

**JOINT STOCK
COMPANY
“UZAUTO MOTORS
POWERTRAIN”**

Financial Statements for the year ended
31 December 2020

JSC "UZAUTO MOTORS POWERTRAIN"

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JSC "UZAUTO MOTORS POWERTRAIN"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Management is responsible for the preparation of the financial statements that present fairly the financial position of Joint Stock Company "Uzauto Motors Powertrain" (the "Company") as at 31 December 2020, the results of its operations, cash flows and changes in equity for the year ended 31 December 2020 in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements of the Company for the year ended 31 December 2020 were approved by management on 20 April 2021.

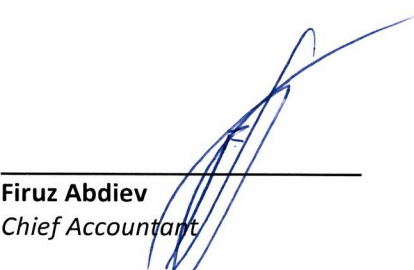
On behalf of the management:


Saidazim Guliyamov
Acting General Director

Tashkent, Uzbekistan


Ilkhom Radjabov
Finance Director

Tashkent, Uzbekistan


Firuz Abdiev
Chief Accountant

Tashkent, Uzbekistan



INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board and Shareholder of Joint Stock Company "Uzauto Motors Powertrain"

Opinion

We have audited the financial statements of Joint Stock Company "Uzauto Motors Powertrain" (the "Company"), which comprise the statement of financial position as at 31 December 2020, the 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 to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 14 to the financial statements, substantially all of the Company's sales for the year ended 31 December 2020 were to related parties. Our opinion is not modified in respect of this matter.



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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Deloitte.

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

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



"Deloitte & Touche" Audit Organisation LLC

Erkin Ayupov

License authorizing audit of companies registered by the Ministry of Finance of the Republic of Uzbekistan under #00776 dated 5 April 2019

Qualified Auditor

Auditor qualification certificate authorizing audit of companies, #04830 dated 22 May 2010 issued by the Ministry of Finance of the Republic of Uzbekistan

20 April 2021
Tashkent, Uzbekistan

Director
"Deloitte & Touche" Audit Organisation LLC

JSC "UZAUTO MOTORS POWERTRAIN"

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2020 (in millions of Uzbek Soums)

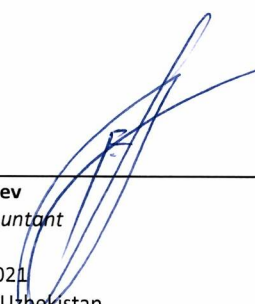
	Note	31 December 2020	31 December 2019 (Restated)*	1 January 2019 (Restated)*
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	6	218,790	451,752	241,280
Accounts receivable	7	156,106	8,405	5,379
Inventory	8	499,917	510,423	350,570
Prepaid suppliers		180,978	106,266	126,944
TOTAL CURRENT ASSETS		1,055,791	1,076,846	724,173
TOTAL NON-CURRENT ASSETS:				
Non-current inventory	8	77,529	64,746	61,946
Intangible assets		10,529	12,750	34,159
Property, plant and equipment	9	1,387,553	1,301,309	1,233,019
		1,475,611	1,378,805	1,329,124
TOTAL ASSETS		2,531,402	2,455,651	2,053,297
LIABILITIES AND SHAREHOLDER'S EQUITY				
CURRENT LIABILITIES:				
Payables and accrued liabilities	10	280,006	386,901	266,115
Advances received		2,368	9,003	31,665
Current portion of long-term borrowings from related parties	12	187,327	189,134	-
TOTAL CURRENT LIABILITIES		469,701	585,038	297,780
TOTAL NON-CURRENT LIABILITIES:				
Long-term borrowings from related parties	12	488,361	600,374	692,491
Deferred tax liability	11	199,376	167,810	168,602
		687,737	768,184	861,093
TOTAL LIABILITIES		1,157,438	1,353,222	1,158,873
TOTAL SHAREHOLDER'S EQUITY:				
Issued share capital	13	139,837	139,837	139,837
Additional paid-in capital		226,424	226,424	226,424
Retained Earnings / (Accumulated Deficit)		20,271	(132,446)	(208,623)
Foreign currency translation reserve		987,432	868,614	736,786
		1,373,964	1,102,429	894,424
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		2,531,402	2,455,651	2,053,297

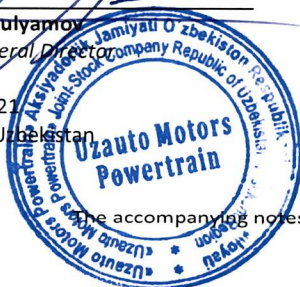
*See Note 5 for details.

On behalf of the management:


Saidazim Guliyamov
Acting General Director
20 April 2021
Tashkent, Uzbekistan


Ilkhom Radojabov
Finance Director
20 April 2021
Tashkent, Uzbekistan


Firuz Abdiev
Chief Accountant
20 April 2021
Tashkent, Uzbekistan



The accompanying notes on pages 9-33 form an integral part of these financial statements.


JSC “UZAUTO MOTORS POWERTRAIN”

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020
(in millions of Uzbek Soums)**

	Note	2020	2019 (Restated)*
Revenue	14	2,296,458	1,931,509
Cost of sales	15	(2,015,618)	(1,740,744)
GROSS PROFIT		280,840	190,765
General and administrative expenses	16	(59,975)	(101,142)
Other operating income		6,897	9,303
OPERATING PROFIT		227,762	98,926
Interest expense		(101,348)	(96,710)
Interest income		14,539	12,241
Foreign exchange gain		25,639	38,999
PROFIT BEFORE INCOME TAX		166,592	53,456
Deferred tax (expense) / benefit	11	(13,875)	22,721
NET PROFIT FOR THE YEAR		152,717	76,177
Items that will not be reclassified subsequently to profit or loss:			
Foreign currency translation differences arising during the year		118,818	131,828
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		271,535	208,005

*See Note 5 for details.

On behalf of the management:

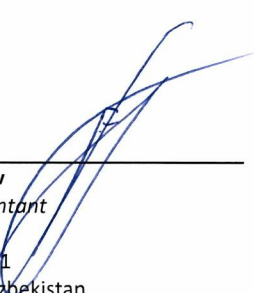

Saidazim Gulyamov
Acting General Director

20 April 2021
Tashkent, Uzbekistan




Ilkhom Raqibov
Finance Director

20 April 2021
Tashkent, Uzbekistan


Firuz Abdiev
Chief Accountant

20 April 2021
Tashkent, Uzbekistan

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JSC "UZAUTO MOTORS POWERTRAIN"

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020 (in millions of Uzbek Soums)

	Issued share capital	Additional paid-in capital	Foreign currency translation reserve	Retained Earnings / (Accumulated Deficit)	Total
Balance at 1 January 2019 – As restated*	139,837	226,424	736,786	(208,623)	894,424
Net profit for the year	-	-	-	76,177	76,177
Other comprehensive income for the year	-	-	131,828	-	131,828
Balance at 31 December 2019 – As restated*	139,837	226,424	868,614	(132,446)	1,102,429
Net profit for the year	-	-	-	152,717	152,717
Other comprehensive income for the year	-	-	118,818	-	118,818
Balance at 31 December 2020	139,837	226,424	987,432	20,271	1,373,964

*See Note 5 for details.

On behalf of the management:



Saidazim Gulyamov
Acting General Director

20 April 2021
Tashkent, Uzbekistan




Ilkhom Radjabov
Finance Director

20 April 2021
Tashkent, Uzbekistan


Firuz Abdiev
Chief Accountant

20 April 2021
Tashkent, Uzbekistan

The accompanying notes on pages 9-33 form an integral part of these financial statements.

JSC "UZAVTO MOTORS POWERTRAIN"

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020 (in millions of Uzbek Soums)

	Note	2020	2019
CASH FLOWS FROM OPERATING ACITIVITIES:			
Net profit for the year		152,717	76,177
Adjustments for:			
Deferred tax expense / (benefit)	11	13,875	(22,721)
Depreciation of property, plant and equipment	9	133,207	114,325
Amortisation of intangible assets		3,197	36,255
Provision for expected credit losses		2,785	-
Interest income		(14,539)	(12,241)
Interest expense		101,348	96,710
Foreign exchange gain		(25,639)	(38,999)
Other		4,876	6,072
Cash inflow from operating activities before changes in net working capital		371,827	255,578
Change in working capital:			
Prepaid suppliers		(61,302)	35,804
Accounts receivable		(168,884)	(159)
Inventory		55,681	(98,808)
Advances received		(7,249)	(25,226)
Payables and accrued liabilities		(140,440)	70,129
Cash generated from operating activities		49,633	237,318
Interest paid on borrowings	12	(126,828)	-
Net cash (used in) / generated from operating activities		(77,195)	237,318
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and constructions		(90,872)	(16,021)
Purchase of intangible asset		-	(11,870)
Proceeds from sale of property, plant and equipment		2,695	-
Interest received		17,364	9,275
Net cash used in investing activities		(70,813)	(18,616)
CASH FLOW FROM FINANCING ACTIVITIES:			
Repayment of borrowings	12	(108,135)	-
Proceeds from borrowings	12	20,729	-
Net cash used in financing activities		(87,406)	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		(235,414)	218,702
CASH AND CASH EQUIVALENTS, beginning of the period	6	451,752	241,280
Effect of foreign exchange rates on cash		2,452	(8,230)
CASH AND CASH EQUIVALENTS, end of the period	6	218,790	451,752

On behalf of the management:

Saidzaim Gulyamov
Acting General Director

20 April 2021
Tashkent, Uzbekistan

Ilkhom Radjabov
Finance Director

20 April 2021
Tashkent, Uzbekistan

Firuz Abdiev
Chief Accountant

20 April 2021
Tashkent, Uzbekistan



The accompanying notes on pages 9-33 form an integral part of these financial statements.

JSC "UZAUTO MOTORS POWERTRAIN"

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 *(in millions of Uzbek Soums, unless otherwise indicated)*

1. ORGANISATION

Incorporation and history

Joint Stock Company "Uzauto Motors Powertrain" (the "Company") was incorporated on 21 January 2009 and is domiciled in the Republic of Uzbekistan, as JSC General Motors Powertrain-Uzbekistan. Originally, the Company's shareholders were JSC Uzavtosanoat (the Republic of Uzbekistan), General Motors Corporation (USA) and General Motors International Holding Inc., (USA). JSC Uzavtosanoat is a state-owned company, which is the dominant controlling body of the automotive industry in the Republic of Uzbekistan.

In October 2017, JSC Uzavtosanoat and General Motors agreed that on 25 October 2019 GM's share in share capital of the Company will be transferred to JSC Uzavtosanoat. The parties concluded the above agreement for their mutual benefit and based upon a commercial framework that is viable in the absence of, and not conditioned upon, GM's equity ownership in the Company and hence management of the Company believes that the above agreement shall not have any negative effect on the Company's operating activities going forward. As part of the GM Uzbekistan Alliance, JSC Uzavtosanoat and GM continue their commercial relationship to manufacture Chevrolet and Ravon vehicles and engines in Uzbekistan, and distribute, market and sell them in domestic and designated export markets.

On 30 October 2019, the Company changed its name from JSC General Motors Powertrain-Uzbekistan to JSC Uzauto Motors Powertrain and on 1 November 2019 the Company approved its new charter where it was stated that the sole shareholder of the Company is JSC Uzavtosanoat.

In June 2020, JSC Uzavtosanoat transferred 100 % share in the share capital of the Company to LLC "Uzauto Passenger Vehicles Management", which is solely owned by JSC Uzavtosanoat, thereby remaining ultimate parent company.

Principal activity

The Company's principal business activity is the manufacturing of powertrains, involving the production and selling of 1.2 L and 1.5 L B-DOHC engines. The Company started regular production in June 2012. The nominal production capacity of the Company's facility is 225 thousand engines per annum and maximum production capacity is 270 thousand engines per annum. The Company generates sales of powertrains mainly in Uzbekistan.

JSC "UZAUTO MOTORS POWERTRAIN"

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (in millions of Uzbek Soums, unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Going concern

These financial statements have been prepared assuming that the Company will continue as a going concern for the foreseeable future and that its assets will be realised and liabilities discharged in the normal course of business.

In accordance with funding plans, management considers that the Company has sufficient funds available to continue funding its business. Management is therefore of the opinion that the Company will be able to realise its assets and settle liabilities in the normal course of business as the Company believes that the future cash flows from operations will be sufficient to discharge liabilities in accordance with the company's funding arrangements.

Basis of preparation

These financial statements are presented in millions of Uzbek Soums ("UZS million"), unless otherwise indicated. The financial statements have been prepared on the historical cost basis, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The Company, registered in the Republic of Uzbekistan, maintain their accounting records in accordance with Uzbek Accounting Standards (NAS). These financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

Functional and presentation currency

The functional currency of the Company is the US dollars ("USD"). The presentational currency of the financial statements of the Company is the Uzbek Soums ("UZS"). All values are rounded to the nearest million UZS, except when otherwise indicated.

Transactions and balances. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end official exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss as foreign exchange gain or loss. Translation at year-end rates does not apply to non-monetary items.

JSC "UZAUTO MOTORS POWERTRAIN"

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (in millions of Uzbek Soums, unless otherwise indicated)

Translation to the presentation currency. The result and financial position of the Company are translated to the presentation currency as follows:

- (i) Assets and liabilities for statement of financial position presented are translated at the closing rate at the end of the reporting period;
- (ii) Income and expenses for statements of profit or loss, other comprehensive income and cash flows are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses and cash flows are translated at the dates of the transactions);
- (iii) Components of equity are translated at the historic rate; and
- (iv) All resulting exchange differences are recognised in other comprehensive income.

Foreign currency exchange rates

The official rate of exchange, as determined by the Central Bank of the Republic of Uzbekistan:

	31 December 2020 UZS/1 USD	31 December 2019 UZS/1 USD
Closing rate	10,477	9,508
Average rate	10,054	8,851

The principal accounting policies are set out below.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

The following useful lives are used as a basis for calculating depreciation:

	<u>Useful lives</u>
Building and improvements	up to 40 years
Machinery and equipment	up to 27 years
Other	up to 15 years

JSC "UZAUTO MOTORS POWERTRAIN"

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(in millions of Uzbek Soums, unless otherwise indicated)

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

Intangible assets

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

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Inventory

Inventory is stated at the lower of cost and net realisable value. Costs of inventory is determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventory less all estimated costs of completion and costs necessary to make the sale.

On a quarterly basis, the Company pays royalty to GM Asia Pacific Regional Headquarters Ltd. for each engine unit manufactured, based on the Master Powertrain Technology License Agreement dated 25 October 2019. The royalty is included in the cost of inventory. The Company has changed presentation of the royalty payments in this financial statements (Note 5).

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current account balances, deposits and highly liquid investments with original maturity of three months or less. Funds restricted on availability and use, such as funded letters of credit, are excluded from cash and cash equivalents and treated as restricted cash.

Financial instruments

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

JSC "UZAUTO MOTORS POWERTRAIN"

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (in millions of Uzbek Soums, unless otherwise indicated)

Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Accounts receivable are classified as financial assets at amortised cost and are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

JSC "UZAUTO MOTORS POWERTRAIN"

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (in millions of Uzbek Soums, unless otherwise indicated)

Offsetting

Financial assets and liabilities are offset and net amount is presented in the statement of financial position only when there is a legally enforceable right to set-off the recognised amounts, and there is intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Impairment

The Company recognises loss allowances for ECLs on:

- Financial assets measured at amortised cost.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- Debt securities that are determined to have low credit risk at the reporting date; and
- Other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Revenue recognition

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Revenue is recognised at a point in time when control over engine is transferred to the customer. The Company has only one performance obligation under the contract with the customer.

The Company transfer control over engines upon shipment of goods from its premises. The contract contains only one performance obligation.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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In accordance with the Presidential Decree # PP-5755 dated 27 June 2019 about measures for further streamlining of provision of tax and customs privileges, under the clause six to the appendix of the resolution, the Company was obliged for value-added tax. Besides, the Company's period of exemption on all taxes (except for payroll and VAT) levied in Republic of Uzbekistan shortened up to 1 January 2021.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgment

The following is the critical judgement, apart from those involving estimations (see below), that the Company's management has made in the process of applying accounting policy and that have the most significant effect on amounts recognised in the financial statements.

Determination of functional currency

Items included in the financial statements are measured using the currency of the primary economic environment in which it operates ("functional currency").

Based on the primary indicators in IAS 21 – The Effects of Change in Foreign Exchange Rates – US dollars has been determined as the functional currency of the Company, because US dollars is the currency that mainly influences material and other costs of providing goods, and is the currency in which these costs are denominated and settled.

Determination of functional currency may involve certain judgements to determine the primary economic environment as the Company is registered and operated in the Republic of Uzbekistan while significant part of transactions are denominated or linked to US dollars. The Company reconsiders the functional currency if there is a change in events and conditions which determined the primary economic environment. The determination of the Company's functional currency is determined based on the following indicators:

- Most of inventories are purchased and denominated in US dollars. According to the performed analysis by the Company's management, more than 90% of inventory on-hand was purchased and denominated in US dollars in rough estimation as a three-year average.
- Although sales prices fixed in Uzbek Soums which is legal requirements, actual price formation is initially performed in US dollars due to high influence of US dollars currency to cost of sales. More than 90% of direct parts used for engine assembly are imported in US dollars. The Company takes into consideration the risk of US dollars exchange rate changes, while budgeting of sales prices.

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- Budgeting and forecasting of the financial statements are performed in US dollars to avoid significant and unpredictable foreign exchange impact from Uzbek Soums.
- The Company is underway in its development of a new type of engine with a capacity of 1.2 liters under the CSS Prime project, which involves modernization of facilities to produce new type of engines for cars manufactured by JSC Uzauto Motors. Financing of the new CSS Prime project is expected to be in US dollars. The Company is currently under negotiation to sign and obtain borrowing in foreign currency from international bank, as part of investments to modernize its facilities, to produce new type of engines.
- Equipment for the CSS Prime project is planned to be imported and paid in US dollars.

Key sources of estimation uncertainty

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

Taxation

Uzbekistan tax, currency and customs legislation is subject to varying interpretations can occur frequently. Management's interpretation of legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and state authorities. Recent events within Uzbekistan suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2020 and 31 December 2019 no provision for potential tax liabilities had been recorded. The Company estimates that it has no potential obligations from exposure to other than remote tax risks.

Useful lives of property, plant and equipment and intangible assets

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

Impairment of property, plant and equipment

Management reviews the carrying amounts of property, plant and equipment to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit.

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The assessment of whether there are indicators of a potential impairment is based on various assumptions including market conditions, asset utilisation and the ability to utilise the asset for alternative purposes. If an indication of impairment exists, the Company estimates the recoverable value (greater of fair value less cost to sell and value in use) and compares it to the carrying value, and records impairment to the extent the carrying value is greater. Any change in these estimates may result in impairment or its reversal in future periods.

In previous years, the Company recognised an impairment loss which was then partially reversed. As of 31 December 2020, carrying amount of property, plant and equipment includes UZS 1,386,611 million of accumulated impairment (31 December 2019: UZS 1,258,317 million).

Management has assessed value in use of property, plant and equipment as of 31 December 2020. Determination of value in use was based on the valuation model with discounted cash flows in functional currency. Based on the assessment, no impairment was recognized in 2020 and 2019.

The following key assumptions were used in the valuation model at 31 December 2020:

Assumption	2020	2019	Basis
Discount rate	13.0%	12.2%	Capital Asset Pricing Model ("CAPM")
Average sales volumes in 2021-2030 (thousands of units)	193	182	The auto production supported by the local demand
Target Earnings Before Interest and Taxes ("EBIT") margin for 2021-2030 (%)	10.0%	10.0%	The historical margins of other auto component producers in the Republic of Uzbekistan
Average capital expenditure per year in 2021-2030 (USD million)	19	24	The feasibility studies of the CSS Prime project Expected on this level due to the launch of the CSS Prime project and subsequent increase in work in progress level
Working capital level 2022-2030 (% from Revenue)	27.7%	12.3%	The feasibility studies of the CSS Prime project
Average CSS Prime project capital expenditure	156	240	Consists mainly of machinery and equipment (95%) for which the useful life is expected at 10 years
New property, plant and equipment depreciation rate (%), for CSS Prime project	9.6%	9.9%	

Discounted cash flow model is highly sensitive to a number of macroeconomic and operational assumptions. The Company makes estimates and assumptions about the future that have an impact on the valuation model with discounted cash flows. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

A number of assumptions used in the valuation model as at 31 December 2020 have been changed including:

- Change of discount rate due to changes in macroeconomic parameters;
- Average capital expenditure per year has decreased primarily due to decreased capital expenditure related to the CSS Prime project, which is in line with updated feasibility studies of the CSS Prime project prepared by the CSS Prime Program Team;

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- Working capital level 2022-2030 is expected to rise to 27.7% of revenue. Forecast for 2022-2030 is built based on increased expectation of work in progress level of inventory for the continuous production activity as a result of occupation of premises during the launch of the CSS Prime project.

Projected changes in assumptions applied to the 2020 and 2019 years would have the following effect on the fair value of the property, plant and equipment:

Assumption	Decrease of the carrying value of property, plant and equipment	
	31 December 2020	31 December 2019
Increase in discount rate by 0.5 percentage points	108,740	122,885
Decrease in average sales volumes in 2021-2030 by 5%	75,439	93,461
Decrease in target EBIT margin for 2021-2030 by 0.5 percentage points	116,451	112,474
Increase in average capital expenditure per year in 2021-2030 by 5%	43,317	63,291
Increase in working capital level 2022-2030 by 5 percentage points	152,921	143,555
Increase in average CSS Prime project capital expenditure by 10%	67,227	97,292
Decrease in new property, plant and equipment depreciation rate, for CSS Prime project by 0.5 percentage points	37,549	49,354

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

New and amended standards adopted by the Company

In the current year, the Company has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2020:

- Amendments to References to the Conceptual Framework in IFRS Standards;
- Amendments to IFRS 3 *Definition of a business*;
- Amendments to IAS 1 and IAS 8 *Definition of material*.

These amendments have not had any material impact on the disclosures or on the amounts reported in these financial statements.

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- IFRS 17 *Insurance Contracts* (1 January 2023);
- IFRS 10 and IAS 28 (amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (the effective date of the amendments has yet to be set by the Board; however, earlier application of the amendments is permitted);
- Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* (1 January 2023);
- Amendments to IFRS 3 *Reference to the Conceptual Framework* (1 January 2022);

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- Amendments to IAS 16 *Property, Plant and Equipment—Proceeds before Intended Use* (1 January 2022);
- Amendments to IAS 37 *Onerous Contracts – Cost of Fulfilling a Contract* (1 January 2022);
- Annual Improvements to IFRS Standards 2018-2020 Cycle Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* (1 January 2022), IFRS 9 *Financial Instruments* (1 January 2022), IFRS 16 *Leases* (no effective date is stated), and IAS 41 *Agriculture* (1 January 2022).

The management does not anticipate that the application of the above standards will have a material impact on the Company's financial statements.

5. RESTATEMENTS AND RECLASSIFICATIONS

Restatements

Subsequent to the issuance of the Company's 2019 financial statements, the Company's management identified that temporary differences related to property, plant and equipment were calculated incorrectly. Local tax legislation requires indexation of tax base of property, plant and equipment with recognition of accumulated revaluation as a taxable income upon disposal. Calculation of deferred tax in the Company's 2019 financial statements did not include temporary difference related to taxable income upon disposal of property, plant and equipment. As a result, deferred tax liability and equity of the Company as of 1 January and 31 December 2019 have been restated from the amounts previously reported as detailed in the tables below:

The effect of the restatement on the Statement of Financial Position as at 31 December 2019:

	As previously reported	Adjustment	As restated
Deferred tax liability	55,049	112,761	167,810
Accumulated Deficit	(106,328)	(26,118)	(132,446)
Foreign currency translation reserve	955,257	(86,643)	868,614
Total assets	2,455,651	-	2,455,651
Total liabilities	1,240,461	112,761	1,353,222
Total shareholder's equity	1,215,190	(112,761)	1,102,429

The effect of the restatement on the Statement of Financial Position as at 1 January 2019:

	As previously reported	Adjustment	As restated
Deferred tax liability	69,694	98,908	168,602
Accumulated Deficit	(182,505)	(26,118)	(208,623)
Foreign currency translation reserve	809,576	(72,790)	736,786
Total assets	2,053,297	-	2,053,297
Total liabilities	1,059,965	98,908	1,158,873
Total shareholder's equity	993,332	(98,908)	894,424

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The effect of the restatement on the Statement of profit or loss and other comprehensive income for the year ended 31 December 2019:

	<u>As previously reported</u>	<u>Adjustment</u>	<u>As restated</u>
Foreign currency translation differences arising during the year	145,681	(13,853)	131,828
Total comprehensive income for the year	221,858	(13,853)	208,005

Reclassifications

In 2020, the Company's management decided to make certain changes in accounting policy related to royalties paid to produce products associated with cost of sales in the statement of profit or loss and other comprehensive income. Management believes that classifying these royalties in cost of sales provides better view of their nature since these are costs of the product that are triggered by a sale. The changes were applied retrospectively in accordance with IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors".

The effect of the adjustments made to the statement of profit or loss and other comprehensive income for the year ended 31 December 2019 is as follows:

	<u>As originally presented</u>	<u>Effect of change in presentation</u>	<u>As reclassified</u>
Cost of sales	1,734,380	6,364	1,740,744
General and administrative expenses	107,506	(6,364)	101,142

6. CASH AND CASH EQUIVALENTS

Rating - Moody's, Fitch, Standard&Poor's	<u>31 December 2020</u>	<u>31 December 2019</u>
From Ba3 / BB- to B1 / B+	133,916	2,377
From B2 / B to B3 / B-	84,874	449,375
Total cash and cash equivalents	218,790	451,752

7. ACCOUNTS RECEIVABLE

	<u>31 December 2020</u>	<u>31 December 2019</u>
Trade receivables	156,368	219
Less: Provision for expected credit losses (IFRS 9)	(2,902)	-
Other receivables	2,640	8,186
Total accounts receivable	156,106	8,405

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As at 31 December 2020, trade receivables from contracts with customers were mainly from JSC Uzauto Motors, comprising of UZS 156,022 million.

Provision for expected credit losses ("ECL") related to accounts receivable from major customer JSC Uzauto Motors, which was past due up to 30 days. As a result of this analysis, the Company recognised provision of UZS 2,902 million as at December 31, 2020 (December 31, 2019: UZS 0 million).

8. INVENTORY

	<u>31 December 2020</u>	<u>31 December 2019</u>
Raw materials	223,190	149,668
Materials in transit	124,508	252,264
Indirect materials	56,533	49,991
Finished goods	58,535	25,746
Customs and duties	22,180	19,348
Freight in	14,971	13,406
	<u>499,917</u>	<u>510,423</u>

Non-current inventory

As at 31 December 2020 and 2019, non-current inventories were comprised primarily of spare parts, which are expected to be recovered after more than twelve months.

	<u>31 December 2020</u>	<u>31 December 2019</u>
Non-current inventory	83,553	68,559
<i>Less: allowance for obsolete inventory</i>	<u>(6,024)</u>	<u>(3,813)</u>
	<u>77,529</u>	<u>64,746</u>

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9. PROPERTY, PLANT AND EQUIPMENT

	Buildings and improvements	Machinery and equipment	Other	Construction in progress	Total
Cost					
1 January 2019	792,525	2,399,431	108,702	21,366	3,322,024
Additions	-	-	-	16,021	16,021
Disposals	-	(788)	(1,071)	-	(1,859)
Transfers	1,142	1,549	11,082	(13,773)	-
Translation difference	111,078	336,116	15,973	3,159	466,326
31 December 2019	904,745	2,736,308	134,686	26,773	3,802,512
Additions	-	-	-	90,872	90,872
Disposals	(141)	-	(3,871)	(1,880)	(5,892)
Transfers	20,390	6,857	2,504	(29,751)	-
Translation difference	93,102	279,276	13,659	5,231	391,268
31 December 2020	1,018,096	3,022,441	146,978	91,245	4,278,760
Accumulated depreciation and impairment					
1 January 2019	(396,367)	(1,606,722)	(85,915)	-	(2,089,004)
Depreciation charge	(12,579)	(98,047)	(3,699)	-	(114,325)
Disposals	-	532	1,073	-	1,605
Translation difference	(56,442)	(232,272)	(10,765)	-	(299,479)
31 December 2019	(465,388)	(1,936,509)	(99,306)	-	(2,501,203)
Depreciation charge	(15,050)	(111,415)	(6,742)	-	(133,207)
Disposals	-	-	3,677	-	3,677
Translation difference	(48,082)	(202,122)	(10,270)	-	(260,474)
31 December 2020	(528,520)	(2,250,046)	(112,641)	-	(2,891,207)
Net book value as at 31 December 2019	439,357	799,799	35,380	26,773	1,301,309
Net book value as at 31 December 2020	489,576	772,395	34,337	91,245	1,387,553

As at 31 December 2020 property, plant and equipment included fully depreciated assets of totaling UZS 48,162 million (2019: UZS 47,827 million).

During 2020 and 2019, the Company assessed property, plant and equipment for impairment and did not recognise an impairment. The recoverable amount of this property, plant and equipment was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of the group of assets, and as at now, the property, plant and equipment carries impairment in the amount of UZS 1,386,611 million of accumulated impairment (31 December 2019: UZS 1,258,317 million). Please refer to Note 3 for key assumptions used in the valuation model.

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10. PAYABLES AND ACCRUED LIABILITIES

	31 December 2020	31 December 2019
Payables to related parties (Note 20)	6,600	3,442
Other taxation and social security	28,874	24,311
Accounts payable to non-related parties:		
Payables to suppliers	232,221	350,201
Accrued wages	1,498	1,322
Other accounts payables	10,813	7,625
	<u>280,006</u>	<u>386,901</u>

The average credit period on purchases of certain goods is 1-2 months. No interest is charged on the accounts payables for the first 60 days from the date of the invoice. Thereafter, interest is charged at the rates agreed in the purchase agreements on the outstanding balance. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

11. INCOME TAX

In accordance with the Presidential Decree # PP-1020 dated 16 December 2008, the Company had a 10 year exemption on all taxes (except for payroll) levied in the Republic of Uzbekistan. In addition, the Company is exempt from and customs duties (except for customs service fee). The Company's period of exemption on all taxes (except for payroll and VAT) levied in Republic of Uzbekistan shortened up to 1 January 2021.

	Opening balance (Restated)*	Recognized in profit or loss	Translation Difference	Closing balance
Deferred tax liabilities/(assets) in relation to:				
Property, plant and equipment	149,270	15,705	15,878	180,853
Long-term borrowings from related parties	18,540	(1,830)	1,813	18,523
Year ended 31 December 2020	<u>167,810</u>	<u>13,875</u>	<u>17,691</u>	<u>199,376</u>

	Opening balance (Restated)*	Recognized in profit or loss	Translation Difference	Closing balance (Restated)*
Deferred tax liabilities/(assets) in relation to:				
Property, plant and equipment	152,395	(32,298)	29,173	149,270
Long-term borrowings from related parties	16,207	9,577	(7,244)	18,540
Year ended 31 December 2019	<u>168,602</u>	<u>(22,721)</u>	<u>21,929</u>	<u>167,810</u>

*See Note 5 for details.

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Deferred taxes are recognised for the future tax consequences attributable to difference between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases using enacted tax rates in the years in which temporary difference are expected to reverse.

The effective tax rate reconciliation is as follows for the years ended 31 December 2020 and 2019:

	31 December 2020	31 December 2019
Profit before income tax	166,592	53,456
Tax at statutory tax rate (15%)	24,989	8,018
Tax exemption	(11,114)	(32,342)
Tax effect of change in income tax rates	-	1,603
Income tax expense	13,875	(22,721)
Change in deferred income tax	13,875	(22,721)
Income tax expense	13,875	(22,721)

For the purpose of deferred taxes calculation, management uses latest available information on tax rates. At the end of each financial year the government announces tax rates, which is applicable from the start of forthcoming period. On 24 December 2018, income tax rate was established at 12% applicable from January 2019. Per new edition of tax code (approved on 30 December 2019) applicable from the start of 2020 the income tax rate was determined at 15%.

12. LONG-TERM BORROWINGS FROM RELATED PARTIES

	31 December 2020	31 December 2019
Long-term portion	488,361	600,374
Current portion	174,818	87,405
Interest payable	12,509	101,729
Total borrowings	675,688	789,508

On 16 November 2009, JSC Uzavtosanoat, a related party, provided the Company with an interest free loan as per agreement № 108 0/909 dated 16 November 2009 at an amount not exceeding USD 250 million.

On 29 August 2017, a supplementary agreement to the principal loan agreement was signed by the parties to substantially modify initial terms of the loan by changing their currency profile and interest rate. These modifications resulted in derecognition of the previous loan in USD and the recognition of a loan denominated in UZS at the fair value on initial recognition. As a result, loss on initial recognition was recognised as a deduction to additional paid-in capital.

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During 2020, the Company started to repay the principal amount of the loan and made first out of ten bi-annual instalments. The final instalment is due on 25 February 2025.

The loan was secured by machinery and equipment of the Company.

	2020	2019
Balance at 1 January	789,508	692,491
Principal: received	20,729	-
Principal: repaid	(108,135)	-
Interest: discount	62,918	57,401
Interest: accrued	38,430	39,309
Interest: paid	(126,828)	-
Exchange differences recognised in profit or loss	(78,291)	(96,683)
Translation difference	77,357	96,990
Balance at 31 December	675,688	789,508

13. ISSUED SHARE CAPITAL

All ordinary shares rank equally and carry one vote. The par value of ordinary shares is UZS 1 per share.

The Company was established under the legislation of the Republic of Uzbekistan with authorised charter capital of USD 100,000 thousand (or UZS 139,837,000 thousand).

In 2020, JSC Uzavtosanoat's 100% share in the issued share capital of the Company, all of which is fully paid, was transferred to LLC "Uzauto Passenger Vehicles Management" which is solely owned by JSC Uzavtosanoat.

Each share entitles the holder to vote in shareholders' meetings, to receive dividends and in the event of the Company's liquidation, to receive its share of distributable assets to the extent that there are sufficient funds available.

The Company has not declared dividends for the years ended 31 December 2020 and 2019.

14. REVENUE

The Company had mainly revenue from sales of engines in the amount UZS 2,296,317 million (2019: UZS 1,931,252 million).

During 2020, revenue was mainly from JSC Uzauto Motors, comprising of UZS 2,294,476 million (2019: UZS 1,929,402 million).

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15. COST OF SALES

	<u>2020</u>	<u>2019</u> <u>(Restated)*</u>
Materials and components	1,493,452	1,231,782
Depreciation	130,436	111,386
Freight and duty	109,201	114,749
Labour	85,282	59,242
Royalty	66,922	6,364
Other costs	130,325	217,221
Total cost of sales	<u>2,015,618</u>	<u>1,740,744</u>

*See Note 5 for details.

16. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2020</u>	<u>2019</u> <u>(Restated)*</u>
Staff costs and related charges	15,936	11,631
Management and service fees	11,693	14,684
Provision for VAT	8,999	23,766
IT license fees	6,525	13,897
Allowance for obsolete inventory	5,781	3,549
Bank commissions	3,227	3,098
Amortization	3,197	-
Depreciation	2,695	1,558
Others	1,922	28,959
	<u>59,975</u>	<u>101,142</u>

*See Note 5 for details.

17. COMMITMENTS AND CONTINGENCIES

Taxation

The tax environment in the Republic of Uzbekistan is subject to change and inconsistent application, interpretation and enforcement. Non-compliance with Uzbekistan laws and regulations can lead to the imposition of penalties and interest. Management believed that it had adequately provided for all tax liabilities in accordance with its interpretation of laws and regulations. However, the risk remains that relevant authorities could interpret tax laws and regulations differently and take differing positions with regard to interpretative issues, and as such, the effect could be significant. Consequently, additional taxes may be assessed including penalties and interest, which could be significant. No provision has been made for these contingencies.

The Company is liable for pension fund contributions, payroll related taxes and contributions.

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In accordance with the Presidential Decree #5755 dated June 27, 2019 "About measures for further streamlining of provision of tax and customs privileges", starting from October 2019 the Company became subject to VAT tax. Since 1 October 2019, the VAT rate in the Republic of Uzbekistan has decreased from 20% to 15%.

Laws related to these contributions have not been in force for significant periods, in contrast to more developed market economies. Therefore, regulations are often unclear or non-existent and few precedents with regard to many issues have been established.

Legal proceedings

From time to time and in the normal course of business claims against the Company are made. No claims have been received up to the date of signing these financial statements, and management of the Company is not aware of any such claim pending, hence no provisions have been made in these financial statements.

Operating environment

Emerging markets such as Uzbekistan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Uzbekistan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. During 2020, the government of Uzbekistan remained committed to carry out social-economic reforms started in 2016 and liberalisation of the market with an emphasis predominantly on broadening the export potential and improvement of business climate of Uzbekistan to attract foreign direct investment. As a result, laws and regulations, including tax and regulatory frameworks, affecting businesses in Uzbekistan started to change rapidly. The future economic direction of Uzbekistan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

As the Company's sales in the domestic market are primarily done to the Joint Stock Company Uzauto Motors ("JSC Uzauto Motors"), its domestic activities will be highly dependent on demand for cars produced by JSC Uzauto Motors.

In addition to that, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it has a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Company has already started to face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets.

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In December 2020, S&P Global Ratings affirmed its long- and short-term foreign and local currency ratings on Uzbekistan at 'BB-/B'. The outlook remains negative. The decision was made due to rapid rise in the country's external debt, partly due to USD 1 billion (UZS 10,476,920 million at the exchange rate prevailing as at the reporting date) in additional government spending in response to the coronavirus pandemic. In addition, in April and September 2020, the refinancing rate has been reduced from 16% to 15% and from 15% to 14%, respectively.

Management of the Company is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Company's business in the foreseeable future. However, the impact of further economic developments on future operations and financial position of the Company at this stage is difficult to determine.

18. FINANCIAL INSTRUMENTS

Capital management

The Company manages its capital to ensure that the Company will be able to continue as going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from 2015.

The capital structure of the Company consists of net debt (borrowings as detailed in Note 12 offset by cash and bank balances) and equity of the Company (as detailed in Note 13).

The Company is not subject to any externally imposed capital requirements.

Financial risk management objectives

The Company's Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Company does not enter into any derivative financial instruments to manage its exposure to foreign currency risk.

There has been no change to the Company's exposure to market risks or the manner in which these risks are managed and measured.

Foreign currency risk management

The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. The Company's financial assets and liabilities are mainly denominated in Uzbek Soums, US dollars and Euro. The amounts denominated in Euro are not material. As a result only change of USD/UZS exchange rate has an effect on the Company's profits and losses.

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	31 December 2020	31 December 2019
Assets denominated in UZS	365,527	447,464
- Cash and cash equivalents	209,421	442,634
- Accounts receivable	156,106	4,830
Liabilities denominated in UZS	726,317	828,565
- Borrowings from related parties	675,688	789,508
- Payables and accrued liabilities	50,629	39,057
Net position	(360,790)	(381,101)

Strengthening/weakening of US dollar by 20% would result in gain/loss of UZS 72,158 million (31 December 2019: UZS 76,220 million).

Interest rate risk management

The Company has no significant exposure to interest rate risk since it borrows funds with fixed interest rates.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The objective of managing credit risk is to prevent losses of liquid funds deposited in counterparties.

As at 31 December 2020, the maximum exposure to credit risk resulting from financial assets is equal to the carrying amount of the Company's financial assets of UZS 374,896 million (31 December 2019: 460,157 million).

Cash and cash equivalents are placed in banks, which are considered at the time of deposit to have optimal balance between rate of return and risk of default. The credit risk on cash with bank is disclosed in Note 6.

The table below shows the credit quality of accounts receivable on the reporting date, based on the credit ratings of independent agencies as at 31 December 2020 and 31 December 2019, if otherwise not stated in table below:

Rating - Moody's, Fitch, Standard&Poor's	31 December 2020	31 December 2019
From Ba3 / BB- to B1 / B+	153,822	-
From B2 / B to B3 / B-	-	3,394
Unrated	2,284	5,011
Total accounts receivable	156,106	8,405

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The Company is exposed to significant concentrations of credit risk. As at 31 December 2020, trade receivables were mainly from one major customer JSC Uzauto Motors, a related party. Although, the collection of receivables could be influenced by economic factors, Management believes that there is no significant risk of loss to the Company beyond already recorded (Note 7).

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Supervisory board, which has established an appropriate liquidity risk management framework for the management of the Company's short-, medium- and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The undiscounted maturity analysis of financial instruments at 31 December 2020 is as follows:

	Weighted average interest rate	0-6 months	6-12 months	1-5 years	Over 5 years	31 December 2020 Total
Financial liabilities:						
Borrowings	14%	105,351	103,013	667,014	-	875,378
Payables and accrued liabilities		280,006	-	-	-	280,006
Total financial liabilities		385,357	103,013	667,014	-	1,155,384

The undiscounted maturity analysis of financial instruments at 31 December 2019 is as follows:

	Weighted average interest rate	0-6 months	6-12 months	1-5 years	Over 5 years	31 December 2019 Total
Financial liabilities:						
Borrowings	14%	-	214,678	785,890	89,392	1,089,960
Payables and accrued liabilities		386,901	-	-	-	386,901
Total financial liabilities		386,901	214,678	785,890	89,392	1,476,861

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value of borrowings from related parties (Level 2) were UZS 624,532 million as at 31 December 2020 (31 December 2019: UZS 729,791 million).

Financial instruments other than borrowings from related parties (Level 2) are approximately equal to their fair value.

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The fair value of the Company's financial assets and liabilities at 31 December 2020 are as follows.

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	218,790	-	-	218,790
Accounts receivable	-	-	156,106	156,106
Payables and accrued liabilities	-	-	280,006	280,006
Borrowings from related parties	-	624,532	-	624,532

The fair value of the Company's financial assets and liabilities at 31 December 2019 are as follows.

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	464,283	-	-	464,283
Accounts receivable	-	-	8,405	8,405
Payables and accrued liabilities	-	-	386,901	386,901
Borrowings from related parties	-	729,791	-	729,791

20. RELATED PARTIES TRANSACTIONS

Details of transactions between the Company and other related parties are disclosed below.

Key management compensation

Compensation for key management team for the years ended 31 December 2020 and 2019 was UZS 2,534 million and UZS 5,455 million, respectively. Key management includes 5 members (2019: 5 members).

Trading transactions

JSC Uzavtosanoat is a state-owned company and therefore all government-related entities and bodies are considered to be related parties to the Company. Similarly, all transactions until 25 October 2019 through GM entities are considered to be related parties.

The Company applies a disclosure exemption regarding Government-related entities, where the same Government has control or joint control of, or significant influence over, both the Company and the other entities, disclosed as "Entities under common control with the Company".

As at 31 December 2020, balances with the related parties are summarised as follows:

	Parent Company	Entities under common control with the Company	Total
Cash and cash equivalents	-	133,644	133,644
Accounts receivable	-	153,948	153,948
Prepaid suppliers	-	31,514	31,514
Payables and accrued liabilities	6,422	29,052	35,474
Advances received	-	744	744
Borrowings from related parties	675,688	-	675,688

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The income and expense items with related parties for the year ended 31 December 2020 were as follows:

	<u>Parent Company</u>	<u>Entities under common control with the Company</u>	<u>Total</u>
Revenue	-	2,294,476	2,294,476
Purchases	11,693	80,051	91,744
Interest expense	101,061	-	101,061

As at 31 December 2019, balances with the related parties are summarised as follows:

	<u>Parent Company</u>	<u>Entities under common control with the Company</u>	<u>Total</u>
Cash and cash equivalents	-	263,664	263,664
Accounts receivable	-	3,394	3,394
Prepaid suppliers	-	5,657	5,657
Payables and accrued liabilities	2,947	24,806	27,753
Advances received	-	6,674	6,674
Borrowing	789,508	-	789,508

The income and expense items with related parties for the year ended 31 December 2019 were as follows:

	<u>Parent Company</u>	<u>Entities under common control with the Company</u>	<u>Total</u>
Revenue	-	1,931,509	1,931,509
Purchases	9,595	585,216	594,811
Interest expense	96,710	-	96,710

21. SUBSEQUENT EVENTS

The Company has entered into several contracts for the supply of equipment within the CSS Prime project in the amount of USD 26,689 thousand (UZS 279,619 million). The total amount of concluded contracts as of the date of these financial statements were authorised for issuance was USD 45,007 thousand (UZS 471,535 million).

During the first quarter of 2021, the global market started to experience a shortage in the semiconductor market. Semiconductor shortage has hit nearly every major automaker, leading to production cutbacks worldwide. Management of the Company is closely monitoring the situation on global markets. As of the date of these financial statements, management believes that there will be no significant impact on annual sales volumes. However, the significance of the effect of global shortage of semiconductors on the Company's business largely depends on the duration of global shortage of semiconductors. Due to significant uncertainty in the situation, the Management's opinion may change in the future.

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22. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by management of the Company and authorised for issue on 20 April 2021.