679 |
| Total current assets | | 72,289,255 | 68,318,281 |
| Total assets | | 144,579,882 | 127,798,859 |

UST-KAMENOGORSK TITANIUM AND MAGNESIUM PLANT JSC

Consolidated Statement of Financial Position as at 31 December 2020 (continued)

| <i>In thousand tenge</i> | Notes | 31.12.2020 | 31.12.2019 |
|--------------------------------------|-------|--------------------|--------------------|
| Equity and liabilities | | | |
| Equity | | | |
| Share capital | 14 | 159,988 | 159,988 |
| Additional paid-in capital | 14 | 1,282,401 | 1,282,401 |
| Other provisions | | (42,631) | (47,552) |
| Currency translation reserve | | 9,657,467 | 5,904,636 |
| Retained earnings | | 27,257,212 | 25,247,986 |
| Total equity | | 38,314,437 | 32,547,459 |
| Non-current liabilities | | | |
| Loans | 15 | 11,748,455 | 12,282,193 |
| Rehabilitation provision | 16 | 817,574 | 562,169 |
| Lease liabilities | 17 | 142,215 | 142,487 |
| Employee benefit obligations | 18 | 90,659 | 130,851 |
| Deferred tax liability | 29 | 5,073,680 | 4,051,694 |
| Non-current accounts payable | 19 | 76,908 | 114,194 |
| Total non-current liabilities | | 17,949,491 | 17,283,588 |
| Current liabilities | | | |
| Loans | 15 | 26,708,884 | 28,553,645 |
| Lease liabilities | 17 | 119,502 | 34,325 |
| Employee benefit obligations | 18 | 20,241 | 24,230 |
| Short-term payables | 19 | 61,204,020 | 49,013,188 |
| Taxes payable | 20 | 263,307 | 342,424 |
| Total current liabilities | | 88,315,954 | 77,967,812 |
| Total liabilities | | 106,265,445 | 95,251,400 |
| Total equity and liabilities | | 144,579,882 | 127,798,859 |

The notes below are an integral part of these financial statements.

President



A.T. Mamutova



Financial Director



G.B. Umirbekova

UST-KAMENOGORSK TITANIUM AND MAGNESIUM PLANT JSC
 Consolidated Statement of Profit or Loss and Other Comprehensive Income
 for the Year Ended on December 31, 2020

| <i>In thousand tenge</i> | Note | 2020 | 2019 |
|---|------|-------------------|-------------------|
| Revenue | 21 | 57,465,010 | 76,470,765 |
| Cost of sales | 22 | (43,620,270) | (55,511,197) |
| Gross profit | | 13,844,740 | 20,959,568 |
| Other operating incomes | 23 | 1,540,905 | 1,329,418 |
| General and administrative expenses | 24 | (5,426,881) | (4,287,958) |
| Sale and distribution expenses | 25 | (2,050,375) | (3,100,430) |
| Other operating expenses | 26 | (1,640,525) | (1,306,863) |
| Operating profit | | 6,267,864 | 13,593,735 |
| Finance incomes | 27 | 22,867 | 15,184 |
| Finance costs | 28 | (2,312,926) | (2,359,464) |
| Share of results of associate | 8 | 198,245 | 579,463 |
| Profit before tax | | 4,176,050 | 11,828,918 |
| Corporate income tax expense | 29 | (2,134,451) | (2,675,426) |
| Profit per year | | 2,041,599 | 9,153,492 |
| Other comprehensive income | | | |
| <i>Items that will not be reclassified subsequently to profit or loss</i> | | | |
| Remeasurment of actuarial losses for defined benefit plans | | 4,921 | 754 |
| Income/(loss) from foreign exchange difference | | 3,752,831 | (111,190) |
| Total comprehensive income for the year | | 5,799,351 | 9,043,056 |
| Earnings per share, basic and diluted (KZT per share) | | | |
| Ordinary shares | 14 | 996 | 4,464 |
| Preferred shares | 14 | 996 | 4,464 |

The notes below are an integral part of these financial statements.

President



A.T. Mamutova



Financial Director



G.B. Umirbekova

UST-KAMENOGORSK TITANIUM AND MAGNESIUM PLANT JSC
 Consolidated Statement of Cash Flows for the Year Ended 31 December 2020

| <i>In thousand tenge</i> | Note | 2020 | 2019 |
|--|-----------|---------------------|---------------------|
| Cash flows from operating activities | | | |
| Sale of finished goods | | 60,773,711 | 63,943,781 |
| Other receipts | | 239,527 | 515,850 |
| VAT refund from the Budget | | 8,281,495 | 3,012,477 |
| Interest received | | 22,002 | 15,166 |
| Payments to suppliers and subcontractors | | (32,180,803) | (45,442,120) |
| Salary paid | | (5,905,272) | (6,400,716) |
| Settlements with the Budget | | (5,643,073) | (6,724,796) |
| Corporate income tax paid | | (1,644,401) | (3,137,914) |
| Interest paid | 15 | (1,176,615) | (1,209,786) |
| Other payments | | (1,990,920) | (1,888,336) |
| Net cash from operating activities | | 20,775,651 | 2,683,606 |
| Cash flows from investing activities | | | |
| Acquisition of property, plant and equipment and intangible assets | | (13,426,099) | (13,774,638) |
| Additional contribution to the authorized capital of the associate | 8 | - | (169,335) |
| Increase (decrease) of restricted cash | 9 | (3,505) | 3,282 |
| Net cash inflow/(expenditure) in investing activities | | (13,429,604) | (13,940,691) |
| Cash flows from financing activities | | | |
| Loans received | 15 | 51,746,079 | 75,088,466 |
| Repayment of loans | 15 | (58,702,655) | (63,720,693) |
| Repayment of lease liabilities | 17 | (140,970) | (3,331) |
| Dividends paid, net of withholding tax | 14 | (27,076) | (1,034,440) |
| Net cash inflow/(expenditure) in financing activities | | (7,124,622) | 10,330,002 |
| Net cash change | | 221,425 | (927,083) |
| Effect of changes in a currency exchange rate on cash and cash equivalents | | 11,603 | (186,693) |
| Cash at the beginning of the year | 13 | 3,090,679 | 4,204,455 |
| Cash at the end of the year | 13 | 3,323,707 | 3,090,679 |

The notes below are an integral part of these financial statements.

President



A.T. Mamutova



Financial Director



G.B. Umirbekova

UST-KAMENOGORSK TITANIUM AND MAGNESIUM PLANT JSC
 Consolidated Statement of changes in Equity
 for the Year Ended on December 31, 2020

| <i>In thousand tenge</i> | Share capital | Additional paid-in capital | Currency translation reserve | Other provisions | Retained earnings | Total |
|----------------------------|---------------|----------------------------|------------------------------|------------------|-------------------|-------------|
| At 1 January 2019 | 159,988 | 1,282,401 | 6,015,826 | (48,306) | 17,141,221 | 24,551,130 |
| Profit per year | - | - | - | - | 9,153,492 | 9,153,492 |
| Other comprehensive income | - | - | (111,190) | 754 | - | (110,436) |
| Dividends (Note 14) | - | - | - | - | (1,046,727) | (1,046,727) |
| As at 31 December 2019 | 159,988 | 1,282,401 | 5,904,636 | (47,552) | 25,247,986 | 32,547,459 |
| Profit per year | - | - | - | - | 2,041,599 | 2,041,599 |
| Other comprehensive income | - | - | 3,752,831 | 4,921 | - | 3,757,752 |
| Dividends (Note 14) | - | - | - | - | (32,373) | (32,373) |
| As of 31 December 2020 | 159,988 | 1,282,401 | 9,657,467 | (42,631) | 27,257,212 | 38,314,437 |

The notes below are an integral part of these financial statements.

President



A.T. Mamutova



Financial Director



G.B. Umirbekova

1. General information

Corporate Background

Ust-Kamenogorsk Titanium and Magnesium Plant JSC (hereinafter - the "Company") was registered on 29 September 1995 under the legislation of the Republic of Kazakhstan as an open joint-stock company. The Company was re-registered as a joint-stock company on 5 February 2004.

The Company's principal activity is the production of high-grade titanium sponge, titanium ingots and magnesium of Mg-90 grade for use in aviation and other industries. Since September 2000, the Company independently produces slag to be further processed to the titanium sponge. In October 2010, the plant for the production of titanium ingots and alloys was put into operation. Since 1997 the Company's share is officially included in the trading list shares at Kazakhstan Stock Exchange (KASE).

The consolidated financial statements include the results of operations of the Company and its fully controlled subsidiaries (hereinafter - the "Group").

The ultimate controlling party of the Group is Roger Hayat, Managing Director of SPECIALTY METALS HOLDING COMPANY.

Subsidiaries

SGOP: On 7 March 2014, the Company became the 100% owner of STM LLC. On 29 April 2014, STM LLC was renamed Satpaevsk Mining and Processing Plant LLP ("SGOP"). The main activity of SGOP is the exploration and extraction of ilmenite on the Bektemir field located in Eastern Kazakhstan.

SGOP carries out production of ilmenite under License No. 14009949 dated 11 July 2014 and subsoil use contract dated 28 March 2000. The contract was concluded for ten years; in 2011 the parties signed a supplementary agreement to extend the term by six years ahead, until 2018. In 2017, an additional agreement was signed to extend the period until 2025.

UKTMPi: On 19 March 2014, the Company registered a subsidiary - UKTMP International Ltd. under the legislation of the United Kingdom of Great Britain. As of 31 December 2020, the authorized capital of the subsidiary is unpaid. UKTMP International Ltd. during 2020 and 2019 was engaged in the sales of titanium sponge and titanium ingots and purchased main raw materials for the Company's production of titanium sponge.

Associate

As of 31 December, 2020 the Company owns 38.31% (2019: 38.31%) interest in Posuk Titanium LLP (hereinafter "Posuk"), incorporated under the legislation of the Republic of Kazakhstan. The main activity of Posuk is the production of titanium ingots and slabs. This investment is accounted for as an investment in an associate.

In November 2014, the plant for the production of titanium ingots and slabs was put into operation. The plant is located on the territory of the Company. During 2015 Posuk LLP started sales of products. Until 2017, Posuk LLP acquired a titanium sponge from the Company and sold the ingots independently.

In 2017, the Company changed its relationship with Posuk associate. According to the terms of the contract, Posuk LLP provides services for the processing of raw materials and the manufacture of finished products - commercial-grade titanium ingots.

The registered office of the Company is located at 070017, Republic of Kazakhstan, East Kazakhstan Region, Ust-Kamenogorsk, Sogrinskaya str., building 223/3.

The total number of employees of the Group as of December 31, 2020, and 2019 were 2,295 people and 2,539 people, respectively.

Address and place of business: 070017, Republic of Kazakhstan, Ust-Kamenogorsk, Sogrinskaya str., building 223/3.

These consolidated financial statements of the Group were approved for release by the President and Financial Director of the Group on May 29, 2021.

2. Basis of preparation

These consolidated financial statements have been prepared under the historical cost model, except for the transactions disclosed in the accounting policies and notes to these consolidated financial statements.

Statement of conformity

These consolidated financial statements of the Group have been prepared under International Financial Reporting Standards (IFRS) as amended by the Board of International Accounting Standards (“IFRS Board”).

The preparation of consolidated financial statements under IFRS requires the use of certain significant accounting estimates, and also requires management to make judgments about assumptions in applying the accounting policies. Areas of application that include an increased level of complexity of the application of assumptions, as well as areas in which the application of estimates and assumptions is material to the Group’s consolidated financial statements are disclosed in Note 3.

Functional and presentation currency of consolidated financial statements

The functional currency of each consolidated entity of the Group is the United States dollar, except for the subsidiary SGOP, which operates in the national currency of the Republic of Kazakhstan, Kazakhstan tenge (“tenge”). The decision to transfer the Company to a functional currency denominated in US dollars came into force on September 1, 2015. However, Posuk LLP (associate) made this decision and actively conducted its operations in US dollars from January 1, 2015.

The reporting currency of the Company is the national currency of the Republic of Kazakhstan - Kazakhstan tenge (“tenge”).

Monetary assets and liabilities are translated into the functional currency of each entity at the market currency exchange rates set by the Kazakhstan Stock Exchange (KASE) at the end of the respective reporting period. Foreign exchange gains and losses on settlements in transactions in foreign currencies and on a translation of monetary assets and liabilities into the functional currency of each entity at the market exchange rate at the end of the year are recognized in profit or loss for the year as other income or expenses. Recalculation at the end of the year exchange rate is not carried out for non-monetary balance sheet items measured at historical cost. Non-monetary items measured at fair value in foreign currency, including investments in equity instruments, are translated using the exchange rates at the date the fair value was measured. The effect of changes in exchange rates on non-monetary items measured at fair value in foreign currency is recognized as part of the gain or loss on remeasurement at fair value.

The currency exchange rate as of December 31, 2020, equalled 420.71 tenge per US dollar. This currency exchange rate was applied for a restatement of the Group’s assets and liabilities (as of December 31, 2019: 381.18 tenge per US dollar).

The financial positions of the Group, as well as the results of its financial and economic activities, are translated into the presentation currency as follows:

- the value of assets and liabilities in each statement of financial position are translated at the exchange rate at the reporting date;
- Income and expense items in each statement of comprehensive income are translated at the rate prevailing on the transaction date;
- capital items and capital transactions are translated at exchange rates at the date of the transaction; and
- Foreign exchange differences arising from translation are recognized as separate line item in other comprehensive income.

Currency exchange rates applied by the Group when preparing the consolidated financial statements are as follows:

| | The average exchange rate for 2020 | The average exchange rate for 2019 | 31 December 2020 | 31 December 2019 |
|-------------|------------------------------------|------------------------------------|------------------|------------------|
| 1 US dollar | 412.95 tenge | 382.75 tenge | 420.71 tenge | 381.18 tenge |

New standards, interpretations and amendments to existing standards and interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those applied in the preparation of the Group’s consolidated financial statements for the year ended December 31, 2019, except for the adoption of new standards and interpretations effective on January 1, 2020. The Group did not earlier apply any standards, interpretations or amendments that were issued but did not enter into force.

The Group first applied the following amendments and clarifications in 2020, but they had no impact on the consolidated financial statements:

Definition of a Business - Amendments to IFRS 3 Business Combinations

The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. These amendments did not affect the Group's financial statements but may affect the Group's future financial statements if the Group is a party to business combinations.

Interest Rate Benchmark Reform - Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures

The amendments include several reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments did not affect the consolidated financial statements of the Group, as the Group has no interest rate hedging relations.

Definition of Material - Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Policies, Estimates and Errors

The amendments to IAS 1 Presentation of Financial Statements and IAS 8 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 based on those financial statements, which provide financial information about a specific reporting entity.'

The amendments clarify that materiality will depend on the nature or magnitude of information or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement is material if it could reasonably be expected to affect the decisions of the primary users of the financial statements. The amendments did not have any impact on the Group's consolidated financial statements.

The Conceptual Framework for Financial Reporting issued on March 29, 2018

The revised Conceptual Framework for Financial Reporting (the Conceptual Framework) is not a standard, and none of the concepts overrides those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist the Board in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards. The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

Revision of the Conceptual Framework did not have any impact on the Group's consolidated financial statements.

Covid-19-Related Rent Concessions - Amendment to IFRS 16 Lease

In May 2020, the IASB amended IFRS 16 to provide relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic.

As a practical expedient, a lessee may elect not to assess whether a covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16 if the change were not a lease modification. The amendment is effective for the annual periods beginning on or after 1 January 2020. Early application is permitted. The amendment did not have any impact on the Group's consolidated financial statements.

Standards issued but not yet effective

New standards, amendments and interpretations issued but not yet effective as of the date of the issue of the consolidated financial statements of the Group are disclosed below. The Group intends to apply these standards, amendments and interpretations if they are effective and if applicable to the Group's activities.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, 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.

In September 2017, the Board established a Transition Resource Group (TRG) for IFRS 17 to analyse implementation-related questions. The TRG met four times and while no further meetings have been scheduled, the TRG submission process remains open for stakeholders to send in questions they believe meet the TRG submission criteria. 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 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17. This standard does not apply to the Group.

Classification of Liabilities as Current or Noncurrent - Amendments to IAS 1

In January 2020, the Board issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of liability not impact its classification.

These amendments are effective for the annual reporting periods beginning on or after January 1, 2023, and are applied retrospectively. Currently, the Group is analysing the effect of these amendments on the current classification of liabilities.

Reference to the Conceptual Framework - Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to a previous version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies if incurred separately.

At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

These amendments are effective for the annual reporting periods beginning on or after January 1, 2022, and are applied prospectively.

Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16

In May 2020 the IASB issued the amendment prohibiting entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment effective for the annual reporting periods beginning on or after January 1 2022 must be applied retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

It is expected that the amendments will not significantly affect the Group.

Onerous Contracts - Costs of Fulfilling a Contract - Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a 'directly related cost approach'. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

These amendments enter into force for annual periods beginning on or after January 1, 2021. The Group will apply these amendments to non-fulfilled contracts as of the beginning of the annual reporting period in which the Group first applies the amendments.

IFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as a first-time adopter

As a part of the 2018-2020 annual improvements cycle the ISAB issued the amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

An entity applies the amendment for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted.

IFRS 9 Financial Instruments Fees in the '10 per cent' test for derecognition of financial liabilities

As a part of the 2018-2020 annual improvements cycle the ISAB issued the amendment to IFRS 9 Financial Instruments. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

An entity applies the amendment for annual reporting periods beginning on or after January 1, 2022.

Earlier application is permitted. The Company will apply the amendment for financial liabilities that have been modified or replaced at or after the beginning of the annual reporting period in which it first applies the amendment.

It is expected that the amendments will not significantly affect the Group.

IAS 41 Agriculture - Taxation in fair value measurements

As a part of the 2018-2020 annual improvements cycle the ISAB issued the amendment to IFRS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022. Earlier application is permitted.

It is expected that the amendments will not significantly affect the Group.

Significant accounting policies

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is or contains a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

To assess whether the right to control the use of an identified asset is transferred under this contract, the Group applies the definition of a lease under IFRS 16.

Group as a lessee

The Group recognizes the right-of-use asset and the lease liability at the commencement date. The right-of-use asset is initially measured at cost, being the initial measurement of the lease liability, adjusted for lease payments made on or before the commencement date, plus initial direct costs incurred and estimated costs to dismantle and remove the underlying asset, restore the underlying asset or site on which it is located, less any lease incentives received.

Under subsequent accounting, the right-of-use asset is depreciated on a straight-line basis from the commencement date until the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the original cost of the right-of-use asset reflects the Group's exercise of a purchase option.

In such cases, the right-of-use asset is depreciated over the useful life of the underlying asset, which is determined using the property, plant and equipment approach. In addition, the value of the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain reassessments of the lease liability.

The lease liability is initially measured at the present value of the lease payments outstanding at the inception of the lease, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, using the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate based on interest rates from various external sources and makes certain adjustments to take into account the terms of the lease and the type of leased asset.

Lease payments included in the measurement of a lease liability include:

- Fixed payments, including essentially fixed payments;
- Variable lease payments that depend on an index or rate initially estimated using the index or rate at the inception date;
- Amounts expected to be paid by the lessee under liquidation value guarantees;
- The exercise price of a purchase option if the Group is reasonably certain to exercise the option, the lease payments over the additional lease term arising on the renewal option if the Group is reasonably certain to exercise the renewal option and penalties for premature termination unless it is reasonably certain that the Group will not terminate the lease prematurely.

The lease liability is measured at amortized cost using the effective interest method. It is reassessed if future lease payments are altered because of changes in index or rates, if the Group's estimate of the amount to be paid under a residual value guarantee changes, if the Group changes its estimate of whether it will exercise a call option, a lease renewal option or a lease termination option, or if a lease payment that is substantially fixed is revised.

When the lease liability is renegotiated in this manner, an adjustment is made to the carrying amount of the right-of-use asset or charged to profit or loss if the carrying amount of the right-of-use asset was previously reduced to zero.

The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value and short-term assets. The Group recognizes lease payments made under such leases as an expense on a straight-line basis over the lease term.

Consolidation principles

The consolidated financial statements include the statements of the Company and entities controlled by the Company (subsidiaries), as of 31 December of each year. An entity is considered controlled if the entity:

- has authority over the investee;
- has rights/carries risks to variable results of activity of the organization-object of investments, and may use its powers to influence the income from participation in the investee.

The company assesses whether it has control over the investee if facts and circumstances indicate that there has been a change in one or more of the three controls listed above.

If the Company does not own the majority of the voting shares of the investee, then it has authority concerning the investee if the Company has sufficient voting rights to enable it to single-handedly manage the significant activities of the investee. In assessing whether the Company has sufficient voting rights to have the authority to influence the investment entity, the Company considers all relevant facts and circumstances, including:

- the percentage of voting shares of the Company compared to the percentage and distribution of votes of other holders
- potential voting rights owned by the Company, other holders of votes to other parties;
- rights arising from other contractual agreements; and

- any additional facts and circumstances indicating that the Company has or is not able to currently manage significant activities at the time when it is necessary to make a management decision, including the distribution of votes at previous meetings of participants.

Consolidation of a subsidiary begins when the Company gains control of the subsidiary and ceases when control is lost. In particular, the financial results of subsidiaries acquired or disposed of during the year are included in profit or loss from the moment the Company obtains control until the date on which the Company ceases to control this subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the provisions of the applicable accounting policies into line with those of the Group.

All intra-group assets and liabilities, equity, profit, loss and cash flow on transactions between the enterprises of the Group are eliminated upon consolidation.

Investments in associates and joint ventures

An associate is an entity being significantly influenced by the Group and which is neither a subsidiary nor a share in a joint venture. Significant influence implies the right to participate in decision-making regarding the financial and economic policies of the organization but does not imply control or joint control about such a policy.

The results of operations of the associate are included in these financial statements using the equity method.

Using the equity method, investments in an associate are initially recognized in the consolidated statement of financial position at cost and subsequently adjusted for the Group's share of the profit or loss and other comprehensive income of the associate. If the Group's share in the losses of the associate exceeds the Group's share in the enterprise (including any shares that form part of the Group's net investment in the associate), the Group ceases to recognize its share in further losses. Additional losses are recognized only if the Group, by law or under business standards, must recover the corresponding share of losses or if the Group made payments on behalf of the associate.

Investments in an associate are accounted for using the equity method, starting from the date that the organization becomes an associate. The excess of the acquisition cost of the investment over the Group's share in the fair value of identifiable assets and liabilities at the acquisition date constitutes goodwill, which is included in the carrying amount of such investments. If the Group's share in the net fair value of the identifiable assets and liabilities acquired exceeds the acquisition cost of the investment after remeasurement the amount of such excess is immediately recognized in profit or loss in the period in which the investment is acquired.

Recognition of the impairment of the Group's investment in an associate is determined under IAS 36. If necessary, the carrying amount of an investment (including goodwill) is tested for impairment under IAS 36 in full by comparing its recoverable amount (the highest value of the value in use and fair value minus costs of disposal) with its carrying amount. The recognized impairment loss does not apply to any asset (including goodwill) that is included in the carrying amount of the investment. An impairment loss recovery is recognized under IAS 36 if the recoverable amount of the investment subsequently increases.

The Group ceases to use the equity method when the entity ceases to be an associate. If the Group retains an interest in a former associate that represents a financial asset, that interest is measured at fair value at that date, and the fair value of the investment is considered to be fair value at the time of initial recognition under IFRS 9. The difference between the carrying amount of the associate at the date that the equity method is discontinued and the fair value of all remaining interests and all proceeds from the disposal of part of the interest in the associate or joint venture is taken into account in determining the profit or loss from the sale of the associate. Besides, accounting for the amounts previously recognized in other comprehensive income in respect of the disposal of the associate is carried out by the Group in the same manner as would be necessary if the associate sold their respective assets and liabilities independently. Accordingly, if the gain or loss previously recognized by such an associate in other comprehensive income is reclassified to profit or loss on disposal of the related assets or liabilities, the Group reclassifies profit or loss from equity to profit or loss (in the order of reclassification adjustment) at the time of disposal such an associated organization.

The Group applies IFRS 9, including impairment requirements, to long-term investments in an associate that are not subject to the equity method and that form part of the net investment in the investee. Besides, when applying IFRS 9 to long-term investments, the Group does not take into account adjustments to the carrying amount of long-term investments required by IAS 28 (for example, adjusting the carrying amount of long-term investments as a result of the distribution of losses of an investee or impairment testing under IAS 28).

Revenue recognition

Sales of goods

The Group's operations are related to the production of titanium sponge, titanium ingots and magnesium Mg-90 grade. Sales are recognized at the moment of passing control of the goods, i.e. when the goods are delivered to the buyer, the buyer has complete freedom of action concerning the goods and when there is no unfulfilled obligation that may affect the acceptance of the goods by the buyer. Delivery is deemed to have been made when the goods have been delivered to a specific place, the risks of wear and loss passed to the buyer and the buyer accepted the goods under the contract, the validity of the acceptance provisions has expired or the Group has objective evidence that all acceptance criteria have been met.

Accounts receivable are recognized when the goods are delivered, as at this point the reimbursement is unconditional because the due date is due only to the passage of time.

The terms of delivery of products are determined by specific sales contracts with customers, usually under the incoterms classification.

Sales of services

The Group provides a fixed-fee service. Revenue from the provision of services is recognized in the reporting period when the services were provided. Under fixed-fee contracts, revenue is recognized based on the volume of services provided before the end of the reporting period, in proportion to the total volume of services provided, as the buyer simultaneously receives and consumes benefits.

Financing components

The Group does not intend to conclude agreements in which the period between the transfer of the promised goods or services to the buyer and payment by the buyer exceeds one year. Therefore, the Group does not adjust transaction prices for the effect of the time value of money.

Contract balances

Trade receivables

Accounts receivable represent the Group with the right to compensation, which is unconditional (i.e. the moment when such compensation becomes payable is due only to the passage of time).

Contractual obligation

An obligation under a contract is an obligation to transfer to the customer goods or services for which the Group has received consideration from a buyer. If the buyer pays the consideration before the Group transfers the goods or services to the buyer, the Group recognizes the obligation under the contract at the time of payment or at the time when the payment becomes payable (whichever comes first). Contractual obligations are recognized as revenue when the Group fulfils its contractual obligations.

Leases

Group as a lessee

The Group assesses whether the contract as a whole or its components is a lease at the time of its conclusion. The Group recognizes a right-of-use asset and a corresponding lease liability for all leases in which it is a lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and low-value asset leases (such as tablets, personal computers, office furniture and phones). For these leases, the Group recognizes lease payments as operating expenses on a straight-line basis over the lease term, unless another method of allocating expenses more closely matches the distribution of economic benefits from leased assets over time.

The lease liability is initially measured at the present value of the lease payments, discounted at the rate outlined in the lease that was not paid at the effective date of the lease. If this rate cannot be determined, the Group uses the rate of raising additional borrowed funds.

Lease payments included in the measurement of a lease obligation include:

- Fixed rental payments (including substantially fixed payments), net of any incentive payments for leases receivable;
- Amounts expected to be paid by the lessee under liquidation value guarantees;
- The strike price of the purchase option, if there is sufficient confidence that the lessee will exercise the option;
- Payment of fines for terminating the lease, if the lease term reflects the potential exercise of the option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

After the start date of the lease, the lease liability is measured by increasing the carrying amount by the amount of interest on the lease obligation (using the effective interest method) and reducing the carrying amount by the amount of the lease payments made.

The Group reassesses the lease liability (and makes an appropriate adjustment to the corresponding right-of-use asset) whenever:

- the lease term has changed or a significant event or change has occurred in the circumstances that led to a change in the assessment of the exercise of the purchase option, in which case the lease obligation is remeasured by discounting the revised lease payments using the revised discount rate;
- the lease payments are changed due to changes in the index or rate or a change in the expected payment at the guaranteed residual value, and in these cases, the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the change in lease payments is a result of a change in the floating interest rates, in this case, the revised discount rate is used);
- the lease is modified and the change in the lease is not taken into account as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using the revised discount rate at the effective date of the modification.

The Group did not make any adjustments during the periods presented.

The right-of-use asset includes an initial assessment of the relevant lease obligation, lease payments made on or before the day the lease comes into force, minus any incentive lease payments received and initial direct costs. Subsequently, they are measured at historical cost less accumulated amortisation and impairment losses.

If the Group should dismantle or liquidate the leased asset, restore the occupied area on which it is located, or restore the underlying asset to the condition required by the lease terms, the provision is recognized and measured under IAS 37. Costs related to the right-of-use asset are included in the corresponding right-of-use asset unless these costs are associated with the creation of inventories.

Right-of-use asset is amortized over the shorter of the two periods: the lease term or the useful life of the underlying asset. If the lease transfers ownership of the underlying asset or the value of the right-of-use asset reflects the Group's intention to acquire, the corresponding asset in the form of a right to use is amortized over the useful life of the underlying asset. Depreciation commences on the date the lease commences.

Right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether an asset is impaired in the form of a right of use and takes into account any impairment losses that are identified as described in the property, plant and equipment policy.

Group as a lessor

Leases in which the Group is a lessor is classified as finance or operating leases. In cases where, according to the terms of the lease, the tenant transfers almost all the risks and benefits associated with the right of ownership, the lease is classified as a financial lease. All other leases are classified as operating leases.

Operating lease income is recognized on a straight-line basis over the lease term. Initial direct costs associated with the approval of the terms of the operating lease and its execution are included in the carrying amount of the asset leased and are charged to expenses on a linear basis over the lease term.

Accounting policies effective before IFRS 16 Leases adoption (until January 1, 2019)

Operating lease

In cases where the Group is a lessee under a lease agreement that does not provide for the transfer from the lessor to the Group of practically all the risks and benefits associated with owning the asset, the total amount of lease payments is recognized in profit or loss for the year on a straight-line basis over the entire lease term. A leasing term is a period that is not subject to early termination for which the lessee has entered into an asset lease agreement, as well as additional periods for which the lessee has the right to extend the lease of the asset with or without additional payment if there is sufficient certainty on the starting date of the lease that the tenant exercises such a right.

Segment information

Segment information is compiled under internal reporting to the Group President, who is responsible for operational decisions. A segment is subject to separate disclosure if its revenue, income or assets comprise at least ten per cent of total revenue, total income or total assets of all operating segments.

Property, plant and equipment

Recognition and subsequent evaluation

Property, plant and equipment are carried at cost less accumulated depreciation and provision for impairment (where necessary). The acquisition cost consists of the purchase price, including import duties and non-refundable acquisition taxes, minus trade discounts and refunds, and any costs directly related to the delivery of the asset to the place and bringing it into working condition for the intended purpose.

The cost of acquiring property, plant and equipment manufactured or constructed economically includes the cost of the materials spent, production work performed and part of the production overhead.

Subsequent costs are either included in the carrying amount of the asset or recorded as a separate asset only if the Group is likely to derive economic benefits from the operation of the asset and its value can be measured reliably. The carrying amount of the replaced part is written off. All other repair and maintenance costs are charged to profit or loss for the reporting period as incurred.

The gain or loss on disposal of property, plant and equipment in the amount of the difference in the consideration received and their carrying amount is recognized in profit or loss for the year as part of other operating income or expenses.

Depreciation costs

Depreciation of property, plant and equipment is charged from the date of their installation and their readiness for use or in respect of assets created within the Group, from the date of completion and readiness of the asset for use. Wear is based on the value of the asset less the estimated residual value. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted as necessary.

Depreciation of property, plant and equipment, except for the main metallurgical equipment, is generally recognized in profit or loss on a straight-line basis over the estimated useful lives of each asset of property, plant and equipment, as this most closely reflects the expected consumption pattern of future economic benefits recognized in the asset.

The following useful lives are used to calculate depreciation on a straight-line basis:

| | <u>Useful life (years)</u> |
|-------------------------|----------------------------|
| Buildings | 15 - 50 |
| Machinery and equipment | 5-15 |
| Transport | 3 -10 |

Depreciation on basic metallurgical equipment is charged using the production method to write off the actual cost of the property, plant and equipment minus residual value.

The residual value of an asset is an estimate of the amount that the Group would currently be able to obtain from the sale of the asset, less costs to sell, on the assumption that the age of the asset and its technical condition is already at the end of their useful lives. The Group proceeds from the assumption that the residual value of property, plant and equipment is mostly insignificant, and neglects it when calculating depreciable value. At the same time, based on the characteristics of property, plant and equipment and analysis of the possibilities for their disposal after the end of their useful life, the Group may decide to create a residual value for certain property, plant and equipment.

Impairment

At the end of each reporting period, management determines whether there is any indication of impairment of property, plant and equipment. If at least one such indicator is identified, management estimates the recoverable amount, which is determined as the higher of the two values: fair value less costs to sell the asset and value in use. The carrying amount of an asset is reduced to a recoverable amount; an impairment loss is recognized in profit or loss for the year. An impairment loss for an asset recognized in previous reporting periods is reversed (if necessary) if there has been a change in the estimates used to determine the value in use of the asset or its fair value less costs to sell.

Intangible assets

Subsoil use rights and other intangible assets

Subsoil use rights are measured at cost less accumulated amortization and any accumulated impairment losses. The cost of acquiring subsoil use rights includes the cost of subsoil use rights and capitalized expenses. Other intangible assets acquired by the Group and have a finite useful life are carried at cost less accumulated amortization and impairment losses. Subsequent costs are capitalized in the cost of a particular asset only if they increase the future economic benefits embodied in that asset.

Amortisation

Amortization is calculated based on the cost of the asset less its estimated residual value.

About intangible assets, amortization is usually calculated from the moment the assets are ready for use and recognized in profit or loss for the period in a linear manner over the respective useful lives since this method most accurately reflects the expected nature of the enterprise's consumption of future economic benefits from these assets.

The expected useful lives of intangible assets in the reporting and comparative periods were as follows:

- Subsoil use rights: 32 years
- Software: 7-11 years

At the end of each reporting year, amortization methods, useful lives and residual values are reviewed for the need to review them and, if necessary, are reviewed.

Financial instruments

Financial assets and liabilities are recorded in the statement of financial position of the Group when the Group becomes a party to an agreement in respect of the relevant financial instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) increase or decrease the fair value of financial assets or financial liabilities upon initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized in profit or loss.

Financial assets

Transactions on the acquisition or sale of financial assets on standard terms are recorded in the financial statements and derecognized at the date of the transaction. Acquisition or sale transactions on standard terms represent the purchase or sale of financial assets requiring the delivery of assets within the period established by the rules or agreements adopted in the relevant market.

All recognized financial assets are subsequently fully measured either at amortized cost or at fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments for which both conditions are satisfied must subsequently be measured at amortized cost:

- a financial asset is held in the framework of a business model, the purpose of which is to hold financial assets to obtain cash flows stipulated by the contract, and
- the contractual terms of the financial asset stipulate receipt of cash flows on specified dates, which are solely payments against the principal amount of the debt and interest on the outstanding portion of the principal amount of the debt.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income (FVTOCI):

- a financial asset is held in the framework of a business model, the purpose of which is achieved both by obtaining the cash flows stipulated by the contract and by selling financial assets; and
- the contractual terms of the financial asset determine the receipt of cash flows, which are solely payments against the principal amount of the debt and interest on the outstanding portion of the principal amount of the debt.

By default, all other financial assets are measured at fair value through profit or loss (FVTPL).

Notwithstanding the foregoing, the Group may, at initial recognition of a financial asset, classify it, without the right of subsequent reclassification, as follows:

- • make a decision, without the right of its subsequent cancellation, to submit subsequent changes in the value of equity instruments in other comprehensive income subject to certain criteria (see paragraph (iii) below); and
- • the Group may classify, without the right of a subsequent cancellation, an investment in a debt instrument that meets the criteria for amortized cost or FVTPL, such as FVTPL, if such a classification excludes or significantly reduces the likelihood of accounting mismatch (see paragraph (iv) below).

(i) *The amortized cost and effective interest method*

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.

For financial assets other than acquired or created credit-impaired financial assets (i.e., assets that are credit-impaired at initial recognition), the effective interest rate is the discount rate on expected future cash receipts (including all payments received or made on the debt instrument, which are an integral part of the effective interest rate, transaction costs and other premiums or discounts), excluding the expected credit losses for the expected period until the debt instrument is paid off or (if applicable) for a shorter period to the carrying amount at the time the debt instrument was initially recognized. For credit-impaired financial assets acquired or created, the effective interest rate adjusted for credit risk is calculated by discounting the expected future cash flows, including expected credit losses, to the amortized cost of the debt instrument at the time it is initially recognized.

The amortized cost of a financial instrument is the amount at which the financial asset is measured at initial recognition, minus payments against the principal amount of the debt, plus the accumulated amortisation calculated using the effective interest method, the difference between the stated initial amount and the amount payable upon occurrence maturity adjusted for the loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for provisions for potential losses).

Interest income is recognized using the effective interest method for debt instruments that are subsequently measured at amortized cost and FVTPL. Interest income on financial assets, other than acquired or created credit-impaired financial assets, is calculated by applying the effective interest rate to the gross carrying amount of the financial asset, excluding financial assets that subsequently become credit-impaired (see below). Interest income on financial assets that subsequently become credit-impaired is recognized by applying the effective interest rate to the amortized cost of the financial asset. If in subsequent reporting periods the credit risk of credit-impaired financial assets is reduced so much that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial instrument.

For acquired or created credit-impaired financial assets, the Group recognizes interest income by applying the effective interest rate, adjusted for credit risk, to the amortized cost of the financial asset from the date of initial recognition. The calculation is not made on a gross basis, even if the credit risk on financial assets is reduced so that the financial asset is no longer credit-impaired.

Interest income is recognized in profit or loss and included in Financial Income.

Impairment of financial assets

The Group recognizes a provision for expected credit losses on trade receivables. Expected credit losses should be updated at each reporting date to reflect changes in credit risk since the initial recognition of the relevant financial instrument.

The Group always recognizes expected credit losses (ECLs) for the entire term of trade receivables. The expected credit losses from such financial assets are estimated using the provision matrix based on the experience of the occurrence of credit losses in the Group, adjusted for factors specific to the borrower, general economic conditions and an assessment of both current and forecasted development of conditions as of the reporting date.

For other financial instruments, the Group recognizes expected credit losses for the entire term if there is a significant increase in credit risk from the date of initial recognition. However, if at the reporting date there is no significant increase in the credit risk of a financial instrument from the date of initial recognition, the Group shall estimate the allowance for losses on this financial instrument in the amount equal to 12-month expected credit losses.

Expected credit losses over the entire term are the expected credit losses arising from all possible defaults over the expected life of the financial instrument. 12-month expected credit losses, on the other hand, are part of the expected credit losses for the entire period, which is the expected credit losses that arise due to defaults on a financial instrument that are possible within 12 months after the reporting date.

Derecognition of financial assets

The Group ceases to recognize financial assets only in case of termination of contractual rights to cash flows on them or in case of transfer of a financial asset and related risks and benefits to another organization. If the Group does not transfer and does not retain all the main risks and benefits of owning the asset and continues to control the transferred asset, then it continues to reflect its share in the asset and the possible obligations associated with it for the possible payment of the respective amounts. If the Group retains practically all the risks and benefits of owning a transferred financial asset, the Group recognizes the financial asset and reflects the funds received upon transfer as a secured loan.

Upon derecognition of a financial asset measured at amortized cost, the difference between the carrying amount of the asset and the amount of consideration received and receivable is recognized in profit or loss.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost using the effective interest method.

The effective interest method is used to calculate the amortized cost of a financial liability and the distribution of interest expenses during the relevant period. The effective interest rate is the discount rate of expected future cash payments (including all payments received or made on a debt instrument that are an integral part of the effective interest rate, transaction costs and other premiums or discounts) for the expected term of the financial liability or (if applicable) at a shorter period to the carrying amount of the financial liability.

Derecognition of financial liabilities

The Group ceases to recognize financial liabilities only if they are repaid, cancelled or the claim has expired. The difference between the carrying amount of a financial liability that is derecognised and the consideration paid or receivable is recognized in profit or loss.

The exchange of debt instruments between the borrower and the lender with significantly different conditions should be accounted for as repayment of the initial financial obligation and recognition of a new financial obligation. Similarly, the Group records a significant change in the terms of an existing liability or part thereof as a repayment of the original financial liability and recognition of a new liability. The conditions are considered to be significantly different if the present value of cash flows under the new conditions, including commission payments minus the received commission, discounted at the original effective interest rate, differs by at least 10 per cent from the discounted present value of the remaining cash flows on the initial financial liability. If the change in conditions is not material, the difference between (1) the carrying amount of the obligation before the change in the terms and (2) the present value of cash flows after the change in the terms is recognized in profit or loss as profit or loss from changes in contractual terms in other profit or loss.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or creation of assets that take a significant amount of time to prepare for their planned use or sale are included in the cost of such assets until they are ready for their planned use or sale.

Income received as a result of the temporary investment of the borrowed funds until they are spent on the acquisition of qualifying assets is deducted from the cost of loans that are allowed for capitalization.

All other borrowing costs are recognized in profit or loss as incurred.

Inventory

Inventories are recorded at a lower cost and net realizable value. When stocks are put into production and otherwise disposed of, they are valued using the FIFO method. The cost of finished goods and work in progress includes the cost of raw materials and supplies, labour costs of production workers and other direct costs, as well as the corresponding share of production overhead (calculated based on the normative use of production capacities), and does not include borrowed costs. Net selling price is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs that must be borne for sale.

Value-added tax

Value-added tax (VAT) arising from the sale is payable to the tax authorities upon shipment of goods and the provision of services. VAT paid on the purchase of goods and services can be set off against VAT payable upon receipt of a tax invoice from the supplier. Tax legislation allows for the payment of VAT on a net basis. Accordingly, VAT on sales and acquisitions are recorded in the statement of financial position on a net basis. Reimbursable VAT is classified as a long-term asset if it is not expected to be paid back within a year after the reporting period.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits in bank deposits and other short-term highly liquid investments with an initial maturity of no more than three months. Cash and cash equivalents are carried at amortized cost using the effective interest method. Restricted cash balances are excluded from cash and

cash equivalents to compile a cash flow statement. Cash balances with a restriction on the exchange or use to repay liabilities effective for at least twelve months after the reporting date are included in other non-current assets.

Share capital

Ordinary shares are classified as equity. Additional costs directly attributable to the issue of new shares are recognized in equity as deductions from the proceeds net of taxes.

Dividends

Dividends are recognized as a liability and deducted from equity at the end of the reporting period only if they are declared and approved before the end of the reporting period inclusively. Information on dividends is disclosed in the financial statements if they were recommended before the end of the reporting period, and also recommended or declared after the end of the reporting period, but before the date of approval of the financial statements for the issue.

Provisions

Provisions are recognized if the Group, as a result of a certain event in the past, has legal or contingent liabilities, for the settlement of which it is highly probable that an outflow of resources will be required and which can be estimated in monetary terms with a sufficient degree of reliability. Provisions are not recognized for future operating losses.

Rehabilitation provision

Rehabilitation provision is recognized when it is probable that commitment will arise and that a reasonable estimate of their amounts can be made. Rehabilitation costs include the costs of dismantling or demolishing infrastructure, cleaning the environment, and monitoring emissions. Provision for estimated rehabilitation costs is established and allocated to the value of property, plant and equipment in the reporting period in which the obligation arises from the corresponding fact of waste generation based on the net present value of estimated future costs. Rehabilitation provision does not include any additional obligations that are expected to arise in the event of future violations or damage. Costs are estimated based on a rehabilitation plan. Estimated cost amounts are calculated annually as they are used, taking into account known changes, for example, updated estimated amounts and revised asset life or established operating life, with official reviews conducted regularly.

Although the exact final amount of the required costs is not known, the Group estimates its costs based on a feasibility study and engineering studies under the current technical rules and standards for the implementation of rehabilitation work.

Employee benefits

Long-term employee benefits

The Group offers its employee's benefits payable upon termination of employment (lump-sum retirement benefits, retirement burial allowance) and other long-term employee benefits (provision of material assistance to employees in the event of disability, on the occasion of an anniversary or close relations' death) under the provisions of the collective contract.

The right to receive remuneration payable upon termination of employment is usually granted depending on the remaining term of employment until retirement and whether the employee has a minimum length of service.

Post-employment benefits are non-funded defined benefit plans and are measured under the revised IAS 19 Employee Benefits. Actuarial and investment risks for non-funded defined benefit plans lie with the Group.

When evaluating non-funded defined benefit plans, the benefits due to employees for their services in the current and previous periods is initially determined and actuarial assumptions are made. Then, the discounted value of the defined benefit pension plan liabilities and the value of current services are determined using the projected unit credit method.

Amortization or "cancellation" of the discount used to determine the net present value of the provisions is recognized in the financial expenses for the period.

The Group recognizes in profit or loss:

- the cost of services provided in the current period;
- the cost of any services of previous periods and profit or loss arising in the calculation of the obligations of the plan; and

- the net interest on the defined benefit obligation.

The Group recognizes actuarial gains or losses on remeasurement of net employee benefits upon completion of employment as part of other comprehensive income.

The right to receive other long-term employee benefits depends on the employee having a minimum length of service. The assessment of other long-term employee benefits is carried out during the employee's labour activity according to the methodology used in calculating non-funded defined benefit plans. For other long-term employee benefits, the Group recognizes the value of current and past services, the net interest on the net liability, actuarial gains and losses (remeasurement of the net liability) in profit or loss. Actuarial gains and losses include both the effect of changes in actuarial assumptions and the effect of the experience of differences between actuarial assumptions and actual data.

Actuarial assumptions include demographic assumptions (employee mortality rate, employee turnover rate, disability and early dismissal) and financial assumptions (discount rate, future wage rate, remuneration level). The most significant assumptions used in accounting for defined benefit plans and other long-term benefits are the discount rate, the level of future wages, and the average turnover rate. The discount rate is used to determine the present value of future liabilities, and each year the cancellation of the discount on such liabilities is charged to the profit or loss account for the year as an interest expense. The Group uses market yield rates for government bonds with similar conditions as discount rates.

Such obligations are valued annually by independent qualified actuaries.

Labour costs and related deductions

Salary costs, pension contributions, contributions to the social insurance fund, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued as the employees of the Group carry out the corresponding work. On behalf of its employees, the Group pays pension and severance payments provided for by the legal requirements of the Republic of Kazakhstan. Such payments are expensed as incurred. When employees retire, the Group's financial liabilities cease, and all subsequent payments to retired employees are made by a single accumulative pension fund.

Under the requirements of the legislation of the Republic of Kazakhstan, the Group withholds pension contributions from employee salaries. Also, according to the amendments and additions made to the pension legislation of the Republic of Kazakhstan from January 1, 2014, the Group at its own expense bears the costs associated with the payment of compulsory professional pension contributions in favour of workers employed in work with harmful (especially harmful) working conditions. The Group transfers the indicated types of pension contributions to the single accumulative pension fund of Kazakhstan. When workers retire, all payments are made by the above pension fund.

Income tax

In these consolidated financial statements, income tax is recorded under the legislation of the Republic of Kazakhstan, effective or practically effective at the end of the reporting period. Income tax expenses include current and deferred taxes and are recognized in profit or loss for the year if they should not be included in other comprehensive income or directly in equity due to transactions that are also recorded in this or another period in other comprehensive income or directly in equity.

Current tax represents the amount that is expected to be paid to or reimbursed from the state budget concerning taxable profit or loss for the current and past periods. Taxable profits or losses are based on estimates if the financial statements are authorized before filing relevant tax returns. Other taxes, other than income tax, are recognized as operating expenses.

Deferred income tax is calculated using the balance sheet liability method for tax losses carried forward to future periods and temporary differences arising between the tax base of assets and liabilities and their carrying amount in the financial statements. Under the exemption for initial recognition, deferred taxes are not recognized for temporary differences arising on the initial recognition of an asset or liability for transactions that are not related to business combinations, if they do not affect accounting or taxable profit.

The carrying amount of deferred tax is calculated at tax rates that are effective or substantially effective at the end of the reporting period and which are expected to be applied during the reversal of temporary differences or the use of tax losses carried forward. Deferred tax assets concerning deductible temporary differences and deferred tax losses are recognized only when there is a high probability of future taxable profit that can be reduced by such deductions.

The Group controls the reversal of temporary differences relating to taxes on dividends of joint ventures and associates or income from their sale. The Group does not recognize deferred tax liabilities for such temporary differences unless management expects a reversal of temporary differences in the foreseeable future.

Earnings per share

Preferred shares qualify as shares participating in profits. Earnings per share are determined by dividing the profit or loss by the weighted average number of shares participating in the earnings outstanding during the reporting year.

3. Significant judgments in applying the Group's accounting policies

The Group uses estimates and makes assumptions that affect the reported assets and liabilities during the next financial year. Estimates and judgments are subject to ongoing critical analysis and are based on past management experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances. Management also makes certain judgments, apart from those requiring estimates, in the process of applying accounting policies.

Judgments that have the most significant effect on the amounts recognized in the consolidated financial statements and estimates that could necessitate a material adjustment to the carrying amount of assets and liabilities over the next year include the following:

Inventory valuation

Inventories are recorded at a lower of the cost and net realizable value. The Group makes allowances for the impairment of inventories based on the results of regular inventories and management reviews of illiquid, obsolete and other inventories whose net realizable value is lower than cost.

The provision is recognized in profit or loss for the year. Management believes that the allowance for impairment losses formed on December 31, 2020, and December 31, 2019, is sufficient and represents the best estimate of management for impaired inventories (Note 10).

Subsoil use contract

The validity period of the main subsoil use contract of SGOP related to the mining of ilmenite ore has been extended to 2025. The management of the Group expects that the contract will be extended until the end of the useful life of the field, which is expected in 2045. In these consolidated financial statements, depreciation expenses, the carrying amount of property, plant and equipment and the rehabilitation provision was recognized on the assumption that the subsoil use contract will be extended until the end of the useful life of the field. Management believes that it has the right to extend the subsoil use contract under the terms of the contract and applicable subsoil use legislation.

Functional currency definition

As stated in Note 2, the functional currency of each of the consolidated entities of the Group is the currency of the primary economic environment in which the entity operates. The main economic environment in which the company operates is usually the environment in which the company mainly receives and spends its cash. In determining its functional currency, the management of the company considers various factors: (i) the currency that dominates the determination of sales prices, and the competitive forces and regulatory documents that determine sales prices, (ii) the currency in which the financing of the company is mainly expressed, and profit from operating activities, (iv) aspects of the autonomy of a foreign enterprise from the reporting company and the level of transactions between them, as well as other factors under IAS 21 The Effect of Changes in Foreign Exchange Rates.

When the above factors are mixed and the functional currency is not obvious, management uses its professional judgment to determine the functional currency that most reliably represents the economic impact of the underlying operations, events and conditions. First of all, management takes into account the currency, competitive forces and regulatory documents that have the greatest impact on selling prices and operating costs, followed by consideration of the currency that is most appropriate for the financing of the company, and the currency in which profit from operating activities is expressed, as well as the degree of autonomy and company independence. The latter factors are intended to provide additional evidence in determining the functional currency. The indicators for determining the functional currency are mixed. However, management applied judgment and determined that the functional currency for the Companies is the US dollar (Note 2) since most of the investment and funding sources are in that currency.

Management understands that the bulk of the Company's operating expenses is expressed in Kazakhstan tenge. However, taking into account the Company's exposure to the influence of the international titanium market, management believes that the US dollar best reflects the currency that has the greatest impact on

the Company's operations. If management identified Kazakhstan tenge as a functional currency, the results, operating activities and financial position of the Group would differ significantly.

Provisions for financial assets

The Group creates provisions for expected credit losses on trade receivables. In assessing expected credit losses in respect of trade receivables, the Group applied the simplified approach provided by the standard and calculated expected credit losses for the entire life of the specified financial instruments. The Group used a valuation reserve model, which was prepared to take into account experience with credit losses, adjusted for factors specific to borrowers and general economic conditions.

The Group believes that there is a significant increase in credit risk if contractual payments are past 30 days. It is also considered that a default occurs on a financial asset if payments under the agreement are overdue for 90 days. However, in certain cases, the Company may conclude that a default occurred on a financial asset if internal or external information indicates that it is unlikely that the Company will receive the full amount of the remaining payments stipulated by the contract, without taking into account the credit enhancement mechanisms held by the Company. So, as of December 31, 2020, and 2019, provisions for expected credit losses were formed for 199,117 thousand tenges and 235,357 thousand tenges, respectively (Note 11).

Rehabilitation provision

Following environmental legislation, the Group has a legal obligation to rehabilitate the environment after operations and to decommission its mining assets and waste polygons and restore a landfill site after its closure. Rehabilitation provision is recognized for future rehabilitation and at the end of their useful lives. The provision is formed based on the net present value of land rehabilitation costs as the obligation arises as a result of past activities.

The rehabilitation provision is determined based on interpretation by the Group of the current environmental legislation of the Republic of Kazakhstan, supported by a feasibility study and engineering studies under current standards and rehabilitation methods and works. The provision is estimated based on current legal and design requirements, the level of technology and prices. Since the actual rehabilitation may differ from their estimates due to changes in environmental requirements and interpretations of legislation, technologies, prices and other conditions, and these costs will be incurred in the distant future, the carrying amount of the provision is regularly reviewed and adjusted to account for such changes.

The rehabilitation provision is reviewed at each reporting date and adjusted to reflect the best estimate under IFRIC 1 Changes in Existing Decommissioning, Rehabilitation and Similar Liabilities.

Significant judgments in making such estimates include an estimate of the discount rate and the timing of the cash flows. The discount rate is applied to the face value of the work that management expects to spend on land rehabilitation in the future. Accordingly, management's accounting estimates made at current prices are increased using the estimated long-term inflation rate of 2020: 7.5% (2019: 5.32%) and discounting using risk-free interest rates for government bonds. The discount rate reflects current market assessments of the time value of cash, as well as the risks of liabilities that were not considered in the best estimates of costs. The discount rate used by the Group to calculate the provision as of December 31, 2020, varies from 8.37% to 9.1% (2019: from 5.5% to 8.7%) depending on the date of land rehabilitation. As of December 31, 2020, the carrying amount of the rehabilitation provision amounted to 817,574 thousand tenges (2019: 562,169 thousand tenges) (Note 16).

Tax laws compliance

The tax legislation of the Republic of Kazakhstan is subject to varying interpretations and is changing. At the same time, management's interpretation of the provisions of tax legislation as applied to the Group's activities may be challenged by the relevant regional or state authorities, which have the legal right to impose fines and penalties. It is likely that tax accounting for transactions that have not been called into question in the past may be challenged in the future. The tax period remains open for review by the tax authorities over the next five calendar years. Under certain circumstances, reviews may cover longer periods. Even though the management of the Group is based on its interpretation of tax legislation, it believes that tax liabilities are correctly recorded in these consolidated financial statements.

4. Segment information

Operating segments are separate components that carry out business activities that can generate revenue and be related to expenses, the operating results of which are regularly reviewed by the top management body, and for which there is separate financial information. The top management body may be represented

by one person or a group of persons who allocate resources and evaluate the results of the Group. The functions of the top management body of the Group are performed by the President of the Company.

(a) Description of operating segments

The group operates within the following main operating segments:

- Segment "Sponge Titanium";
- Segment "Titanium alloys and ingots";
- Other segments: other activities not material to the Group as a whole.

(b) Factors used by the management to determine reportable segments

The segments of the Group are strategic business units that produce various products with different added value and target different customers. They are managed separately since each business unit requires its own sales market and in-house technologies.

(c) Measurement of profit or loss, assets and liabilities of operating segments

The top management body evaluates the performance of each segment based on gross profit under IFRS financial statements.

Mutual settlements between segments are included in the assessment of the performance of each segment. Information on sales proceeds to third parties provided to the top management body is prepared based on the same accounting principles that were used in preparing the statement of profit or loss and other comprehensive income.

The Group does not provide information on the assets and liabilities of the segment since such information is not regularly submitted to the top management body for consideration.

Segment information for the reportable segments for the year ended 31 December 2020 is presented as follows:

| <i>In thousand tenge</i> | Titanium Sponge | Titanium ingots and alloys | Other | Excluded inter- segment settlement | Total |
|--------------------------|--------------------|----------------------------------|------------------|--|-------------------|
| Revenue | 22,925,786 | 33,230,289 | 1,308,935 | - | 57,465,010 |
| Inter-segment revenue | 13,570 | - | - | (13,570) | - |
| Segment revenue | 22,939,356 | 33,230,289 | 1,308,935 | (13,570) | 57,465,010 |
| Gross profit | 4,774,260 | 8,873,216 | 210,834 | (13,570) | 13,844,740 |

Reconciliation

| | |
|-------------------------------------|------------------|
| Other operating incomes | 1,540,905 |
| General and administrative expenses | (5,426,881) |
| Sale and distribution expenses | (2,050,375) |
| Other operating expenses | (1,640,525) |
| Finance incomes | 22,867 |
| Finance costs | (2,312,926) |
| Share of results of associate | 198,245 |
| Profit before tax | 4,176,050 |
| Income tax expenses | (2,134,451) |
| Profit per year | 2,041,599 |

| | | | | | |
|--------------------------------------|-----------|-----------|---------|---|-----------|
| Depreciation and amortization | 2,369,364 | 3,434,325 | 135,277 | - | 5,938,966 |
|--------------------------------------|-----------|-----------|---------|---|-----------|

Segment information for the reportable segments for the year ended 31 December 2019 is presented as follows:

| <i>In thousand tenge</i> | Titanium Sponge | Titanium ingots and alloys | Other | Excluded inter- segment settlement | Total |
|--------------------------------------|--------------------|----------------------------------|------------------|--|-------------------|
| Revenue | 40,602,252 | 34,556,321 | 1,312,192 | - | 76,470,765 |
| Inter-segment revenue | 13,793 | - | - | (13,793) | - |
| Segment revenue | 40,616,045 | 34,556,321 | 1,312,192 | (13,793) | 76,470,765 |
| Gross profit | 11,152,544 | 8,268,312 | 1,552,505 | (13,793) | 20,959,568 |
| <i>Reconciliation</i> | | | | | |
| Other operating incomes | | | | | 1,329,418 |
| General and administrative expenses | | | | | (4,287,958) |
| Sale and distribution expenses | | | | | (3,100,430) |
| Other operating expenses | | | | | (1,306,863) |
| Finance incomes | | | | | 15,184 |
| Finance costs | | | | | (2,359,464) |
| Share of results of associate | | | | | 579,463 |
| Profit before tax | | | | | 11,828,918 |
| Income tax expenses | | | | | (2,675,426) |
| Profit per year | | | | | 9,153,492 |
| Depreciation and amortization | 3,485,423 | 2,966,422 | 112,644 | - | 6,564,489 |

Geographical information

Below is information on sales revenue to customers and long-term segment assets by their geographical location:

| | Revenue from sales to customers ¹ | | Non-current assets | |
|----------------|--|-------------------|--------------------|-------------------|
| | 2020 | 2019 | 31.12.2020 | 31.12.2019 |
| USA | 15,467,732 | 18,500,731 | | |
| Korea | 11,049,276 | 9,668,939 | | |
| China | 9,874,713 | 18,185,674 | | |
| France | 8,002,648 | 12,894,003 | | |
| Switzerland | 1,898,598 | 718,074 | | |
| United Kingdom | 756,501 | 575,194 | 96,376 | 27,304 |
| Kazakhstan | 439,755 | 609,294 | 71,578,392 | 56,565,183 |
| Other | 9,975,787 | 15,318,856 | 615,859 | 2,888,091 |
| Total | 57,465,010 | 76,470,765 | 72,290,627 | 59,480,578 |

1. The location of customers is determined by the country of registration. Posuk is an associate incorporated in the Republic of Kazakhstan (Note 8).

In 2020, revenue for KZT 18,762,801 thousand was received from two customers, which accounted for 33% of the total revenue (2019: revenue for KZT 29,159,794 thousand was received from two customers, which account for 38% of the total revenue).

5. Property, plant and equipment

The cost of the fully depreciated property, plant and equipment as of December 31, 2020, is KZT 19,081,592 thousand (December 31, 2019: KZT 17,158,526 thousand).

Construction in progress as of December 31, 2020, is the reconstruction and repair of buildings, structures and equipment. Upon completion of the work, these assets are transferred to the categories “buildings” and “Plant, machinery and equipment”.

As of December 31, 2020, Shop No. 14 and related equipment for the production of titanium ingots and alloys with a carrying amount of KZT 8,754,178 thousand (2019: 8,217,275 thousand tenges) were pledged as

collateral for loans received by the Group from Development Bank of Kazakhstan JSC (Note 15). The carrying amount of the pledged property as of December 31, 2020, increased due to shop and equipment modernisation.

| <i>In thousand tenge</i> | Land | Buildings | Machinery and equipment | Vehicles | Construction in progress | Total |
|---|------------------|-------------------|-------------------------|------------------|--------------------------|-------------------|
| Carrying amount at 01 January 2019 | 1,024,377 | 13,977,024 | 27,629,290 | 2,521,109 | 4,627,630 | 49,779,430 |
| Additions | 20,664 | 1,189,441 | 4,584,454 | 459,002 | 7,260,638 | 13,514,199 |
| Change in accounting estimate | - | 114,560 | - | - | - | 114,560 |
| Movements | - | 172,343 | 1,680,419 | 14,548 | (1,867,310) | - |
| Depreciation costs | - | (547,265) | (5,589,261) | (367,774) | - | (6,504,300) |
| Disposals | - | - | (11,785) | (15,904) | - | (27,689) |
| Effect of translation to reporting currency | (7,904) | (216,316) | 178,708 | (16,958) | (70,334) | (132,804) |
| Cost as of December 31, 2019 | 1,037,137 | 20,486,088 | 71,015,667 | 4,426,004 | 9,988,068 | 106,952,964 |
| Accumulated depreciation | - | (5,796,301) | (42,543,842) | (1,831,981) | - | (50,172,124) |
| Impairment allowance | - | - | - | - | (37,444) | (37,444) |
| Carrying amount at 31 December 2019 | 1,037,137 | 14,689,787 | 28,471,825 | 2,594,023 | 9,950,624 | 56,743,396 |
| Additions | 15,713 | 242,352 | 3,206,700 | 509,638 | 8,857,632 | 12,832,035 |
| Change in accounting estimate | - | 178,651 | - | - | - | 178,651 |
| Movements | - | 836,411 | 1,644,740 | 3,410 | (2,484,561) | - |
| Disposals | - | - | (2,292) | (5,509) | (1,972) | (9,773) |
| Depreciation costs | - | (682,088) | (4,792,465) | (386,646) | - | (5,861,199) |
| Effect of translation to reporting currency | 104,013 | 1,361,549 | 1,421,428 | 249,367 | 1,850,169 | 4,986,526 |
| Carrying amount at 31 December 2020 | 1,156,863 | 16,626,662 | 29,949,936 | 2,964,283 | 18,171,892 | 68,869,636 |
| Cost at 31 December 2020 | 1,156,863 | 23,678,832 | 81,570,816 | 5,467,893 | 18,227,297 | 130,101,701 |
| Accumulated depreciation | - | (7,052,170) | (51,620,880) | (2,503,610) | - | (61,176,660) |
| Impairment allowance | - | - | - | - | (55,405) | (55,405) |
| Carrying amount at 31 December 2020 | 1,156,863 | 16,626,662 | 29,949,936 | 2,964,283 | 18,171,892 | 68,869,636 |

6. Intangible assets

| <i>In thousand tenge</i> | Subsoil use rights | Software | Total |
|---|--------------------|----------------|------------------|
| Carrying amount at 01 January 2019 | 392,429 | 302,644 | 695,073 |
| Additions | - | 145,887 | 145,887 |
| Amortisation | (14,446) | (45,743) | (60,189) |
| Effect of translation to reporting currency | - | (1,472) | (1,472) |
| Carrying amount at 31 December 2019 | 377,983 | 401,316 | 779,299 |
| Cost as of December 31, 2019 | 462,249 | 688,019 | 1,150,268 |
| Accumulated amortisation | (84,266) | (286,703) | (370,969) |
| Carrying amount at 31 December 2019 | 377,983 | 401,316 | 779,299 |
| Additions | - | 415,768 | 415,768 |
| Amortisation | (14,445) | (63,322) | (77,767) |
| Effect of translation to reporting currency | - | 33,143 | 33,143 |
| Carrying amount at 31 December 2020 | 363,538 | 786,905 | 1,150,443 |
| Cost at 31 December 2020 | 462,249 | 1,170,066 | 1,632,315 |
| Accumulated amortisation | (98,711) | (383,161) | (481,872) |
| Carrying amount at 31 December 2020 | 363,538 | 786,905 | 1,150,443 |

7. Right-of-use asset

Right-of-use asset at 31 December 2020 is provided as follows:

| <i>In thousand tenge</i> | Right-of-use asset |
|---|--------------------|
| Carrying amount at 1 January 2019 | |
| Change in accounting policies | 6,345 |
| Additions | 168,982 |
| Amortisation | (4,630) |
| Effect of translation to reporting currency | 9,176 |
| Carrying amount at 31 December 2019 | 179,873 |
| 2020 | |
| Additions | 204,564 |
| Amortisation | (97,189) |
| Effect of translation to reporting currency | 14,440 |
| Carrying amount at 31 December 2020 | 301,688 |
| As of 31 December 2020 | |
| Historical cost | 407,414 |
| Accumulated amortisation | (105,726) |
| As of 31 December 2019 | |
| Historical cost | 184,503 |
| Accumulated amortisation | (4,630) |

8. Investments in associate

The table below summarizes the movements in the carrying amount of investments in associate:

| <i>In thousand tenge</i> | Main activity | Place of activity | 2020 | | 2019 | |
|--------------------------|---------------------------|-------------------|------------------|--------------------|-----------------|--------------------|
| | | | Carrying amount | Ownership interest | Carrying amount | Ownership interest |
| Associate | | | | | | |
| POSUK Titanium LLP | Titanium slabs production | Kazakhstan | 1,100,980 | 38.31% | 817,914 | 38.31% |
| | | | 1,100,980 | | 817,914 | |

The table below summarizes the movements in the carrying amount of investments in associate:

| <i>In thousand tenge</i> | Posuk Titanium LLP |
|---|---------------------------|
| Carrying amount at 01 January 2018 | 53,054 |
| Share in profit for the year | 4,397 |
| Effect of translation to reporting currency | 12,871 |
| Balance cost as of December 31, 2018 | 70,322 |
| Share in profit for the year | 579,463 |
| Additional capital contributions | 169,335 |
| Effect of translation to reporting currency | (1,206) |
| Carrying amount on 31 December 2019 | 817,914 |
| Share in profit for the year | 198,245 |
| Effect of translation to reporting currency | 84,821 |
| Carrying amount at 31 December 2020 | 1,100,980 |

Posuk Titanium LLP

The Group exercises significant influence over Posuk Titanium LLP based on interest in charter capital and having one out of three representatives in the oversight committee of this entity.

Summary of financial information as of 31 December 2020 and 2019 and reconciliation of the carrying amounts of Group's investment in the associate is as follows:

| <i>In thousand tenge</i> | Posuk Titanium LLP | |
|---|---------------------------|-------------------|
| | 31.12.2020 | 31.12.2019 |
| Non-current assets | 17,594,513 | 16,340,424 |
| Current assets | 1,838,082 | 2,092,678 |
| Non-current liabilities | 15,272,614 | 4,374,804 |
| Current liabilities | 1,286,110 | 11,923,310 |
| Equity | 2,873,870 | 2,134,988 |
| Ownership interest | 38.31% | 38.31% |
| Current cost of investment as of 31 December | 1,100,980 | 817,914 |

Information on profit or loss and other comprehensive income of associate for the year:

| <i>In thousand tenge</i> | Posuk Titanium LLP | |
|---|---------------------------|------------------|
| | 2020 | 2019 |
| Revenue | 4,318,218 | 5,087,130 |
| Revenue from continuing operations for the year | 732,160 | 1,611,760 |
| Other comprehensive income | | |
| Total comprehensive income | 732,160 | 1,611,760 |
| Dividends | - | - |
| For reference | | |
| Administrative expenses | (397,671) | (374,712) |
| Finance incomes | - | 2,296 |
| Finance costs | (614,883) | (698,136) |
| Other income/(expense) | (159,812) | 163,434 |
| Income tax expenses | (653,700) | (347,537) |

9. Other non-current assets

| <i>In thousand tenge</i> | 31.12.2020 | 31.12.2019 |
|--|----------------|----------------|
| Restricted deposits | 39,432 | 35,927 |
| Total non-current financial assets | 39,432 | 35,927 |
| Prepayment for property, plant and equipment | 828,448 | 924,169 |
| Total other non-current assets | 867,880 | 960,096 |

Restricted deposits are intended for the accumulation of funds for the rehabilitation of land located under waste polygons and sludge dumps.

Prepayments for property, plant and equipment mainly relate to the acquisition of equipment to modernise the existing property, plant and equipment.

Restricted deposits are denominated in the following currencies:

| <i>In thousand tenge</i> | 31.12.2020 | 31.12.2019 |
|--------------------------|---------------|---------------|
| KZT | 39,432 | 35,927 |
| | 39,432 | 35,927 |

10. Inventory

| <i>In thousand tenge</i> | 31.12.2020 | 31.12.2019 |
|--|-------------------|-------------------|
| Work in progress | 20,743,359 | 13,199,914 |
| Raw and spare parts | 22,693,109 | 17,348,432 |
| Finished goods | 2,155,624 | 5,191,376 |
| Less: Provision for obsolete and slow-moving inventories and write-off to the net cost of sale | (388,035) | (121,233) |
| | 45,204,057 | 35,618,489 |

Movements in provision for obsolete and slow-moving inventories and write-off to the net cost of sale are as follows:

| <i>In thousand tenge</i> | 2020 | 2019 |
|-----------------------------------|------------------|------------------|
| As of 1 January | (121,233) | (132,505) |
| Recovery/(accrual) for the year | (254,229) | 10,124 |
| Translation to reporting currency | (12,573) | 1,148 |
| As of 31 December | (388,035) | (121,233) |

11. Receivables

| <i>In thousand tenge</i> | 31.12.2020 | 31.12.2019 |
|--|-------------------|-------------------|
| Trade receivables | 15,304,912 | 18,998,405 |
| Less: provision for expected credit loss | (199,117) | (235,357) |
| Total financial assets | 15,105,795 | 18,763,048 |
| Advances paid to suppliers | 1,917,224 | 2,457,435 |
| Customs duties receivable | 115,635 | 67,747 |
| Other receivables | 530,708 | 27,843 |
| Less: provision for expected credit loss | (91,617) | (39,987) |
| Total account receivable | 17,577,745 | 21,276,086 |

Trade receivables are denominated in the following currencies:

| <i>In thousand tenge</i> | 31.12.2020 | 31.12.2019 |
|--------------------------|-------------------|-------------------|
| KZT | 25,104 | 245,078 |
| USD | 15,080,691 | 18,517,970 |
| Total | 15,105,795 | 18,763,048 |

Provision for expected credit losses related to trade receivables is provided as follows:

| <i>In thousand tenge</i> | 2020 | 2019 |
|-----------------------------------|------------------|------------------|
| Provision at 1 January | (235,357) | (118,761) |
| Accrued | - | (130,960) |
| Utilized | 54 | - |
| Translation to reporting currency | 36,186 | 14,364 |
| As of 31 December | (199,117) | (235,357) |

Exposure of Company to credit risk related to trade receivables applying valuation provision model:

| Trade and other receivables | | | | | | | |
|---|------------|---------------|---------------|---------------|----------------|-----------------|------------|
| Payments delay | | | | | | | |
| <i>In thousand tenge</i> | Undue | Up to 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | 180 to 365 days | Total |
| 31 December 2020 | | | | | | | |
| Estimated gross book value upon default | 15,282,950 | 469 | 3,482 | 25 | - | 17,986 | 15,304,912 |
| Expected credit losses | (190,042) | (47) | (35) | (1) | - | (8,993) | (199,117) |

| Trade and other receivables | | | | | | | |
|---|-----------|---------------|---------------|---------------|----------------|-----------------|------------|
| Payments delay | | | | | | | |
| <i>In thousand tenge</i> | Undue | Up to 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | 180 to 365 days | 100% |
| 31 December 2019 | | | | | | | |
| Estimated gross book value upon default | 9,772,652 | 4,786,008 | 2,713 | 2,979 | 4,415,300 | 18,753 | 18,998,405 |
| Expected credit losses | (228) | (1,534) | (4,781) | (4,634) | (220,765) | (3,415) | (235,357) |

12. Value-added tax and other taxes recoverable

| <i>In thousand tenge</i> | 31.12.2020 | 31.12.2019 |
|--------------------------|------------------|------------------|
| VAT receivable | 5,621,071 | 7,821,553 |
| Other taxes receivable | 16,028 | 5,269 |
| | 5,637,099 | 7,826,822 |

13. Cash and cash equivalents

| <i>In thousand tenge</i> | 31.12.2020 | 31.12.2019 |
|--------------------------------------|------------------|------------------|
| Current bank account, USD | 2,296,519 | 679,676 |
| Cash in a savings account, USD | - | 2,287,080 |
| Current bank account, KZT | 999,270 | 117,062 |
| Current bank account, GBP | 5,806 | 2,707 |
| Current bank account, EUR | 10,045 | 123 |
| Current bank account, other currency | 190 | 256 |
| Cash-on-hand | 11,877 | 3,775 |
| | 3,323,707 | 3,090,679 |

14. Share capital and additional paid-in capital

| | 31.12.2020 | | 31.12.2019 | |
|---|------------------|----------------------|------------------|----------------------|
| | Number of shares | Cost in KZT thousand | Number of shares | Cost in KZT thousand |
| Ordinary shares | | | | |
| (par value - KZT 140 per share) | 971,190 | 135,967 | 971,190 | 135,967 |
| Ordinary shares | | | | |
| (par value - KZT 20 per share)) | 971,190 | 19,424 | 971,190 | 19,424 |
| Preferred shares | | | | |
| (par value - KZT 20 per share)) | 107,910 | 2,158 | 107,910 | 2,158 |
| Total share capital at par value | 2,050,290 | 157,549 | 2,050,290 | 157,549 |
| Hyperinflation adjustment | | 2,439 | | 2,439 |
| Total share capital | | 159,988 | | 159,988 |

As of 31 December 2020 and 2019, the total number of authorised and issued ordinary shares is 1,942,380 shares. All issued ordinary shares are paid in full. Each ordinary share carries one vote.

As of 31 December 2020 and 2019, the total number of authorised and issued preferred shares is 107,910 shares. All issued preferred shares are paid in full.

The structure of ordinary shareholders is as follows:

| Holder's name | 31.12.2020 | 31.12.2019 |
|--------------------------------------|-------------|-------------|
| SPECIALTY METALS COMPANY | 47.2% | 47.2% |
| New Asia Investment Group Limited | 10.0% | 10.0% |
| METALCAPITAL INVESTMENTS PTE. LTD | 9.0% | 9.0% |
| METAL RESOURCE & TECHNOLOGY PTE. LTD | 8.0% | 8.0% |
| NEW METAL INVESTMENTS PTE. LTD | 8.0% | 8.0% |
| Kolur Holding AG | 6.8% | 6.8% |
| Other 11.0% | 11.0% | 11.0% |
| Total | 100% | 100% |

The preferred shares rank ahead of the ordinary shares in the event of the Company's liquidation. The preferred shares give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made concerning re-organisation and liquidation of the Company, and restrictions of the rights of preferred shareholders are proposed.

Preferred shares dividends are set at five tenges per share. Preferred shares dividends should not be declared in the amount, which is below an amount declared for ordinary shareholders. If preferred shares dividends are not repaid in full during three months from the moment of their payment period termination, the preferred shareholders obtain the right to vote until such time that the dividends are paid.

Dividends declared and paid during the year were as follows:

| <i>In thousand tenge</i> | 2020 | | 2019 | |
|---|-----------------|------------------|-----------------|------------------|
| | Ordinary shares | Preferred shares | Ordinary shares | Preferred shares |
| Dividends payable at 1 January | 4,235 | 34,561 | 4,485 | 22,024 |
| Dividends declared during the year | - | 32,373 | 971,190 | 75,537 |
| Dividends paid during the year | (373) | (26,703) | (971,440) | (63,000) |
| Translation to reporting currency | - | (64) | - | - |
| Dividends payable at 31 December | 3,862 | 40,167 | 4,235 | 34,561 |

Additional paid-in capital represents funds invested by Specialty Metals Company, the Company's majority shareholder under Contract No. 04/006-96 dated 28 November 1996 and Contract No. 04/037-97 dated 8 July 1997 between Specialty Metals Company and the Government of the Republic of Kazakhstan.

Under Kazakhstan legislation, the Group's distributable provisions are determined based on the Company's statutory financial statements prepared in line with Kazakhstan Accounting Principles. As of 31 December 2020, the Group had retained earnings, including the profit for the current year, of KZT 27,257,212 thousand (2019: KZT 25,247,986 thousand).

Earnings per share and share book value

Basic earnings per share are calculated as the ratio of profit or loss for the year to the weighted average number of ordinary shares outstanding during the year, excluding treasury shares. The Company does not have ordinary shares with a potential dilutive effect; therefore, diluted earnings per share are the same as basic earnings per share.

For the years ended December 31, 2020, and 2019, basic and diluted earnings per share were:

| | 2020 | 2019 |
|--|------------------|------------------|
| Profit for the year due to holders of ordinary shares, KZT thousand | 1,934,146 | 8,671,729 |
| Profit for the year due to holders of preferred shares, KZT thousand | 107,453 | 481,763 |
| Profit per year | 2,041,599 | 9,153,492 |
| Weighted average number of ordinary shares outstanding | 1,942,380 | 1,942,380 |
| Weighted average number of preferred shares outstanding 107,910 | 107,910 | 107,910 |
| Basic and diluted earnings per preferred share, KZT per share | 996 | 4,464 |
| Basic and diluted earnings per preferred share, KZT per share | 996 | 4,464 |

Under the requirements of the Listing Rules of Kazakhstan Stock Exchange JSC (KASE), it is necessary to disclose the book value of the share at the date of the report, calculated as the total amount of assets less intangible assets and the total amount of liabilities divided by the total number of shares.

Calculation of the book value of an ordinary share:

BVcs= NAV/NOcs, where:

BVcs - the cost of one ordinary share;

NAV - net assets for ordinary shares;

NOcs- number of ordinary shares.

NAV = (TA-IA) -TL - PS, where:

TA - assets;

IA - intangible assets that the Group can sell to third parties;

TL - liabilities;

PS - “charter capital for preferred shares”.

| <i>In thousand tenge</i> | 2020 | 2019 |
|--|-------------------|-------------------|
| Total assets | 144,579,882 | 127,798,859 |
| Intangible assets | (1,150,443) | (779,299) |
| Liabilities, total | (106,265,445) | (95,251,400) |
| Charter capital for preferred shares | (2,158) | (2,158) |
| Total net assets for ordinary shares | 37,161,836 | 31,766,002 |
| Number of ordinary shares for calculating book value of shares | 1,942,380 | 1,942,380 |
| Book value of ordinary share, KZT | 19,132 | 16,354 |

Calculation of the book value of a preference share:

BVps1= (EPC+DCps1)/NOps1, where:

BVps1 - book value of one preferred share of the first group;

EPC - capital owned by holders of preferred shares of the first group;

DCps1 - debt component of the first group preferred shares recorded in liabilities;

NOps1 - number of the first group preferred shares.

EPC = TDps1+ PS, where:

TDps1 - dividends accrued but not paid on preferred shares of the first group, except for dividends not paid due to current information and details of the holders;

PS - “charter capital for preferred shares”.

| | 2020 | 2019 |
|---|---------|---------|
| Charter capital for preferred shares (KZT thousand) 2,158 | 2,158 | 2,158 |
| Total number of preferred shares (shares) 107,910 | 107,910 | 107,910 |
| Book value of preferred shares (KZT) | 20 | 20 |

15. Loans

On 31 December 2020 and 2019 borrowings received are as follows:

| <i>In thousand tenge</i> | Currency | 31.12.2020 | 31.12.2019 |
|---|------------|-------------------|-------------------|
| Societe Generale Corporate and Investment Banking | US Dollars | 20,637,630 | 14,802,254 |
| Development Bank of Kazakhstan | US Dollars | 13,555,909 | 13,919,818 |
| Banque Cantonale Vaudoise | US Dollars | 4,260,788 | 12,110,673 |
| Interests payable | US Dollars | 3,012 | 3,093 |
| Less current portion of long-term loans | | (11,748,455) | (28,553,645) |
| | | 26,708,884 | 12,282,193 |

Credit line from Societe Generale

In May 2013, the Company signed an agreement with Societe Generale Corporate and Investment Banking ("Societe Generale") on the provision of a credit line for the total amount of USD 25 million. In 2017 the Terms of Finance for the credit line were revised, which resulted in a credit line assigned for financing and purchase of pre-sales goods from affiliate UKTMPI and other suppliers acceptable by Societe Generale (plus transportation).

As of 31 December 2020, the Company used USD 25,771 thousand (2019: USD 25,071 thousand).

In February 2015 the affiliate UKTMP concluded an agreement with Societe Generale concerning the provision of a credit line for a total amount of USD 20 million, in 2018 the total amount was revised and it equalled USD 5 million.

As of 31 December 2020, the affiliate UKTMPI has utilized the amount of USD 23,284 thousand (2019: USD 13,761 thousand).

The interest rate under the credit line agreement is accepted under the terms of the agreement.

Collateral under credit line from Societe Generale is goods purchased using the funds received within credit line, other financing-related funds, and claims arising under contracts that were financed using this credit line funds.

Development Bank of Kazakhstan

On 17 January 2014, the Company signed an agreement with Development Bank of Kazakhstan JSC on the provision of a credit line for the total amount of USD 52,297 thousand to refinance investment loan from Ardor (UK) Ltd. amounting to USD 52,297 thousand. The funds under this limit were received for USD 51,554 thousand. In June 2016 a supplementary agreement was concluded, according to which maturity of the load was set to January 2028.

Grace period for repayment of the principal amount under Limit 1 is 24 months from the date of signing the agreement.

The interest rate under the loan from Development Bank Kazakhstan was accepted under the terms of the credit agreement

The collateral under these credit lines is workshop No. 14 which produces titanium ingots, and other assets related to this workshop (Note 5).

According to the agreement, the Group undertakes to comply with the following financial covenants:

- The ratio of financial debt, excluding short-term accounts payable, and own capital not more than 3.6;
- The volume of export earnings is not less than KZT 26 billion;
- The ratio of debt, excluding short-term accounts payable, and earnings before tax, interests, depreciation and amortization (EBITDA indicator) in 2018-2028, not more than 4,5.
- ICR (EBITDA/interest payable) - not less than 1.5.

The Group fulfilled all financial covenants as of 31 December 2020 and as of 31 December 2019.

Banque Cantonale Vaudoise

In February 2015, the subsidiary UKTMP International Ltd signed an agreement with Banque Cantonale Vaudoise ("BCV") to provide a credit line totalling USD 30 million, including:

- Sub-limit 1 for the financing of documentation ("Sublimit 1") for USD 20 million. To be repaid within 45 days.
- Sub-limit 2 for the financing of goods transit ("Sublimit 2") for USD 20 million. To be repaid within 60 days.
- Sub-limit 3 for the financing of storage costs ("Sublimit 3") for USD 30 million. To be repaid within 120 days.
- Sub-limit 4 for the financing of UKTMK supplies ("Sublimit 4") for USD 20 million. To be repaid within 90 days.
- Sub-limit 5 for the financing of settlements between the companies ("Sublimit 5") for USD 20 million. To be repaid within 90 days.

The interest rate under the credit line agreement is applied under the contractual terms of the agreement.

As of 31 December 2020, the Company has utilised the amount of USD 10,1 million (2019: USD 31,7 million) under these credit line.

Collateral under credit line from BCV is goods purchased using the funds received within credit line, other financing-related funds, and claims arising under contracts that were financed using this credit line funds

Kolur Holding AG

In July 2018 the affiliate UKTMP International Ltd concluded a loan agreement with Kolur Holding AG for a loan for GBP 675 thousand. The loan amount to be provided in USD at the exchange rate on the day the loan is granted. The loan should be repaid in a period from 01 March 2019 to 31 December 2019 under the approved repayment schedule. The loan is to be repaid in USD. The interest rate is 6-months Libor+1.5% per annum at the date of arrival of funds to the current account of UKTMP International Ltd. The loan is fully repaid in January 2019.

Reconciliation of net liabilities

Below table is the analysis of net liability and changes in liabilities of the Group that arose as a result of financial activity:

| <i>In thousand tenge</i> | 2020 | 2019 |
|-----------------------------------|-------------------|-------------------|
| Balance at 1 January | 40,835,838 | 28,678,643 |
| Received in cash | 51,746,079 | 75,088,466 |
| Accrued interest | 2,205,110 | 2,331,310 |
| Interest paid | (1,176,615) | (1,209,786) |
| Principal repaid | (58,702,655) | (63,720,693) |
| Translation to reporting currency | 3,549,582 | (332,102) |
| Balance at 31 December | 38,457,339 | 40,835,838 |

16. Rehabilitation provision

Following environmental legislation, the Group has a legal obligation to rehabilitate the environment after operations and to decommission its mining assets and waste polygons and restore a landfill site after its closure. Movements in rehabilitation provision are as follows:

| <i>In thousand tenge</i> | 31.12.2020 | 31.12.2019 |
|----------------------------------|-------------------|-------------------|
| As at 1 January | 562,169 | 445,749 |
| Changes in estimates charged to: | | |
| Property, plant and equipment | 178,651 | 114,560 |
| Provision for the year | 30,326 | - |
| Use of provision | (17,021) | - |
| Unwinding of discount | 63,449 | 1,860 |
| As at 31 December | 817,574 | 562,169 |

Description of provisions, including main estimates and assumptions, are included in Note 3.

17. Lease liabilities

Lease liabilities as of 31 December 2020 and 31 December 2019 are provided as follows:

| <i>In thousand tenge</i> | 31.12.2020 | 31.12.2019 |
|------------------------------------|----------------|----------------|
| Long-term part of the liabilities | 142,215 | 142,487 |
| Short-term part of the liabilities | 119,502 | 34,325 |
| Total | 261,717 | 176,812 |

Changes in the value of liabilities are presented as follows:

| <i>In thousand tenge</i> | 2020 | 2019 |
|---|----------------|----------------|
| As of 1 January | 176,812 | - |
| Change in accounting policies | - | 7,065 |
| Inflow for the period | 204,564 | 168,982 |
| Amortization of discount on liabilities | 24,158 | 4,096 |
| Outflow for the period | (140,970) | (3,331) |
| Effect of translation to reporting currency | (2,847) | - |
| As at 31 December | 261,717 | 176,812 |

The following is information on the cost of expenses recognized in the consolidated statement of comprehensive income:

| <i>In thousand tenge</i> | 2020 | 2019 |
|---|----------------|--------------|
| Amortization of right-of-use assets | 97,189 | 4,630 |
| Amortization of discount on liabilities | 24,158 | 4,096 |
| | 121,347 | 8,726 |

18. Employee benefit obligations

Employee benefit obligations under various plans to be paid under collective agreements concluded between the Company and employees.

As of 31 December Pension Plan Obligations with set payments included:

| <i>In thousand tenge</i> | 2020 | | | 2019 | | |
|---|---------------|---------------|----------------|---------------|----------------|----------------|
| | Current | Non-current | Total | Current | Non-current | Total |
| Post-employment benefits | 6,288 | 46,914 | 53,202 | 10,515 | 54,928 | 65,443 |
| Other long-term employee benefits | 13,953 | 43,745 | 57,698 | 13,715 | 75,923 | 89,638 |
| Total employee benefit obligations | 20,241 | 90,659 | 110,900 | 24,230 | 130,851 | 155,081 |

As of 31 December reconciliation of the current value of pension plan obligations with the set value of payments are represented as follows:

| <i>In thousand tenge</i> | Post-employment benefits | Other long-term employee benefits | Total |
|--|--------------------------|-----------------------------------|----------------|
| Total liabilities at 1 January 2019 | 63,627 | 90,700 | 154,327 |
| Unwinding of discount | 5,227 | 6,254 | 11,481 |
| Payments made | (3,123) | (18,315) | (21,438) |
| Current service cost | 1,039 | 2,605 | 3,644 |
| Remeasurement | (1,327) | 8,394 | 7,067 |
| Total liabilities at 31 December 2019 | 65,443 | 89,638 | 155,081 |
| Unwinding of discount | 4,157 | 6,300 | 10,457 |
| Payments made | (12,143) | (8,863) | (21,006) |
| Current service cost | 666 | 1,325 | 1,991 |
| Remeasurement | (4,921) | (30,702) | (35,623) |
| Total liabilities at 31 December 2020 | 53,202 | 57,698 | 110,900 |

Remeasurement of post-employment benefit liabilities includes the following:

| <i>In thousand tenge</i> | 2020 | 2019 |
|--|----------------|----------------|
| Experience based adjustments | 1,532 | (3,336) |
| Gain/(loss) from change in demographic assumptions | (9,603) | (1,803) |
| Loss from change in financial assumptions | 3,150 | 3,812 |
| Total | (4,921) | (1,327) |

Remeasurement of liabilities and cost of current services charged to profit or loss and other comprehensive income is as follows:

| <i>In thousand tenge</i> | 2020 | 2019 |
|---|----------------|----------------|
| Cost of sales | (1,579) | (3,031) |
| General and administrative expenses | (413) | (613) |
| Total charged to profit or loss for the year | (1,992) | (3,644) |
| Recognised within other comprehensive income | 4,921 | 1,327 |
| Total remeasurement and cost of current services | 2,929 | (2,317) |

Expenses on the unwinding of discount were included in finance costs (Note 28).

Main actuarial assumptions at the end of the reporting period included:

| <i>In thousand tenge</i> | 2020 | 2019 |
|-----------------------------|--------|--------|
| Discount rate | 7.40% | 7.80% |
| Future salary growth rate | 5.60% | 9% |
| Average staff turnover rate | 16.90% | 10.24% |

Mortality rates used in the estimation of employee benefits on 31 December 2020 and 2019 are based on the official data of the Kazakhstan Actuarial Centre.

The analysis of defined post-employment benefit obligations sensitivity to changes in key assumptions on 31 December 2020 is as follows:

| <i>In thousand tenge</i> | Increase/(decrease) in post-employment benefit liabilities |
|--------------------------------------|--|
| <i>Discount rate</i> | |
| Increase by 20% | 50,904 |
| Decrease by 20% | 55,798 |
| <i>The future salary growth rate</i> | |
| Increase by 20% | 57,403 |
| Decrease by 20% | 50,755 |
| <i>Average staff turnover rate</i> | |
| Increase by 20% | 49,339 |
| Decrease by 20% | 53,984 |

19. Accounts payable

| <i>In thousand tenge</i> | 31.12.2020 | 31.12.2019 |
|---|-------------------|-------------------|
| Non-current accounts payable | 76,908 | 114,194 |
| Total non-current accounts payable | 76,908 | 114,194 |
| Payables to suppliers and contractors | 59,722,320 | 41,953,885 |
| Dividends payable | 44,029 | 38,796 |
| Other financial accounts payable | 10,740 | 22,892 |
| Total current financial accounts payable | 59,777,089 | 42,015,573 |
| Advances received | 297,950 | 5,681,908 |
| Unused vacations provision | 414,664 | 524,946 |
| Salaries payable | 268,425 | 329,735 |
| Mandatory pension contributions payable | 147,501 | 208,142 |
| Other payables | 298,391 | 252,884 |
| Total current accounts payable | 61,204,020 | 49,013,188 |

Non-current accounts payable represents a discounted amount of the payables for the acquisition of land plots. Repayment of the payables is performed by equal instalments over 10 years.

Change in vacation provision is as follows:

| <i>In thousand tenge</i> | 2020 | 2019 |
|--------------------------|----------------|----------------|
| 1 January | 524,946 | 365,542 |
| Accrued | 754,062 | 870,292 |
| Utilized | (864,344) | (710,888) |
| 31 December | 414,664 | 524,946 |

Financial accounts payables of the Group are denominated in the following currencies:

| <i>In thousand tenge</i> | 31.12.2020 | 31.12.2019 |
|---|-------------------|-------------------|
| USD | 55,907,631 | 38,626,082 |
| KZT | 3,197,052 | 2,700,888 |
| RUB | 559,262 | 734,350 |
| EURO | 190,052 | 68,447 |
| Total financial accounts payable | 59,853,997 | 42,129,767 |

20. Taxes payable

| <i>In thousand tenge</i> | 31.12.2020 | 31.12.2019 |
|---------------------------------------|-------------------|-------------------|
| Income tax withheld at payment source | 80,132 | |
| Personal Income Tax | 71,443 | 121,875 |
| Social Tax | 66,207 | 104,520 |
| Other Taxes | 45,525 | 116,029 |
| Total taxes payable | 263,307 | 342,424 |

21. Revenue

Group's revenue arises from contracts with customers that are mainly fulfilled at a point in time.

| <i>In thousand tenge</i> | 2020 | 2019 |
|--------------------------|-------------------|-------------------|
| Titanium Ingots | 33,230,289 | 34,556,321 |
| Titanium Sponge | 22,925,786 | 40,602,252 |
| Magnesium Mg-90 | 985,677 | 897,354 |
| Vanadium | 98,085 | 59,191 |
| Master Alloy | 210,579 | 283,667 |
| Other | 14,594 | 71,980 |
| Total revenue | 57,465,010 | 76,470,765 |

22. Cost of sales

| <i>In thousand tenge</i> | 2020 | 2019 |
|---|-------------------|-------------------|
| Raw materials | 14,937,110 | 24,856,094 |
| Electrical energy | 8,122,315 | 8,044,001 |
| Chemicals, fuel and other materials | 7,547,731 | 9,419,794 |
| Salary and corresponding taxes | 6,158,196 | 7,038,547 |
| Depreciation and amortisation | 5,934,436 | 6,277,253 |
| Ingots manufacture services | 4,776,992 | 4,856,086 |
| Repair and maintenance | 400,389 | 319,785 |
| Other expenses | 250,794 | 880,841 |
| Changes in inventories of finished goods and work in progress | (4,507,693) | (6,181,204) |
| Total cost of sales | 43,620,270 | 55,511,197 |

23. Other operating incomes

| <i>In thousand tenge</i> | 2020 | 2019 |
|---|------------------|------------------|
| Income from the sale of materials and provision of services | 743,088 | 534,922 |
| Leases | 243,844 | 75,113 |
| Income from loss recovery | 93,923 | - |
| Income from sales of titanium scrap | 31,879 | 291,259 |
| Other revenues | 428,171 | 428,124 |
| Total other operating income | 1,540,905 | 1,329,418 |

24. General and administrative expenses

| <i>In thousand tenge</i> | 2020 | 2019 |
|----------------------------------|------------------|------------------|
| Salary and corresponding taxes | 2,049,368 | 1,760,128 |
| Third party services | 865,772 | 452,311 |
| Depreciation and amortisation | 579,207 | 151,119 |
| Consulting and auditing services | 511,918 | 357,615 |
| Taxes other than on income | 290,220 | 147,821 |
| Financial aid and social support | 105,308 | 283,445 |
| Mandatory insurance | 120,252 | 94,309 |
| Inventory | 114,888 | 2,829 |
| Medical services | 70,129 | 76,062 |
| Financial assistance | 61,842 | 23,362 |
| Business trips | 45,024 | 128,237 |
| VAT related to social sphere | 41,872 | 59,402 |
| Bank services | 39,223 | 66,157 |
| Research and development | 36,770 | 46,028 |
| Payables on social security | 26,916 | 50,918 |
| Fines, penalties | 26,619 | 80,850 |
| Environmental costs | 24,959 | 17,314 |
| Electrical energy | 19,240 | 27,357 |
| Transport maintenance | 18,402 | 60,798 |
| Communication services | 8,804 | 11,891 |
| Other expenses | 370,148 | 390,005 |
| | 5,426,881 | 4,287,958 |

25. Sale and distribution expenses

| <i>In thousand tenge</i> | 2020 | 2019 |
|-------------------------------|------------------|------------------|
| Transportation services | 1,780,476 | 2,698,630 |
| Packaging | 46,578 | 123,943 |
| Customs export duties | 6,171 | 8,740 |
| Other expenses | 217,150 | 269,117 |
| Total selling expenses | 2,050,375 | 3,100,430 |

26. Other operating expenses

| <i>In thousand tenge</i> | 2020 | 2019 |
|---|------------------|------------------|
| Cost of sale of materials and provision of services | 509,290 | 565,598 |
| Foreign exchange gain/(loss), (net) | 474,281 | 172,295 |
| Impairment of losses | 254,229 | (10,124) |
| Impairment of advances issued | 47,483 | 15,138 |
| Cost of sale of titanium scrap | 9,929 | 34,672 |
| Loss on disposal of property, plant and equipment | 1,671 | 5,147 |
| Other expenses | 343,642 | 524,137 |
| Total other operating expenses | 1,640,525 | 1,306,863 |

27. Finance incomes

| <i>In thousand tenge</i> | 2020 | 2019 |
|-----------------------------|---------------|---------------|
| Interest income on deposits | 22,867 | 15,184 |
| Total finance income | 22,867 | 15,184 |

28. Finance costs

| <i>In thousand tenge</i> | 2020 | 2019 |
|--|------------------|------------------|
| Interest expense: | | |
| - Development Bank of Kazakhstan | 1,176,213 | 1,221,018 |
| - Credit line from Societe Generale | 605,060 | 623,102 |
| - Credit line from Banque Cantonale Vaudoise | 423,837 | 487,190 |
| Unwinding of present value discount on: | | |
| - rehabilitation provision | 63,449 | 1,860 |
| - right of use | 24,158 | 4,096 |
| - employee benefit obligations | 10,457 | 11,481 |
| - non-current accounts payable | 9,752 | 10,717 |
| Total finance costs | 2,312,926 | 2,359,464 |

29. Corporate income tax

Corporate income tax expenses reported in profit or loss for the year comprise of the following:

| <i>In thousand tenge</i> | 2020 | 2019 |
|----------------------------------|------------------|------------------|
| Current Income Tax | 1,527,705 | 2,962,307 |
| Deferred Income Tax | 606,746 | (286,881) |
| Total income tax expenses | 2,134,451 | 2,675,426 |

Income tax expenses and book income reconciliation multiplied by the applicable tax rate

The current income tax rate applicable to most of the Group's profit for 2020 and 2019 is 20%.

| <i>In thousand tenge</i> | 2020 | 2019 |
|---|------------------|-------------------|
| Profit before tax | 4,176,050 | 11,828,918 |
| Statutory tax rate 20% | 20% | 20% |
| Estimate of income tax expenses at the statutory rate | 835,210 | 2,365,784 |
| Tax effect of non-decreasing items excluded from the taxable base | | |
| Non-deductible expenses | 205,405 | 319,878 |
| Non-taxable share in profit of an associate | (39,649) | (115,893) |
| Effect from exchange rate differences restatement | 750,566 | (49,711) |
| Other differences | 382,919 | 155,368 |
| Income tax expenses for the year | 2,134,451 | 2,675,426 |

Deferred taxes breakdown by temporary differences types

Differences between IFRS and Kazakhstani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20%.

| <i>In thousand tenge</i> | 1.01.2020 | Effect of restatement in the presentation currency | Charged to profit or loss | 31.12.2020 |
|---|--------------------|--|---------------------------|--------------------|
| Deferred tax assets: | | | | |
| Rehabilitation provision | 112,434 | 8,696 | 42,385 | 163,515 |
| Lease liabilities | 33,819 | 3,507 | 1,353 | 38,679 |
| Inventory | 79,595 | 2,515 | (52,999) | 29,111 |
| Receivables | 4,814 | 499 | - | 5,313 |
| Taxes payable | 36,262 | 2,063 | (16,193) | 22,132 |
| Loans and other payables | 136,659 | 13,562 | (44,418) | 105,803 |
| Total: | 403,583 | 30,842 | (69,872) | 364,553 |
| Less: deferred tax assets offset against deferred tax liabilities | (403,583) | (30,842) | 69,872 | (364,553) |
| Deferred tax liabilities: | | | | |
| Property, plant and equipment and intangible assets | (4,420,878) | (442,515) | (527,641) | (5,391,034) |
| Right-of-use asset | (34,399) | (3,567) | (9,233) | (47,199) |
| Total: | (4,455,277) | (446,082) | (536,874) | (5,438,233) |
| Less: deferred tax assets offset against deferred tax liabilities | 403,583 | 30,842 | (69,872) | 364,553 |
| Net deferred tax liability | (4,051,694) | (415,240) | (606,746) | (5,073,680) |

| <i>In thousand tenge</i> | 1.01.2019 | Referred to retained earnings | Charged to profit or loss | 31.12.2019 |
|---|----------------|-------------------------------|---------------------------|----------------|
| Deferred tax assets: | | | | |
| Rehabilitation provision | 89,150 | - | 23,284 | 112,434 |
| Lease liabilities | - | 1,413 | 32,406 | 33,819 |
| Inventory | 26,501 | - | 53,094 | 79,595 |
| Receivables | 7,843 | - | (3,029) | 4,814 |
| Taxes payable | 12,998 | - | 23,264 | 36,262 |
| Loans and other payables | 112,220 | - | 24,439 | 136,659 |
| Total: | 248,712 | 1,413 | 153,458 | 403,583 |
| Less: deferred tax assets offset against deferred tax liabilities | (248,712) | (1,413) | (153,458) | (403,583) |

Deferred tax liabilities:

| | | | | |
|---|--------------------|----------------|----------------|--------------------|
| Property, plant and equipment and intangible assets | (4,587,431) | - | 166,553 | (4,420,878) |
| Right-of-use asset | - | (1,269) | (33,130) | (34,399) |
| Total: | (4,587,431) | (1,269) | 133,423 | (4,455,277) |
| Less: deferred tax assets offset against deferred tax liabilities | 248,712 | 1,413 | 153,458 | 403,583 |
| Net deferred tax liability | (4,338,719) | 144 | 286,881 | (4,051,694) |

30. Balances and transactions with related parties

Parties are generally considered to be related if the parties are under common control, or if one party can control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Company's major shareholders are disclosed in Note 14.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding as of 31 December 2020 and 31 December 2019 are detailed below.

On 31 December 2020, the outstanding balances with related parties were as follows:

| <i>In thousand tenge</i> | Notes | Shareholders | Associate Posuk |
|--------------------------|-------|--------------|-----------------|
| Accounts payable | | - | (879,211) |
| Dividends payable | 14 | (44,029) | - |

Main related party transactions for the year ended 31 December 2020 were as follows:

| <i>In thousand tenge</i> | Notes | Shareholders | Associate Posuk |
|--------------------------|-------|--------------|-----------------|
| Sale of services | | - | 373,649 |
| Services received | | - | (4,776,992) |
| Dividends | 14 | (32,373) | - |

On December 31, 2020, the outstanding balances with related parties were as follows:

| <i>In thousand tenge</i> | Notes | Shareholders | Associate Posuk |
|--------------------------|-------|--------------|-----------------|
| Accounts payable | | - | (271,997) |
| Dividends payable | 14 | (38,796) | - |

Main related party transactions for the year ended December 31, 2019, were as follows:

| <i>In thousand tenge</i> | Notes | Shareholders | Associate Posuk |
|--------------------------|-------|--------------|-----------------|
| Sale of services | | - | 378,726 |
| Services received | | - | (5,438,817) |
| Dividends | 14 | (1,046,727) | - |

Key management personnel consist of three employees as of December 31, 2020 (2019: three employees). Total compensation to key management personnel for the years ended 31 December 2020 and 2019 amounted to 97,976 KZT thousand and 110,465 KZT thousand correspondingly.

31. Financial instruments. Goals and policies of financial risk management

The Group's principal financial instruments include loans, cash and cash equivalents, deposits, receivables and payables and lease liabilities. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and credit risk. The Group also monitors market and liquidity risks arising from all of its financial instruments.

Credit risk

The Group is exposed to credit risk, which is the risk that one party of a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises from financial receivables, restricted cash, bank deposits and cash and cash equivalents. The carrying amount of restricted cash, financial receivables, bank deposits, and cash and cash equivalents represents the maximum exposure to credit risk.

Cash is placed with financial institutions having at the moment of account opening minimum default risk. Besides, the Group analyses the external ratings of financial institutions.

The Group has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history. Customers that do not meet the Group's requirements concerning creditworthiness may enter into transactions with the Group only on a prepayment basis.

Though the rates of receivables repayment are subject to the impact of economic factors, the Group's management believes that there is no significant risk of loss over the provisions for receivables impairment already accrued.

The following table shows the balances of cash, short-term and long-term deposits (Notes 9; 13) with banks at the reporting date using the Moody's credit rating designations:

| Banks | Location | Rating | | 31.12.2020 | 31.12.2019 |
|---------------------------|----------------|--------|------|------------------|------------------|
| | | 2020 | 2019 | | |
| ATF Bank | Kazakhstan | B- | B1 | 2,995,800 | 3,096,307 |
| Halyk Bank | Kazakhstan | BB | Ba2 | 1,634 | 7,859 |
| Kaspi Bank | Kazakhstan | BB- | B1 | - | 12,096 |
| Societe Generale | United Kingdom | Aa2 | Aa2 | 8,597 | 7,259 |
| Fairwinds is a bank | Puerto-Rico | N\A | N\A | 337,787 | - |
| Banque cantonale vaudoise | United Kingdom | Aa2 | Aa2 | 7,444 | 3,085 |
| | | | | 3,351,262 | 3,126,606 |

Liquidity risk

Liquidity risk is associated with the possibility that the Company will encounter difficulties in raising funds to fulfil its financial obligations. Liquidity risk may arise as a result of the inability to quickly realize a financial asset at a cost approximating its fair value.

Liquidity requirements are regularly monitored and management monitors the availability of funds in an amount sufficient to fulfil obligations as they arise.

The following table provides information as of 31 December 2020 and 2019 on contractual undiscounted payments on the Company's financial obligations by the maturity dates of these obligations.

| <i>In thousand tenge</i> | Demand and less than 1 month | 1 to 6 months | 6 to 12 months | 1 to 3 years | Over 3 years | Total |
|--------------------------|------------------------------|-------------------|-------------------|-------------------|------------------|--------------------|
| 31 December 2020 | | | | | | |
| Loans | - | 15,502,426 | 12,850,383 | 7,699,755 | 9,113,181 | 45,165,745 |
| Lease liabilities | 6,044 | 30,219 | 36,733 | 211,576 | 8,141 | 292,713 |
| Accounts payable | - | 55,336,929 | 4,474,676 | 49,617 | 715 | 59,861,937 |
| | | 70,869,574 | 17,361,792 | 7,960,948 | 9,122,037 | 105,320,395 |
| 31 December 2019 | | | | | | |
| Loans | - | 18,731,842 | 11,359,023 | 7,369,315 | 8,813,700 | 46,273,880 |
| Lease liabilities | 4,146 | 4,146 | 26,033 | 99,507 | 44,049 | 177,881 |
| Accounts payable | 151 | 36,357,343 | 5,658,079 | 100,007 | 14,187 | 42,129,767 |
| | | 4,297 | 55,093,331 | 17,043,135 | 7,568,829 | 88,581,528 |

Market risk

The Group is exposed to market risks arising from open positions in interest rates and currencies, which in turn are subject to general and specific market fluctuations. The Group manages market risks by periodically assessing potential losses that may arise as a result of adverse changes in the market, as well as by setting appropriate requirements for profitability and collateral.

Currency risk

Currency risk arises when future currency proceeds or recognised assets and liabilities are denominated in a currency that is not the Group's functional currency.

Since the change of functional currency dated 1 September 2015 (Note 2), the Group has been exposed to currency risk mainly in respect of loans and receivables to suppliers and contractors denominated in KZT. Such risk arises as a result of sale and purchase transactions made in currencies other than the functional currency. The main risks arising from the Group's financial instruments are liquidity risk, currency risk and credit risks.

The table below summarises total amounts of monetary assets and liabilities denominated in foreign currency causing exposure to currency risk:

| | KZT | USD | EURO | RUB | GBP | Total |
|-------------------------|--------------------|---------------------|------------------|------------------|--------------|---------------------|
| 31 December 2020 | | | | | | |
| Assets | 1,075,683 | 17,377,210 | 10,045 | 190 | 5,806 | 18,468,934 |
| Liabilities | (3,433,950) | (94,389,789) | (190,052) | (559,262) | - | (98,573,053) |
| | (2,358,267) | (77,012,579) | (180,007) | (559,072) | 5,806 | (80,104,119) |
| 31 December 2019 | | | | | | |
| Assets | 401,842 | 21,484,726 | 123 | 256 | 2,707 | 21,889,654 |
| Liabilities | (2,877,700) | (79,461,920) | (68,447) | (734,350) | - | (83,142,417) |
| Net position | (2,475,858) | (57,977,194) | (68,324) | (734,094) | 2,707 | (61,252,763) |

Given that the Company's functional currency is the US dollar, on 31 December 2020 if USD had weakened/strengthened by 20% against KZT with all other variables held constant, profit for the year would have been KZT (377,323) thousand (lower)/(higher) (2019: KZT 367,847 thousand)

The Group is exposed to the risk of changes in prices for titanium sponge, titanium ingots and magnesium as a result of changes in market conditions.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. To maintain or adjust the capital structure, the Group may adjust the dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital based on the gearing ratio. This ratio is determined as net borrowed funds divided by the total equity amount. Net borrowings are estimated as the total amount of borrowings (including 'short-term borrowings' and 'long-term borrowings' recorded in the statement of financial position) less cash and cash equivalents. Total capital is determined as 'total equity recorded in the consolidated statement of financial position plus net borrowings. During 2020, the Group's strategy provided for the support of gearing ratio at the level of 40% to 80% (2019: 40% to 80%).

| <i>In thousand tenge</i> | Note | 2020 | 2019 |
|---------------------------------|------|-------------------|-------------------|
| Total borrowings | 15 | 38,457,339 | 40,835,838 |
| Less: cash and cash equivalents | 13 | (3,323,707) | (3,090,679) |
| Net borrowed funds | | 35,133,632 | 37,745,159 |
| Total owned capital | | 38,314,437 | 32,547,459 |
| Total | | 73,448,069 | 70,292,618 |
| Gearing ratio | | 48% | 54% |

32. The fair value of financial instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgment in distributing financial instruments within the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, it is categorized as Level 3. The significance of the inputs used is assessed for the fair value measurement in its entirety.

Assets and liabilities not measured at fair value but for which fair value is disclosed

All assets and liabilities not measured at fair value but for which fair value is disclosed fall within Level 3 of the fair value hierarchy.

The fair value measurements in Level 3 of the fair value hierarchy were performed using a discounted cash flow approach. The fair value of floating rate instruments that are not quoted in the active market was estimated as equal to their carrying amount. The fair value of fixed interest rate instruments is based on the discounted cash flow method applying current interest rates in the borrowings market for new instruments with similar credit risk and remaining maturity.

Financial assets carried at amortized cost

The fair values of instruments with a floating interest rate approximate their carrying amounts. The fair value measurement of assets reported at amortised cost refers to Level 3. An estimated fair value of fixed interest rate instruments is based on the discounted expected cash flow method applying current interest rates for new instruments with similar credit risk and remaining maturity. The applied discount rates depend on the credit risk of the counterparty.

Liabilities carried at amortized cost

The fair value of other liabilities is defined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity is based on the discounted cash flows applying current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ('liabilities redeemable on demand') is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. The discount rates used to vary and depend on the maturity date and the currency of the liability.

Presentation of financial instruments by measurement category

Following IFRS 9 Financial Instruments the Group classifies/allocates its financial assets into the following categories: (a) financial assets measured at fair value through profit or loss; (b) financial assets measured through other comprehensive income and (c) financial assets measured at amortized cost. 'Financial assets at fair value through profit or loss' category have two subcategories:

(i) assets at fair value through profit or loss on a mandatory basis, and (ii) assets designated in this category at initial recognition or subsequently. All financial assets of the Group at the end of the reporting period are included in this category at amortized cost. All of the Group's financial liabilities are carried at amortised cost. Fair value approximates their carrying amount.

33. Commitments and contingencies

Operating environment

In Kazakhstan, economic reforms and the development of legal, tax and administrative infrastructure that meets the requirements of a market economy are continuing. The future stability of the Kazakhstan economy will largely depend on the progress of these reforms, as well as on the effectiveness of measures taken by the Government in the field of economics, financial and monetary policy.

Transfer pricing controls

Transfer pricing controls in Kazakhstan have a very wide range and apply to any transactions that are directly or indirectly related to international transactions, regardless of whether the parties to the transactions are related or not. The Transfer Pricing Act requires that all taxes applicable to transactions be based on market prices determined on an arm's length basis.

The new transfer pricing law in Kazakhstan entered into force on January 1, 2019. The new law is not clearly expressed and some of its provisions have little experience of the application. Moreover, the law does not provide detailed instructions that are under development.

As a result, the application of the law on transfer pricing to various types of transactions is not clearly expressed due to the uncertainties associated with the Kazakhstan law on transfer pricing. There is a risk that the position of the tax authorities may differ from the position of the Group, which may lead to additional taxes, penalties and interest as of December 31, 2020.

Management believes that, as of December 31, 2020, its interpretation of the applicable transfer pricing legislation is appropriate and it is probable that the transfer pricing position of the Group will be confirmed.

Taxation

Kazakhstan's tax laws and regulations are subject to ongoing changes and varying interpretations. There are frequent cases of differences of opinion between local, regional and republican tax authorities, including approaches to recognition of income, expenses and other items in the financial statements under IFRS. The currently applicable system of fines and penalties for detected offences based on the laws in force in

Kazakhstan is very severe. Due to the uncertainty inherent in the Kazakhstan tax system, the potential amount of taxes, penalties and interest, if any, may exceed the amount allocated to current expenses and accrued on December 31, 2020.

Management believes that, as of December 31, 2020, its interpretation of the applicable law is appropriate and it is probable that the tax position of the Group will be confirmed unless provisions are accrued or disclosed in these consolidated financial statements.

Environmental protection

The application of environmental regulation in the Republic of Kazakhstan is evolving and the enforcement posture of government authorities is periodically being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, the financial impact of those is recognised immediately in the financial statements. Thus, since the Ecological Code of the Republic of Kazakhstan was adopted, decommissioning funds representing special accounts for accumulating funds for the waste polygon retirement actions and environmental impact monitoring after their closure has been created in 2008.

The Group's management believes it is currently in compliance with all existing in the Republic of Kazakhstan environmental laws and regulations. However, Kazakhstan environmental laws and regulations may change in the future. The Group's management is unable to predict the timing or extent to which these environmental laws and regulations may change. Such change, if it occurs, may require the Group to update technology to meet the higher standards.

Litigations

From time to time and in the normal course of business, claims against the Group may be received. Based on its estimates and both internal and external professional advice, management believes that no material losses will be incurred.

Management believes that as of the date of issue of the financial statements, there are no pending lawsuits or other claims, the results of which could have a material effect on the operating activities or financial position of the Group and which should be disclosed in the financial statements of the Group.

Capital expenditure commitments

On December 31, 2020, the Group has contractual capital expenditure commitments in the total amount of KZT 410,030 thousand (December 31, 2019: KZT 292,544 thousand) The Group has already allocated the necessary resources concerning these commitments. The management of the Group believes that future net income and funding will be sufficient to cover these or similar commitments

34. Subsequent events

There were no significant subsequent events that would require disclosures in these consolidated financial statements.