



National Electric Grid of Uzbekistan JSC

Consolidated financial statements

*As at and for the year ended 31 December 2021
with independent auditor's report*

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Consolidated financial statements

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Independent auditor's report

To the Shareholder and those charged with governance

Opinion

We have audited the consolidated financial statements of National Electric Grid of Uzbekistan JSC and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (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 consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated 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.

Material uncertainty related to going concern

We draw attention to *Note 2* to the consolidated financial statements, which indicates that the Group incurred a net loss of 2,343,954 million of Uzbek Soum during the year ended 31 December 2021 and, as of that date, the Group's current liabilities exceeded its current assets by 4,170,800 million of Uzbek Soum. As stated in *Note 2* to the consolidated financial statements, these events or conditions, along with other matters, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of management for the consolidated financial statements

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

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

Auditor's 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 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 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 auditor's 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 auditor's 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.

Tashkent, Uzbekistan
28 June 2022

Audit organization, Ernst & Young LLC

Audit Organization LLC Ernst & Young

Certificate authorizing audit practice No. AF-00816 dated 17 April 2019 registered with the Ministry of Finance of the Republic of Uzbekistan.

A. Azamov

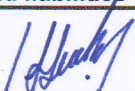
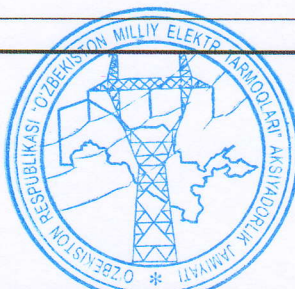
Anvarkhon Azamov

Auditor's qualification certificate authorizing audit practice No. 04880 dated 9 October 2020 issued by the Ministry of Finance of the Republic of Uzbekistan.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

| <i>In millions of Uzbekistan Soums</i> | Note | 31 December 2021 | 31 December 2020 |
|---|-------------|-----------------------------|-----------------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 5 | 6,293,528 | 5,684,894 |
| Investments in associates and joint ventures | | 6,024 | 4,750 |
| Advances paid for non-current assets | | 66,694 | 84,405 |
| Deferred tax assets | 17 | 3,252 | 1,334 |
| Other non-current assets | | 5,510 | 2,523 |
| Total non-current assets | | 6,375,008 | 5,777,906 |
| Current assets | | | |
| Inventory | | 241,029 | 51,723 |
| Trade and other receivables | 6 | 2,755,538 | 2,130,785 |
| Advances paid | | 141,305 | 121,570 |
| Income tax prepaid | | 4,140 | 14,339 |
| VAT recoverable and other prepaid taxes | 7 | 273,742 | 161,678 |
| Restricted cash | 8 | 253,778 | 13,169 |
| Cash and cash equivalents | 8 | 90,632 | 298,671 |
| Other current assets | | 28,972 | 30,922 |
| Total current assets | | 3,789,136 | 2,822,857 |
| Total assets | | 10,164,144 | 8,600,763 |
| Equity | | | |
| Charter capital | 9 | 5,202,310 | 4,892,285 |
| Reserve capital | | 2,429 | 2,429 |
| Accumulated loss | | (5,786,334) | (3,133,696) |
| Equity attributable to the Company's owner | | (581,595) | 1,761,018 |
| Non-controlling interest | | 498 | 2,040 |
| Total equity | | (581,097) | 1,763,058 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Loans and borrowings | 10 | 2,579,310 | 1,332,322 |
| Deferred tax liabilities | 17 | 205,995 | 293,940 |
| Total non-current liabilities | | 2,785,305 | 1,626,262 |
| Current liabilities | | | |
| Loans and borrowings | 10 | 288,165 | 1,206,428 |
| Trade and other accounts payable | 11 | 7,496,509 | 3,812,792 |
| Contract liabilities | | 99,577 | 126,534 |
| Income tax payable | | 85 | - |
| Taxes payable other than income tax | 12 | 11,996 | 18,235 |
| Other current liabilities | | 63,604 | 47,454 |
| Total current liabilities | | 7,959,936 | 5,211,443 |
| Total liabilities | | 10,745,241 | 6,837,705 |
| Total equity and liabilities | | 10,164,144 | 8,600,763 |


 Qurbonov F.M.
Deputy Chairman of the Management
Board for Investments



 Kholboev S.N.
 Chief Accountant

The explanatory notes on pages 5 to 35 are an integral part of
these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the year ended 31 December 2021

| <i>In thousands of Uzbekistan Soums</i> | Notes | 2021 | 2020 |
|--|--------------|--------------------|------------------|
| Revenue | 13 | 19,163,710 | 18,073,214 |
| Cost of sales | 14 | (20,655,742) | (17,394,211) |
| Gross profit | | (1,492,032) | 679,003 |
| Other operating income | 15 | 192,625 | 21,281 |
| General and administrative expenses | 16 | (309,909) | (240,139) |
| Accrual of provision for expected credit losses | | (663,547) | (196,665) |
| Operating income | | (2,272,863) | 263,480 |
| Dividend income | | - | 81 |
| Share in profit/(loss) of associates and joint ventures, net | | 1,273 | (437) |
| Finance income | | 484 | 264 |
| Finance costs | | (77,357) | (89,549) |
| Foreign exchange loss, net | | (84,092) | (202,118) |
| Loss before income tax | | (2,432,555) | (28,279) |
| Income tax benefit/(charge) | 17 | 88,601 | (84,610) |
| Net loss for the year | | (2,343,954) | (112,889) |
| Other comprehensive income for the year | | - | - |
| Total comprehensive loss for the year | | (2,343,954) | (112,889) |
| Loss attributable to: | | | |
| - Owners of the Company | | (2,342,412) | (112,858) |
| - Non-controlling interest | | (1,542) | (31) |
| Loss for the year | | (2,343,954) | (112,889) |
| Total comprehensive loss attributable to: | | | |
| - Owners of the Company | | (2,342,412) | (112,858) |
| - Non-controlling interest | | (1,542) | (31) |
| Total comprehensive loss for the year | | (2,343,954) | (112,889) |

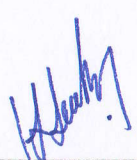

 Qurbonov F.M.
Deputy Chairman of the Management
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 Chief Accountant

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

| <i>In millions of Uzbekistan Soums</i> | Note | Attributable to the owner of the Company | | | Total equity attributable to the owner of the Company | Non-controlling interest | Total equity |
|--|------|--|-----------------|-------------------|---|--------------------------|--------------|
| | | Share capital | Reserve capital | Retained earnings | | | |
| Balance at 1 January 2020 | | 474,055 | 2,429 | 758,858 | 1,235,342 | 2,071 | 1,237,413 |
| Net loss for the period | | - | - | (112,858) | (112,858) | (31) | (112,889) |
| Total comprehensive loss for period | | - | - | (112,858) | (112,858) | (31) | (112,889) |
| Issue of share capital | 9 | 4,418,230 | - | (4,418,230) | - | - | - |
| Transactions with the shareholders | 9 | - | - | 655,999 | 655,999 | - | 655,999 |
| Dividends declared | | - | - | (17,465) | (17,465) | - | (17,465) |
| Balance at 31 December 2020 | | 4,892,285 | 2,429 | (3,133,696) | 1,761,018 | 2,040 | 1,763,058 |
| Net loss for the period | | - | - | (2,342,412) | (2,342,412) | (1,542) | (2,343,954) |
| Total comprehensive loss for period | | - | - | (2,342,412) | (2,342,412) | (1,542) | (2,343,954) |
| Issue of share capital | 9 | 310,025 | - | (310,025) | - | - | - |
| Transactions with the shareholders | 9 | - | - | 3,842 | 3,842 | - | 3,842 |
| Dividends declared | 9 | - | - | (4,043) | (4,043) | - | (4,043) |
| Balance at 31 December 2021 | | 5,202,310 | 2,429 | (5,786,334) | (581,595) | 498 | (581,097) |


 Qurbonov F.M.
 Deputy Chairman of the Management
 Board for Investments

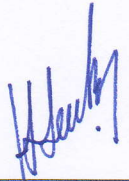



 Kholboev S.N.
 Chief Accountant

The explanatory notes on pages 5 to 33 are an integral part of these consolidated financial statements.


CONSOLIDATED STATEMENT OF CASH FLOWS**For the year ended 31 December 2021**

| <i>In millions of Uzbekistan Soums</i> | Notes | 2021 | 2020 |
|---|--------------|--------------------|------------------|
| Cash flow from operating activities | | | |
| Loss before income tax | | (2,432,555) | (28,279) |
| <i>Adjustments for:</i> | | | |
| Dividend income | | - | (81) |
| Finance costs | | 77,357 | 89,549 |
| Foreign exchange loss, net | | 84,092 | 202,118 |
| Accrual of provision for expected credit losses | | 663,552 | 196,725 |
| Depreciation of property, plant and equipment | | 265,604 | 342,973 |
| Loss from disposal of fixed assets | | (4,786) | (5,144) |
| Share in (profit)/loss of associates and joint ventures, net | | (1,273) | 437 |
| Finance income | | (484) | (264) |
| Other non-cash operating expenses | | 148 | 148 |
| Operating cash flows before changes in working capital | | (1,348,345) | 798,182 |
| Change in trade and other receivables | | (1,291,292) | (1,038,899) |
| Change in inventory | | (189,454) | (7,261) |
| Change in other current asset | | 5,272 | (18,103) |
| Change in advances paid | | (19,735) | 96,202 |
| Change in trade and other payables | | 3,686,877 | 1,228,707 |
| Change in contract liabilities | | (26,957) | (9,818) |
| Change in taxes payables other than income tax | | (106,722) | (111,206) |
| Changes in working capital | | 709,644 | 937,804 |
| Income taxes paid | | (1,297) | (18,960) |
| Interest paid | | (52,643) | (44,362) |
| Net cash flows received from operating activities | | 655,704 | 874,482 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (856,527) | (640,469) |
| Transfers in restricted cash | | (240,609) | (12,687) |
| Net cash flows used in investing activities | | (1,097,136) | (653,156) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 590,674 | 421,714 |
| Repayment of borrowings | | (353,992) | (382,409) |
| Dividends paid | | (4,043) | (17,465) |
| Net cash flows received from financing activities | | 232,639 | 21,840 |
| Net change in cash and cash equivalents | | (208,793) | 243,166 |
| Cash and cash equivalents at the beginning of the year | | 298,671 | 53,785 |
| Effect of exchange rate changes on cash and cash equivalents | | 754 | 1,720 |
| Cash and cash equivalents at the end of the year | 8 | 90,632 | 298,671 |



Qurbonov F.M.

Deputy Chairman of the Management
Board for Investments

Kholboev S.N.

Chief Accountant

*The explanatory notes on pages 5 to 33 are an integral part of
these consolidated financial statements.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**For the year ended 31 December 2021****1. GENERAL INFORMATION**

JSC National Electric Grid of Uzbekistan (herein after – “the Company”) is a state joint stock company established in accordance with the decree of the President of the Republic of Uzbekistan dated 27 March 2019 No. PP-4249 *On the Strategy for Further Development and Reform of the Electric Power Industry of the Republic of Uzbekistan*, The Company was registered on 18 April 2019.

The main activities of the company are the operation and development of the main electric networks of the Republic of Uzbekistan, the supply of electricity through high voltage lines and the implementation of interstate transit, cooperation with the electric power systems of neighboring states.

As of 31 December, 2021 and 2020 the Company’s shareholder is Ministry of Finance of the Republic of Uzbekistan (herein after – the Shareholder). The Company’s ultimate controlling party is the Government of Uzbekistan.

As of 31 December, 2021 and 2020 the Company had interests in the following subsidiaries operating in the Republic of Uzbekistan:

| Subsidiaries | Main activity | 31 December 2021 % ownership | 31 December 2020 % ownership |
|----------------------------|-----------------------------------|---|---|
| Uzenergoinjining JSC | Design of power supply facilities | 87.5% | 87.5% |
| Savdoenergo JSC | Wholesale and retail trade | 68.9% | 68.9% |
| Energomahsusavto LLC | Transport services | 100.0% | 100.0% |
| Elektrkommunalqurilish LLC | Construction and repair services | 100.0% | 100.0% |

The Company and its subsidiaries are hereinafter collectively referred to as the “Group”.

The head office of the Company is located at the following address: 42, Osiyo st., Tashkent, Republic of Uzbekistan. The main place of business of the Group is the Republic of Uzbekistan. These consolidated financial statements of the Group were approved for issue by the Deputy Chairman of the Management Board for Economics and Finance and the Chief Accountant of the Company on 28 June 2022.

2. BASIS OF PREPARATION**Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (“the IASB”).

The consolidated financial statements are prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as discussed in *Note 4*.

Functional and presentation currency

The national currencies of the countries where the Group entities operate are usually the individual company’s functional currencies, because they generally reflect the economic substance of the underlying transactions and circumstances of those companies.

The Functional currency of the Company and its subsidiaries and presentation currency of the Group’s financial statements is the national currency of the Republic of Uzbekistan – Uzbek Soum (“UZS”). The consolidated financial statements are presented in millions of Uzbek Soum (“UZS”). All values are rounded to the nearest million, except when otherwise indicated.

Currency exchange rates

The weighted average exchange rates set by the Central Bank of the Republic of Uzbekistan (“CBU”) are used as the official exchange rates in the Republic of Uzbekistan.

The exchange rate of the CBU as of 31 December 2021 was 10,837.66 UZSUZS per US Dollar. This rate was used to translate monetary assets and liabilities denominated in US Dollars as of 31 December 2020 (10,476.92 UZS per US\$1 at 31 December 2020). The exchange rate of the Central Bank of Uzbekistan as of June 28, 2022 was 10,992.20UZS per 1 US Dollar.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION (continued)**Going concern**

These consolidated financial statements have been prepared on the basis of going concern principle, which implies a continuation of the normal course business, sale of assets and settlement of obligations in the normal course of business.

The Group incurred a net loss of 2,343,954 million UZS for the year ended 31 December 2021 (2020: 112,889 million UZS) and as of that date its current liabilities exceeded current assets by 4,170,800 million UZS (2020: 2,388,588 million UZS).

The Group's ability to pay trade payables, repay borrowed funds and maintain a going concern basis is dependent on the Group raising additional cash in the foreseeable future. As at the date of these consolidated financial statements, management was satisfied with sufficient grounds that the Group would be able to continue as a going concern by raising additional funds from a shareholder as required. The Group's shareholder intends to provide further financial support as required until the Group obtains alternative financing on acceptable terms or until it starts generating sufficient operating cash flows.

The Group's short-term liabilities are mainly represented by trade payables to related parties, subsidiaries of JSC Thermal Power Plants JSC ("TES JSC"), controlled by the Group's Shareholder, as well as short-term loans and borrowings. Moreover, the repayment of accounts payable is also predetermined by repayment in accordance with Protocol 7 of the Inter-agency Tariff Commission under the Cabinet of Ministers of the Republic of Uzbekistan dated 31 July 2021, in accordance with which the repayment of accounts payable is carried out as funds are received from clients – related parties, subsidiaries of Regional Electric Networks JSC.

In addition, in 2022, it is expected to transfer electricity sales and purchase activities, as well as respective trade receivables 5,141,620 million UZS and trade payables 7,438,882 million UZS, respectively (as of 31 December 2021) to the newly created company JSC "Uzpowertrade", controlled by the shareholder of the Group.

There are uncertainties around the success of obtaining funds from the above-mentioned source in a sufficient amount and in due time. Should the Group not be able to manage the inherent uncertainties referred to above and to successfully complete sufficient financing options set out above, there would be significant uncertainty as to whether it would be able to meet its debts when they fall due and therefore continue as a going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the consolidated statements are described below. These accounting policies have been consistently applied.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and;
- The ability to use its power over the investee to affect its returns

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to non-controlling interest, even if this results in non-controlling interest having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Basis of consolidation (continued)**

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognised in other comprehensive income (OCI) to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Principles of consolidation*Subsidiaries*

Subsidiaries are entities controlled by the Company. Control is presumed to exist when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities. Relevant activities are activities of the investee that significantly affect the investee's return. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interest

Non-controlling interest represents the non-controlling shareholders' proportionate share of the equity and results of operations of the Group's subsidiaries. This has been calculated based upon the non-controlling interests' ownership percentage of these subsidiaries. The non-controlling interest has been disclosed as a part of equity.

The Group applies a policy of treating transactions with non-controlling shareholders as transactions with equity owners of the Group. For purchases of non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of a subsidiary is recorded in equity. Differences between consideration received and carrying value of non-controlling interests sold are also recorded in equity.

The Group derecognises non-controlling interest if non-controlling shareholders have received a mandatory offer to purchase their shares. The difference between the amount of the liability recognised in the consolidated statement of financial position over the carrying value of the derecognised non-controlling interests is charged to retained earnings.

Associates and joint ventures

Associates are those entities over which the Group has significant influence, the power to participate in the financial and operating policy decisions of the investee but not control or joint control of those policies.

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

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Principles of consolidation (continued)***Equity method*

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The Consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture. The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown in the Consolidated statement of comprehensive income separately from operating profit and represents profit or loss after tax of the associate or joint venture (including their subsidiaries) to the extent of Group's share in the associate or joint venture for the reporting period. The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in Consolidated statement of comprehensive income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Transactions eliminated on consolidation

Intercompany transactions, balances and unrealised gains in transactions among the Group entities are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Unrealised gains on transactions between the Group and its equity accounted investees are eliminated to the extent of the Group's interest in the investees; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred

Foreign currency transactions and translation

Transactions in foreign currencies are measured in the respective functional currencies of the Group entities at exchange rates effective at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are remeasured to the entities' functional currencies at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are remeasured to the functional currency at the exchange rate at the date that the fair value was determined. Other non-monetary assets and liabilities measured in a foreign currency are remeasured to the functional currency at the exchange rate at the date of operation. Foreign currency differences arising on remeasurement are recognised in profit and loss.

Property, plant and equipment

Property, plant and equipment are carried at historical cost of acquisition or construction after deduction of accumulated depreciation and accumulated impairment. The cost of self-constructed assets includes cost of materials, direct labour and a proportion of production overheads. Where an item of property, plant and equipment comprises major components having different useful lives, the components are accounted for as separate items of property, plant and equipment.

Renewals and improvements are capitalised. The costs of regular repair and maintenance are expensed as incurred. Gains and losses arising from the disposal of property, plant and equipment are included in profit and loss as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Property, plant and equipment (continued)**

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised to the carrying amount of the component being written off. Other subsequent expenditure is capitalised only when it increases future economic benefits embodied in the item of property, plant and equipment. All other expenditures are recognised in profit and loss as incurred.

Social facilities are not capitalized as they are not considered to bring economic benefits to the Group in the future. Expenses for the maintenance of social facilities are expensed as incurred.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation commences from the time an asset is completed and ready for use. The useful lives are reviewed at each financial year-end and, if expectations differ from previous estimates, changes are recognised prospectively. The useful lives, in years, of assets by type of facility are as follows:

| | Useful life (years) |
|---------------------------------------|---|
| Buildings | 10-50 |
| Transmission facilities and equipment | 5-50 |
| Vehicles | 4-28 |
| Other fixed assets | 3-20 |
| Capitalised leasehold improvements | Lower of economic useful life or lease term |

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognized.

Leases

Right-of-use assets and Lease liabilities are capitalised at the commencement of the lease at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability. Finance charges are recognised in finance costs in the Consolidated statement of comprehensive income. Right-of-use asset is depreciated over the lease term.

Inventories

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

Provision is made for obsolete or slow-moving inventories, taking into account their expected use and future net realisable value

Cash and cash equivalents

Cash comprises cash in hand and cash deposited on demand at banks. Cash equivalents comprise short-term, highly liquid investments that are readily convertible into cash and have an original maturity of three months or less from the date of acquisition and are subject to insignificant changes in value.

Advances paid

Advances paid by the Group are carried at cost less provision for impairment. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are recognised in profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of prepayment is written down as impairment loss in profit and loss.

Advances paid by the Group are classified as non-current assets when the goods or services relating to the prepayment are to be delivered beyond one year period or when they relate to acquisition of property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*Value added tax on purchase and sales*

Value added tax (VAT) related to sales is payable to tax authorities either upon revenue recognition or at the time of collection of receivables from customers, depending on statutory regulations of the Republic of Uzbekistan. Tax authorities permit settlement of VAT on a net basis.

Financial instruments– initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

*Financial assets**Initial recognition and measurement*

The Group's financial assets include cash and cash equivalents, short-term and long-term deposits, restricted cash, other financial assets, trade and other accounts receivable, quoted and unquoted financial instruments.

Financial assets at initial recognition are classified as financial assets measured at amortized cost; financial assets measured at fair value through profit or loss; financial assets measured at fair value through other comprehensive income.

A financial asset is measured at amortized cost if two criteria are met:

- 1) The purpose of the business model is to hold a financial asset to receive all contractual cash flows; and
- 2) Contractual cash flows are represented only by interest payments and principal debt. The fee is a payment for the time value of money and the credit risk associated with the principal debt to maturity in a certain period of time.

If at least one of the above criteria is not met, the financial asset is measured at fair value.

The Group's financial assets not carried at amortized cost are stated at fair value.

A financial asset is measured at fair value through other comprehensive income if two criteria are met:

- 1) The purpose of the business model is to hold a financial asset both for obtaining all contractual cash flows and for selling a financial asset; and
- 2) Contractual cash flows are represented only by interest payments and principal debt. The fee is a payment for the time value of money and the credit risk associated with the principal debt to maturity in a certain period of time.

The Group accounts for financial assets at fair value through profit or loss, except when they are carried at amortized cost or at fair value through other comprehensive income.

Subsequent measurement

Subsequently, financial assets are measured at amortized or fair value through other comprehensive income, or through profit or loss, based on the business model of the Group for the Management of Financial Assets. The business model is determined by the management of the Group.

Derecognition

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

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial instruments– initial recognition and subsequent measurement (continued)***Financial assets (continued)**Derecognition (continued)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Recognition of expected credit loss

The Group recognizes the estimated provision for expected credit losses on financial assets measured at amortized cost and fair value through other comprehensive income in an amount equal to expected credit losses for the entire period, if the credit loss has increased significantly since initial recognition. The Group does not reduce the carrying amount of a financial asset at fair value through other comprehensive income but recognizes estimated provision in other comprehensive income.

In determining whether there has been a significant increase in the credit risk of a financial asset since its initial recognition, the Group focuses on changes in the risk of a default occurring over the life of the loan instrument, and not on changes in the amount of expected credit losses.

If the terms and conditions of the cash flows of a financial asset stipulated by the agreement have been revised or modified and the recognition of the financial asset has not been terminated, the Group assesses whether the credit risk of the financial instrument has changed significantly by comparing the following:

- 1) Risk assessment of default as of the reporting date (based on modified contractual terms);
- 2) Risk assessment of default upon initial recognition (based on the initial unmodified contractual terms).

If there is no significant increase in credit risk, the Group recognizes an allowance for losses on a financial asset in the amount equal to 12-month expected credit losses, with the exception of:

- 1) Acquired or created credit-impaired financial assets;
- 2) Trade receivables or contractual assets arising from transactions that are within the scope of IFRS 15 *Revenue from Contracts with Customers*; and
- 3) Lease receivables.

For financial assets referred to in paragraphs (1) to (3), the Group estimates the provision for losses in the amount of expected credit losses for the entire term.

If in the previous reporting period the Group estimated the estimated provision for losses on a financial instrument in an amount equal to expected credit losses for the entire term, but as of the current reporting date determines that there is no significant increase in credit risk, then at the current reporting date the Group should evaluate the estimated a provision equal to 12-month expected credit losses.

The Group recognizes, as profit or loss from impairment, the amount necessary to adjust the estimated provision for losses to the amount of expected credit losses as at the reporting date.

For acquired or created credit-impaired financial assets, the Group recognizes favorable changes in expected credit losses for the whole term as a recovery of impairment losses, even if the expected credit losses for the whole period are less than the expected credit losses that were included in the estimated cash flows at initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial instruments – initial recognition and subsequent measurement (continued)***Financial assets (continued)**Measurement of expected credit loss*

The Group estimates expected credit losses for a financial instrument in a manner that reflects:

- 1) An unbiased and probability-weighted amount determined by assessing the range of possible results;
- 2) The time value of money;
- 3) Reasonable and confirmed information about past events, current conditions and projected future economic conditions available at the reporting date.

The maximum period considered in assessing expected credit losses is the maximum period under the contract (including extension options) during which the Group is exposed to credit risk.

For financial instruments that include both a loan and an unused component of the loan obligation, the Group's contractual ability to request repayment of the loan and annual the unused component of the loan obligation does not limit the Group's exposure to credit loss risk by the contractual deadline for notifying. For such financial instruments, the Group estimates credit losses for the entire period of exposure to credit risk, and expected credit losses will not be reduced as a result of the Group's activities in managing credit risks, even if such a period exceeds the maximum period under the contract.

To achieve the goal of recognizing expected credit losses over the entire term arising from a significant increase in credit risk since initial recognition, it may be necessary to assess a significant increase in credit risk on a group basis, for example, by analysing information indicating a significant increase in credit risk for a group or subgroup of financial instruments. This ensures that the Group achieves the goal of recognizing expected credit losses for the entire period in the event of a significant increase in credit risk, even if confirmation of such a significant increase in credit risk at the level of an individual instrument is not yet available.

*Financial liabilities**Initial recognition and measurement*

Financial liabilities at initial recognition are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings, and bonds issued.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of comprehensive income.

Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial instruments – initial recognition and subsequent measurement (continued)***Financial liabilities (continued)**Derecognition*

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

Offsetting of financial instruments

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

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. The principal market (or the most advantageous market in the absence of principle market) must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

To achieve greater consistency and comparability of fair value measurements and related disclosures the fair value hierarchy is followed up to define fair value estimation methods and apply relevant observable inputs and minimise the use of unobservable inputs.

Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability. The unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

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

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities in the principal market for the asset or liability, at the close of business on the reporting date, with no adjustment made for the transaction costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Fair value of financial instruments (continued)**

For assets and liabilities where there is no principal (or most advantageous) market, respective fair value is determined using appropriate valuation techniques. Valuation techniques include discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models. If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances can be used to measure at fair value. It is possible to use mid-market pricing conventions that are used by market participants as an expedient for fair value measurement within a bid-ask spread. Certain financial instruments are recorded at fair value using valuation techniques because current market transactions or observable market data are not available. Their fair value is determined using a valuation model that is tested against prices or inputs to actual market transactions and using the Group's best estimate of the most appropriate internal model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit and liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded (Day 1 profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

For discounted cash flow techniques, estimated future cash flows and discount rates are based on management's best estimates of assumptions that market participants would use when pricing the asset or liability. Cash flows and discount rates used take into account only the factors attributable to the asset or liability being measured. The use of different pricing models and assumptions could produce materially different estimates of fair values.

Fair value of floating rate and overnight deposits with credit institutions is their carrying value. The carrying value is the cost of the deposit plus interest accrued. Fair value of fixed interest-bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at prevailing market rates for similar instruments at the recognition date.

Where fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from the principal (or most advantageous) markets, they are determined using a variety of valuation techniques that include the use of discounted cash flows model and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity risk, credit risk, and model inputs such as volatility and discount rates, prepayment rates and default rate assumptions for asset backed securities.

For discounted cash flows analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk. Changes in these assumptions affect fair value of financial instruments.

Impairment of non-financial assets

At each reporting date, the Group assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on value in use, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations (including impairment on inventories) are recognised in the consolidated statement of comprehensive income in expense categories consistent with the function of the impaired asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Impairment of non-financial assets (continued)**

For assets previously impaired, except for goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation surplus.

Employee benefits*Pension and post-employment benefits*

In the normal course of business the Group contributes to various governmental pension schemes on behalf of its employees. Mandatory contributions to governmental pension schemes are expensed in profit and loss when incurred. Costs associated with discretionary pensions and other post-employment benefits are included in wages, benefits and payroll taxes in profit and loss.

Short-term benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed in profit and loss as related service is provided.

Provisions

A provision is recognised if, as a result of past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of time value of money and risks specific to liability.

Shareholder's equity*Dividends*

Dividends declared are recognised as a liability and deducted from equity if they are approved by shareholders. Dividends are disclosed when they are declared after the end of the reporting period, but before the consolidated financial statements are authorised for issue.

Revenue

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and revenue can be reliably measured, regardless of when the payment is made. Revenue is recognised in the amount of the consideration to which the Group will be entitled in exchange for the goods or services that will be transferred to the customer. The consideration set in the contract with the customer may contain fixed and variable amounts as a result of price concession. The Group recognises revenue using the expected value method. Revenue from sale of electricity is recognised in profit and loss on delivery of electricity. Where applicable, revenue is based on rates and related restrictions established by law and regulating authorities. Revenue amounts are presented exclusive of VAT.

Finance income

Finance income comprises interest income on funds invested, accretion income, dividend income and foreign currency gains, net. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised when the dividends are declared and an inflow of economic benefits is probable.

Finance expenses

Finance expenses primarily include interest expense on borrowings, unwinding of discount on provisions and foreign currency losses, net. All borrowing costs are recognised in the consolidated statement of comprehensive income using the effective interest method unless directly attributable to acquisition of a qualifying asset. Commission fee for opening of credit lines is included into interest expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Income tax expense***Current income tax*

Current income tax assets and liabilities for the current and previous periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

Borrowing costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Contingent liabilities and contingent assets**

Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed in the consolidated financial statements unless the possibility of any outflow in settlement is remote.

A contingent asset is not recognised in the consolidated financial statements but disclosed in the consolidated financial statements when an inflow of economic benefits is probable.

New accounting pronouncements and revised standards

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021 (unless otherwise stated). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

COVID-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued *COVID-19-Related Rent Concessions* – amendment to IFRS 16 *Leases*. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for 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 was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

However, the Group has not received COVID-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

Standards issued but not yet effective

New standards, amendments and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, amendments and interpretations (if relevant) when they become effective.

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 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;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Standards issued but not yet effective (continued)**

► That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual periods beginning on or after 1 January 2023 and must be applied retrospectively.

The Group is currently assessing the impact the amendments may have on the current classification of liabilities and whether existing loan agreements may require renegotiation.

Amendments to IFRS 3 – Reference to the Conceptual Framework

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 the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018, without significantly changing its requirements.

The IASB also added 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 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual periods beginning on or after 1 January 2022 and apply prospectively.

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

In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities from deducting from the cost of an item of property, plant and equipment any proceeds from selling 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 recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendments are effective for annual periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendments. The amendments are not expected to have a material impact on the Group.

Amendments to IAS 37 – Onerous Contracts: Costs of Fulfilling a Contract

In May 2020, the IASB issued amendments to IAS 37 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.

The amendments are effective for annual periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual period in which it first applies the amendments.

Amendment to IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ Test for Derecognition of Financial Liabilities

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. 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 by 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 period in which it first applies the amendment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Standards issued but not yet effective (continued)**

The amendment is effective for annual reporting periods beginning on or after 1 January 2022. Early application is permitted. The Group will apply the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it first applies the amendment. The amendment is not expected to have a material impact on the Group.

Amendments to IAS 8 – Definition of Accounting Estimates

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of “accounting estimates”. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group.

Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgments, in which it provides guidance and examples to help entities apply materiality judgments to accounting policy disclosures.

The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their “significant” accounting policies with a requirement to disclose their “material” accounting policies and adding guidance on how entities should apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023. Early adoption is permitted.

Since the amendments to IFRS Practice Statement 2 provide non-mandatory guidance on the application of the definition of materiality to accounting policy information, the effective date of these amendments is not required. The Group is currently assessing the impact of the amendments on the Group’s accounting policy disclosures.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group’s consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosures, and the disclosure of contingent liabilities and assets. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Useful life of property, plant and equipment

The Group estimates the remaining useful lives of property, plant and equipment at least at the end of each reporting year. If expectations differ from the previous estimate, the changes are accounted for prospectively as changes in accounting estimates in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the carrying amount of property, plant and equipment and depreciation and amortization recognized in the consolidated statement of comprehensive income. The useful lives of fixed assets used in the calculation of depreciation of fixed assets differ from the terms of use of fixed assets according to the National Accounting Standards (hereinafter – “NAS”) adopted in the Republic of Uzbekistan

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**Provision for expected credit losses on trade accounts receivable**

The provision for impairment of accounts receivable is based on the Group's assessment of the collectability of specific customer accounts. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

If the Group determines that no objective evidence exists that impairment has occurred for an individually assessed accounts receivable, whether significant or not, it includes the accounts receivable in a group of accounts receivable with similar credit risk characteristics and collectively assesses them for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of accounts receivable that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management to the extent of which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. The Group adjusts the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year, which can lead to an increased number of defaults in the specific sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed (*Note 6*).

Estimation of fair value

The Group estimates the fair value of an asset or liability, using assumptions that market participants would use when pricing the asset or liability, assuming that market participants are acting in their own economic interests. In developing those assumptions, the Group identifies the common characteristics that distinguish the market participants, having considered the factors specific to the following: (a) an asset or liability; (b) the principal (or most advantageous) market for the asset or liability; and (c) market participants with whom the entity would enter into a transaction in that market.

The estimation of the fair value of the acquired businesses and financial instruments where there is not the principal (or most advantageous) market for assets or liabilities is a matter of management judgment based on the application of relevant valuation models. In determining the fair value, the valuation models that are based on management best estimates of future cash flows, current market conditions and the choice of analogue the judgment areas (include considerations of inputs such as liquidity risk, credit risk and volatility) are frequently used. Changes in any of these conditions may result in significant adjustment to the fair value of financial instruments and acquired businesses.

Determination of the lease component in renewable energy purchase agreements

During 2019-2021 Group has entered into long-term contracts for the purchase of electricity produced at power plants using renewable energy sources (hereinafter referred to as "RES power stations") and conventional sources. According to these agreements, the Group has the right to receive almost all economic benefits from the use of an energy plant during the period of use, defined as the 25-year period of validity of purchase agreements. Group contracts with private thermal power plants, assumes provision of fuel (natural gas) by the Group. The Group purchases the entire amount of electricity produced at all these energy plants. Renewable energy purchase agreements provide for tariffs ranging from 1,791 to 3.5 US Dollar cents each kWh of electricity generated at renewable energy plants. The Group pays conventional private power plants for the electricity generation services using each contracts tariff (between 0.636 and 2.0 US Dollar cents each kWh of electricity generated).

Therefore, the Group's management determined that renewable energy purchase agreements contain a lease component in accordance with IFRS 16. However, the Group's management cannot reliably estimate the amount of electricity due to high fluctuations in the volumes of production that will be generated at each specific power plant (solar and wind), as the nature of the renewable energy business depends to a large extent on external factors such as weather conditions. Accordingly, the management of the Group was not able to reliably assess lease liability (and, accordingly, right of use asset).

The thermal power purchase agreements contain "take or pay" clause and stipulate the expected hours of operation of each thermal power plant and overall capacity of the thermal power plant. Therefore, the Group's management can make a reliable estimate of the electricity production volumes and assess the lease liability along with right of use asset, however, the commencement date of the lease has not yet been started as most of the thermal power plants are in construction phase and are expected to be put into exploitation during 2022-2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)****Impairment of non-current assets**

In 2021 the Group incurred net losses of 2,343,954 million of Uzbek Soum and identified indications of impairment of its non-current assets. The management updated the assessment of the recoverable amount of its non-current assets as at 31 December 2021.

The recoverable amount of CGU has been estimated using a DCF model. The discount rate was derived from the after-tax weighted average cost of capital. The weighted average cost of capital takes into account the risks associated with financing activities at the expense of equity and borrowings. The cost of equity reflects the risks inherent in equity investments, while the cost of financing from borrowings is the rate at which it is possible to attract borrowed funds to finance its activities. CAPM (Capital Asset Pricing Model) was used to calculate the cost of equity in Uzbek soums. For the analysis, the beta coefficient and the capital structure were adopted based on the values of large peers operating in the electricity transportation industry.

The business plans approved on an annual basis, are a primary source of information for cash flow projections. They contain forecasts for electric energy sales volumes, revenues, costs and capital expenditures. Various assumptions such as tariffs for electricity transmission, costs inflation rates take into account existing prices, other macroeconomic factors and historical trends and fluctuations. The estimated cash flows up to 31 December 2031 were based on forecasts subject to the current laws of the Republic of Uzbekistan, together with management's current assessment of probable changes in operational and capital expenditures.

The fair value less the cost of disposal of non-current assets was adopted as the recoverable amount of property, plant and equipment. The Group's non-current assets consist mainly of assets of national energy networks, which represent a single asset class according to IFRS 13, based on the nature, characteristics and risks inherent in the asset. Input data for determining the fair value of property, plant and equipment refer to Level 3 in the fair value hierarchy (unobservable inputs). As at 31 December 2021, the recoverable amount exceeded the carrying amount of non-current assets.

The significant assumptions used to estimate the recoverable amount of non-current assets are summarized below, together with a quantitative sensitivity analysis as at 31 December 2021:

| Key assumptions | Value | Recoverable amount sensitivity to key assumptions |
|---|--------|--|
| Discounting rate (WACC) | 16.4% | Increase/(decrease) in discount rates by 1% will not lead to impairment |
| Long-term growth rate | 5% | Increase/(decrease) in the long-term growth rate by 1% will not lead to impairment |
| Electricity transmission (in million kWh) | 65,836 | Increase/(decrease) in electricity transmission by 10% will not lead to impairment |
| Electricity transmission tariff, soum/kWh* | 55.26 | Increase/(decrease) in the electricity transmission tariff by 5% will not lead to impairment |

* The tariff for electricity transportation was estimated with a view to the transition to the RAB (regulated asset base) from 2023, according to the Decree of the Cabinet of Ministers of the Republic of Uzbekistan No. 310 dated 13 April 2019 (as amended on 26 June 2020). RAB involves the implementation of regulated activities in which the electricity transmission tariff is based on the carrying amount of property, plant and equipment related to the implementation of the regulated activities defined in accordance with National Accounting Standards of the Republic of Uzbekistan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. PROPERTY, PLANT AND EQUIPMENT**

| <i>In millions of Uzbekistan Soums</i> | Buildings and premises | Machinery and equipment | Vehicles | Others | Construction in progress | Total |
|--|-------------------------------|--------------------------------|-----------------|----------------|---------------------------------|--------------------|
| Cost at | | | | | | |
| 1 January 2020 | 242,513 | 4,095,718 | 77,269 | 11,047 | 915,334 | 5,341,881 |
| Additions | – | – | – | – | 1,335,022 | 1,335,022 |
| Transfer | 19,177 | 1,011,946 | 50,632 | 3,000 | (1,084,755) | – |
| Disposals | (6,321) | (13,037) | (1,281) | (2) | (49,819) | (70,460) |
| As at 31 December 2020 | 255,369 | 5,094,627 | 126,620 | 14,045 | 1,115,782 | 6,606,443 |
| Additions | – | – | – | – | 976,269 | 976,269 |
| Transfer | 41,504 | 609,589 | 12,475 | 2,847 | (666,415) | – |
| Disposals | (2,695) | (18,615) | (14,272) | (2,644) | (72,180) | (110,406) |
| As at 31 December 2021 | 294,178 | 5,685,601 | 124,823 | 14,248 | 1,353,456 | 7,472,306 |
| Accumulated depreciation | | | | | | |
| 1 January 2020 | (39,335) | (527,295) | (14,640) | (3,790) | – | (585,060) |
| Depreciation charge | (21,044) | (311,157) | (8,317) | (2,455) | – | (342,973) |
| Disposals | 1,792 | 3,683 | 1,008 | 1 | – | 6,484 |
| As at 31 December 2020 | (58,587) | (834,769) | (21,949) | (6,244) | – | (921,549) |
| Depreciation charge | (17,122) | (241,693) | (5,346) | (1,443) | – | (265,604) |
| Disposals | 802 | 6,906 | 487 | 180 | – | 8,375 |
| As at 31 December 2021 | (74,907) | (1,069,556) | (26,808) | (7,507) | – | (1,178,778) |
| Carrying value | | | | | | |
| As at 31 December 2021 | 219,271 | 4,616,045 | 98,015 | 6,741 | 1,353,456 | 6,293,528 |
| As at 31 December 2020 | 196,782 | 4,259,858 | 104,671 | 7,801 | 1,115,782 | 5,684,894 |

As at 31 December 2020, the historical cost of fully depreciated property, plant and equipment in use is 246,661 million UZS (2020: 205,012 million UZS).

Construction in progress

Construction in progress, mainly represented by equipment and construction and installation work for the implementation of the project “Construction of the 220 kV OHL Takhiyatash – SS Khorazm – Sarimay”, “Electrification of the Samarkand – Bukhara railway line” and construction of administrative building of the Parent Company.

Capitalization of borrowing costs

During the year ended 31 December 2021, the Group capitalized borrowing costs, which amounted to UZS 12,684 million at an average rate of 0.94-1.84% (for the year ended 31 December 2020: UZS 16,261 million at an average rate 0.86-1.29%) (Note 10).

6. TRADE AND OTHER RECEIVABLES

| <i>In millions of Uzbekistan Soums</i> | 31 December 2021 | 31 December 2020 |
|--|-------------------------|-------------------------|
| Trade accounts receivables | 5,201,700 | 3,913,395 |
| Less: provision for expected credit losses | (2,446,162) | (1,782,610) |
| | 2,755,538 | 2,130,785 |

Trade receivables mainly consisted of receivables from regional power grid enterprises at 31 December 2021 in the amount of 4,610,275 million UZS (31 December 2020: 3,786,434 million UZS).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**6. TRADE AND OTHER RECEIVABLES (continued)**

Below is information on trade receivables by currency:

| <i>In millions of Uzbekistan Soums</i> | 31 December 2021 | 31 December 2020 |
|--|-----------------------------|---------------------|
| In UZS | 2,294,759 | 2,032,246 |
| In USD | 460,779 | 98,539 |
| | 2,755,538 | 2,130,785 |

Movements in the provision for expected credit losses are presented as follows:

| <i>In millions of Uzbekistan Soums</i> | 2021 | 2020 |
|--|------------------|-----------|
| As of 1 January | 1,782,610 | 1,585,885 |
| Accrual | 663,552 | 196,725 |
| As of 31 December | 2,446,162 | 1,782,610 |

Information about the Group's exposure to credit risk in respect of trade receivables from regional companies of electricity networks is presented below using a matrix of valuation reserves:

| <i>In millions of Uzbekistan Soums</i> | Trade accounts receivable | | | | | |
|--|----------------------------------|------------------|------------------|-------------------|-------------------|--------------------------|
| | Days past due | | | | | |
| | Total | Current | 1-30 days | 31-60 days | 61-90 days | Above 91 days |
| 31 December 2021 | | | | | | |
| Percentage of expected credit losses | | 27.6% | 41.3% | 58.8% | 74.2% | 100.0% |
| Estimated total gross carrying amount in case of default | 4,610,275 | 1,463,424 | 1,174,561 | 782,453 | 405,815 | 784,022 |
| Expected credit losses | (2,434,337) | (403,490) | (485,437) | (460,272) | (301,116) | (784,022) |
| | 2,175,938 | 1,059,934 | 689,124 | 322,181 | 104,699 | - |
| 31 December 2020 | | | | | | |
| Percentage of expected credit losses | | 29.2% | 45.4% | 63.0% | 77.4% | 100.0% |
| Estimated total gross carrying amount in case of default | 3,786,434 | 1,629,798 | 949,874 | 559,703 | 570,966 | 76,093 |
| Expected credit losses | (1,777,735) | (475,979) | (431,186) | (352,750) | (441,727) | (76,093) |
| | 2,008,699 | 1,153,819 | 518,688 | 206,953 | 129,239 | - |

As at 31 December 2021, the provision for expected credit losses on debts from territorial companies of electricity networks amounted to 2,434,337 million Uzbek UZS (31 December 2020: 1,777,735 million UZS).

7. VAT RECOVERABLE AND OTHER PREPAID TAXES

| <i>In millions of Uzbekistan Soums</i> | 31 December 2021 | 31 December 2020 |
|--|-----------------------------|---------------------|
| VAT | 270,076 | 155,508 |
| Property tax | 28 | 1,161 |
| Land tax | 5 | 1,445 |
| Others | 3,633 | 3,564 |
| | 273,742 | 161,678 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**8. CASH AND CASH EQUIVALENTS**

| <i>In millions of Uzbekistan Soums</i> | 31 December 2021 | 31 December 2020 |
|--|-----------------------------|-----------------------------|
| Cash at current bank accounts | | |
| Bank balances payable on demand – USD | 23,587 | 160,705 |
| Bank balances payable on demand – UZS | 67,045 | 137,966 |
| Total cash and cash equivalents | 90,632 | 298,671 |

During 2021 and 2020, no interest was charged on cash balances on current accounts.

Restricted cash

Group signed a number of contracts with private electricity producers and deposited cash into special bank accounts in the amount of 142,927 million UZS as a guarantee for payment under these contracts. In addition, Group also deposited 108,376 million UZS into special bank account, which will be used to pay the contractor upon completion of turn key contract for the construction of Surkhan-Puli-Khumri transmission line.

9. EQUITY

| <i>In millions of Uzbekistan Soums</i> | 31 December 2021 | 31 December 2020 |
|--|-----------------------------|-----------------------------|
| Number of outstanding shares | 52,023,111,103 | 48,922,852,685 |
| Nominal and paid-in amount | 5,202,310 | 4,892,285 |

During 2020, the Group received substation and other fixed assets of the Navoi Mining and Metallurgy Plant at fair value of 310,025 million UZS as an additional capital contribution by the Shareholder. According to the internal order on April 23, 2021, the parent company additionally issued 3,100,258,418 units of ordinary shares at a par value of 100 UZS, for a total of 310,025 million UZS to its single shareholder. At the end of the reporting period, the total value of the authorized capital is 5,202,310 million UZS.

In April 2020, the parent company additionally issued 44.182.304.801 units of ordinary shares at a par value of 100 UZS, for a total of 4.418.230 million Uzbek UZS. According to the Decree of the President PP-4249 of March 27, 2019, the payment for shares was carried out at the expense of the difference between the book and market values of state assets transferred to form the authorized capital of the parent company in the amount of 4.418.231 million Uzbek soums.

Dividend

On 18 October 2021, the Group announced the payment of dividends for 2020 in the amount of 0.078 UZS per share in the amount of 4,042 million UZS. Dividends paid to the sole shareholder are included in the financial activities of the consolidated statement of cash flows in the amount of UZS 4,043 million.

Transactions with the Shareholder

In 2021 the Group also recognized the difference between the nominal and fair value of the loan from the Ministry of Finance of the Republic of Uzbekistan in the amount of 3,842 million UZS (2020: 55,064 million UZS) in equity as a transaction with a shareholder.

In 2020, transactions with the shareholder were mainly represented by operations to obtain a substation and other fixed assets of the Navoi Metallurgical Plant in the amount of 309.565 million Uzbek soums on a gratuitous basis, to reimburse expenses from the State budget for the construction of external electric lines in the Sergeli region in the amount of 118.106 million Uzbek UZS, financing of electrification of the Pap-Namangan-Andijan railway line in the amount of 50.959 million Uzbek UZS. Also in May 2020, the Group signed an additional agreement with the Ministry of Finance of the Republic of Uzbekistan to change the maturity of the debt and prolong the loan until February 28, 2022. As a result of the change in the maturity of the loan, the difference between the notional amount and the fair value of the liability in the amount of UZS 41.373 million was recognized in equity as a transaction with the shareholder.

Reserve fund

The reserve capital is created by joint-stock companies, joint ventures and other business entities, for which the formation of reserve capital is provided for by the current legislation of the Republic of Uzbekistan and constituent documents. According to the Law of the Republic of Uzbekistan *On Joint Stock Companies and Protection of Shareholders' Rights*, joint stock companies create a reserve fund in the amount stipulated by the charter of the company, but not less than 15% of its authorized capital. It is formed by compulsory annual deductions from net profit (at least 5%) until it reaches the size established by the charter.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**10. LOANS AND BORROWINGS**

| <i>In millions of Uzbekistan Soums</i> | 31 December 2021 | 31 December 2020 |
|--|-----------------------------|-----------------------------|
| Domestic financial institutions | | |
| Ministry of Finance of the Republic of Uzbekistan | 53,268 | 209,509 |
| Kapital Bank JSCB | 9,590 | 8,526 |
| Uzpromstroybank JSCB | – | 7,232 |
| Total domestic financial institutions | 62,858 | 225,267 |
| International financial institutions | | |
| International bank for reconstruction and development (“IBRD”) | 1,167,254 | 898,580 |
| Asian Development Bank (“ADB”) | 665,895 | 511,006 |
| Eximbank of China | 571,256 | 279,298 |
| International Development Association (IDA) | 264,884 | 448,390 |
| Islamic Development Bank (“IDB”) | 124,823 | 176,209 |
| European Bank for Reconstruction and Development (“EBRD”) | 10,505 | – |
| Total international financial institutions | 2,804,617 | 2,313,483 |
| Total loans and borrowings | 2,867,475 | 2,538,750 |
| Less: the amount due to be paid within 12 months from the reporting date | 288,165 | 1,206,428 |
| Amounts due more than 12 months | 2,579,310 | 1,332,322 |

Ministry of Finance of the Republic of Uzbekistan

In 2021, the Group attracted loans from the Ministry of Finance of the Republic of Uzbekistan (“RUz”) for the construction of high-voltage lines in the amount of 9,000 million UZS at an interest rate of 5% with a maturity of 28 October 2028.

On initial recognition, the loans were recognized at a fair value of 5,158 million Uzbek UZS determined by discounting future cash flows at a rate of 19.86%, which is the best estimate of the market discount rate by the Group’s management. The difference between the amount received and the fair value of the liability in the amount of UZS 3,842 million was recognized in equity.

European Bank for Reconstruction and Development (“EBRD”)

In 2021, two loans were received from EBRD through the Ministry of Finance of the Republic of Uzbekistan for the implementation of:

- “Construction of a 500 kW high voltage transmission line in the Navoi Region of the Republic of Uzbekistan” in the amount of 96,100 thousand UD Dollars. The credit line is secured by a guarantee of the Government of the Republic of Uzbekistan. Loan interest is charged at 6-month interbank LIBOR plus 1.0% per annum margin, 0.5% per annum margin of the Ministry of Finance of the Republic of Uzbekistan. One-time commission is 1.0% of the total loan amount. The loan will be fully repaid in 2037. As at 31 December 2021, the outstanding balance of the loan was USD 394 thousand (UZS 4,272 million equivalent in UZS).
- “Construction of a high voltage transmission substation and related equipment (500/220 kV “Muruntau” substation) in Uzbekistan” in the amount of 82,500 thousand UD Dollars. The credit line is secured by a guarantee of the Government of the Republic of Uzbekistan. Loan interest is charged at 6-month interbank LIBOR plus 1.0% per annum margin, 1.0% per annum margin of the Ministry of Finance of the Republic of Uzbekistan. One-time commission is 1.0% of the total loan amount. The loan will be fully repaid in 2033. As at 31 December 2021, the outstanding balance of the loan was USD 510 thousand (UZS 6,232 million equivalent in UZS).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**10. LOANS AND BORROWINGS (continued)****International Bank for Reconstruction and Development (“IBRD”)**

In 2011, for the implementation of “Construction of a 500kV overhead line at the Sogdiana-Talimarjan TPP with an outdoor switchgear-500kV at Talimarjan TPP”, loans were attracted from the IBRD through the Ministry of Finance of the Republic of Uzbekistan (“MF RUz”) in the amount of 110,000 thousand US Dollars. The credit line is secured by a guarantee of the Government of the Republic of Uzbekistan. Loan interest is charged at 6-month interbank LIBOR plus variable spread, 0.2% per annum margin of the Ministry of Finance of the Republic of Uzbekistan. One-time commission is 0.25% of the total loan amount. The loan will be fully repaid in 2036. As at 31 December 2021, the outstanding balance of the loan was USD 70,504 thousand (UZS 764,095 million equivalent in UZS) (2020: USD 75,418 thousand (UZS 790,174 million equivalent in UZS)).

In 2015, for the implementation of the “Construction of the electrified railway line “Angren-Pap”, a credit line was opened in the amount of 35,000 thousand US Dollars, provided by the IBRD through the Ministry of Finance of the Republic of Uzbekistan. The loan bears interest at 6-month interbank LIBOR plus variable spread. The credit line is secured by a guarantee of the Government of the Republic of Uzbekistan. The loan will be fully repaid in 2039. As at 31 December 2021, the outstanding balance of the loan was USD 9,797 thousand (UZS 106,175 million equivalent) (2020: USD 10,347 thousand (UZS 108,406 million equivalent)).

In 2017, for implementation of the modernization and reconstruction of substations of backbone networks, loans were attracted from the IBRD through the Ministry of Finance of the Republic of Uzbekistan (“MF RUz”) in the amount of 92,000 thousand US Dollars. The credit line is secured by a guarantee of the Government of the Republic of Uzbekistan. Loan interest is charged at 6-month interbank LIBOR plus variable spread. One-time commission is 0.25% of the total loan amount. The loan will be fully repaid in 2041. As at 31 December 2021, the outstanding balance of the loan was USD 27,350 thousand (UZS 296,409 million equivalent) (2020: USD 0 thousand (UZS 0 million equivalent)).

Eximbank of China (through Uzpromstroybank JSCB)

In 2012, credit funds were attracted from Eximbank of the PRC through JSCB “Uzpromstroybank” for the purpose of supplying equipment and materials within the framework of the project “Construction of 500 kV HV-line Syrdarya TPP Novo-Angrenskaya TPP” in the amount of 33,019 thousand US Dollars with an interest rate of 3%. The credit line is secured by a guarantee of a share in Syrdarya TCEN JSC. The loan will be fully repaid in 2032. As of 31 December 2021, the outstanding balance of the loan was USD 24,441 thousand (UZS 264,884 million UZS equivalent) (2020: USD 26,658 thousand (UZS equivalent in UZS 279,298 million)).

Asian Development Bank (“ADB”)

In 2013, credit funds were attracted from the Asian Development Bank for the project “Construction of a solar photovoltaic station with a capacity of 100 MW in the Samarkand region” in the amount of 71,616 thousand Special Drawing Rights (SDR) with an interest rate of 2%, 0.5% per annum margin of the Ministry of Finance of the Republic of Uzbekistan. The credit line is secured by a guarantee of the Government of the Republic of Uzbekistan. The loan will be fully repaid in 2038. As of 31 December 2021, the outstanding balance of the loan was: 450 thousand SDRs (UZS 6,827 million equivalent in UZS) (2020: 469 thousand SDRs (UZS 7,078 million equivalent in UZS)).

In 2016, for the implementation of the project “Construction of a 220 kV power transmission line at Takhiatash TPP – SS Khorezm – Sarymai settlement (Khorezm region)”, credit funds were attracted from the Asian Development Bank in the amount of 150,000 thousand US Dollars. The loan bears interest at 6-month interbank LIBOR plus 0.6 per annum margin. The credit line is secured by a guarantee of the Government of the Republic of Uzbekistan. The loan will be fully repaid in 2040. As at 31 December 2021, the outstanding balance of the loan was USD 60,642 thousand (UZS 657,212 million UZS equivalent) (2020: USD 48,099 thousand (UZS 503,927 million equivalent)).

International Development Association (“IDA”)

In 2017, two loans were received from IDA through the Ministry of Finance of the Republic of Uzbekistan for the implementation of the project “Modernization and reconstruction of substations of backbone networks”:

- In the amount of USD 39,160 thousand with an interest rate of 1.25% plus basic adjustment. The credit line is secured by a guarantee of the Government of the Republic of Uzbekistan. The loan will be fully repaid in 2041. As of 31 December 2021, the outstanding balance of the loan was USD 39,466 thousand (UZS 427,715 million UZS equivalent) (2020: USD 37,320 thousand (UZS 395,191 million equivalent in UZS));
-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**10. LOANS AND BORROWINGS (continued)****International Development Association (“IDA”) (continued)**

- In the amount of 18,840 thousand US Dollars with an interest rate of 1.43%. The credit line is secured by a guarantee of the Government of the Republic of Uzbekistan. The loan will be fully repaid in 2041. As at 31 December 2021, the outstanding balance of the loan was USD 13,245 thousand (UZS 143,541 million UZS equivalent) (2020: USD 5,081 thousand (UZS 53,237 million equivalent)).

In 2004, the following funds were raised from the Islamic Development Bank under leasing agreements:

- For consulting services, materials for 500 kV power transmission lines Construction of 500 kV overhead power lines at Syrdarya TPP-Sogdiana substation (II circuit) in the amount of 5,957 thousand Islamic Dinars with an interest rate of 5.74%. The credit line is secured by a guarantee of the Government of the Republic of Uzbekistan. The loan will be fully repaid in 2023. As of 31 December 2021, the total outstanding balance of the loan was 1,111 thousand Islamic Dinars (UZS 16,857 million equivalent in Soums) (2020: 1,673 thousand Islamic Dinars (UZS 25,248 million equivalent in Soums));
- For the equipment of the 500 kV substation Construction of the 500 kV overhead line Syrdarya TPP – Substation Sogdiana (II chain) in the amount of 9,693 thousand Islamic Dinars with an interest rate of 4.69%. The credit line is secured by a guarantee of the Government of the Republic of Uzbekistan. The loan will be fully repaid in 2023. As of 31 December 2021, the total outstanding balance of the loan was 1,853 thousand Islamic Dinars (UZS 28,110 million equivalent in UZS) (2020: 2,912 thousand Islamic Dinars (UZS 43,937 million equivalent in UZS)).

In 2008, a credit line was opened from the Islamic Development Bank in the amount of 42,000 thousand US Dollars with an interest rate of 2.96% for the implementation of the project “Construction of 500 kV OHTL Guzar-Substation Surkhan”. The credit line is secured by a guarantee of the Government of the Republic of Uzbekistan. The loan will be fully repaid in 2023. The balance of principal debt as at 31 December 2021 was USD 7,368 thousand (UZS 79,854 million) (2020: USD 10,215 thousand (UZS 107,024 million)).

| <i>In millions of Uzbekistan Soums</i> | 31 December 2021 | 31 December 2020 |
|---|-----------------------------|-----------------------------|
| Non-current | | |
| <i>Term loans</i> | | |
| - In USD | 2,513,472 | 1,174,451 |
| - In UZS | 6,325 | 38,898 |
| - in SDR | 5,009 | 5,309 |
| <i>Finance lease liabilities</i> | | |
| - In USD | 39,838 | 72,157 |
| - In Islamic Dinar | 14,666 | 41,507 |
| Total non-current loans and borrowings | 2,579,310 | 1,332,322 |
| Current | | |
| <i>Current part of non-current borrowing:</i> | | |
| - In UZS | 45,611 | 171,224 |
| - in USD | 162,157 | 955,745 |
| - in SDR | 591 | 1,770 |
| <i>Finance lease liabilities</i> | | |
| - In USD | 40,018 | 34,867 |
| - In Islamic Dinar | 30,301 | 27,678 |
| <i>Short-term loans</i> | | |
| - In UZS | 9,487 | 15,144 |
| Total current loans and borrowings | 288,165 | 1,206,428 |
| Total loans and borrowings | 2,867,475 | 2,538,750 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**10. LOANS AND BORROWINGS (continued)****International Development Association (“IDA”) (continued)**

The minimum lease payments under finance lease agreements are as follows:

| <i>In millions of Uzbekistan Soums</i> | Due in 1 year | Due between 1 and 5 years | Total |
|--|--------------------------|--------------------------------------|----------------|
| Minimum lease payments at 31 December 2021 | 73,253 | 55,837 | 129,090 |
| Less future finance charges | (2,936) | (1,331) | (4,267) |
| Present value of minimum lease payments at 31 December 2021 | 70,317 | 54,506 | 124,823 |
| Minimum lease payments at 31 December 2020 | 67,350 | 118,986 | 186,336 |
| Less future finance charges | (4,806) | (5,321) | (10,127) |
| Present value of minimum lease payments at 31 December 2020 | 62,544 | 113,665 | 176,209 |

The table below shows the effective interest rate on loans and borrowings:

| | 2021 | 2020 |
|--|----------------------|---------------|
| Effective interest rate of loans and borrowings | | |
| - in USD | 0.97%-3.30% | 0.85%-3.025% |
| - in SDR | 2.5% | 2.5% |
| - in UZS | 20.00%-21.00% | 22.00%-23.00% |
| Finance lease liabilities | | |
| - in USD | 2.96% | 2.96% |
| - in Islamic Dinar | 4.69%-5.74% | 4.69%-5.74% |

The Group is required to comply with certain conditions, mainly related to loans and borrowings. As of 31 December 2021 and 2020, the Group complied with the terms and conditions of the loan agreements.

Changes in liabilities arising from financing activities:

| <i>In millions of Uzbekistan Soums</i> | 31 December 2020 | Proceeds | Repayments | Reclas- sifications | Other * | 31 December 2021 |
|--|-----------------------------|-----------------|-------------------|--------------------------------|----------------|-----------------------------|
| Long-term loans and borrowings | 1,332,322 | 589,118 | – | 565,827 | 92,043 | 2,579,310 |
| Short term loans and borrowings | 1,206,428 | 1,556 | (353,992) | (565,827) | – | 288,165 |
| Total | 2,538,750 | 590,674 | (353,992) | – | 92,043 | 2,867,475 |

| <i>In millions of Uzbekistan Soums</i> | 31 December 2019 | Proceeds | Repayments | Reclas- sifications | Other * | 31 December 2020 |
|--|-----------------------------|-----------------|-------------------|--------------------------------|----------------|-----------------------------|
| Long-term loans and borrowings | 1,826,513 | 385,522 | (354,631) | (735,115) | 210,033 | 1,332,322 |
| Short term loans and borrowings | 462,898 | 36,192 | (27,778) | 735,115 | 1 | 1,206,428 |
| Total | 2,289,411 | 421,714 | (382,409) | – | 210,034 | 2,538,750 |

* Other column includes the effect of accrued but not yet paid interest on interest-bearing borrowings, including lease liabilities. The Group classifies interest paid as cash flows from operating activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**11. TRADE AND OTHER ACCOUNTS PAYABLE**

| <i>In millions of Uzbekistan Soums</i> | 31 December 2021 | 31 December 2020 |
|--|-----------------------------|-----------------------------|
| Accounts payable for purchased power | 7,319,906 | 3,459,081 |
| Accounts payable for construction works and supplied equipment | 101,963 | 100,078 |
| Other accounts payable | 74,640 | 253,633 |
| Total trade and other payables | 7,496,509 | 3,812,792 |

Below is information about accounts payable by currency:

| <i>In millions of Uzbekistan Soums</i> | 31 December 2021 | 31 December 2020 |
|--|-----------------------------|-----------------------------|
| UZS | 7,262,913 | 3,624,314 |
| USD | 227,872 | 188,478 |
| Euro | 5,724 | – |
| Total | 7,496,509 | 3,812,792 |

12. TAXES PAYABLE OTHER THAN INCOME TAX

| <i>In millions of Uzbekistan Soums</i> | 31 December 2021 | 31 December 2020 |
|--|-----------------------------|-----------------------------|
| Unified social payment | 3,740 | 2,669 |
| Personal income tax | 3,545 | 1,899 |
| Property tax | 2,789 | 4 |
| Value added tax | 225 | 11,608 |
| Land tax | 477 | 106 |
| Non-resident income tax | 450 | 1,336 |
| Pension fund | 132 | 123 |
| Other | 638 | 490 |
| Total taxes payable other than income tax | 11,996 | 18,235 |

13. REVENUE

| <i>In millions of Uzbekistan Soums</i> | 2021 | 2020 |
|--|-------------------|-------------|
| Sales of electricity | 18,934,523 | 17,956,873 |
| - Domestic sales | 17,791,533 | 16,598,779 |
| - Export sales | 1,142,990 | 1,358,094 |
| Electricity transmission services | 133,517 | 55,804 |
| Electricity transit services | 31,864 | 10,282 |
| Other | 63,806 | 50,255 |
| Total revenue | 19,163,710 | 18,073,214 |

| <i>In millions of Uzbekistan Soums</i> | 2021 | 2020 |
|--|-------------------|-------------|
| Revenue recognition terms | | |
| At a given point in time | 18,934,523 | 17,956,873 |
| Over a period of time | 229,187 | 116,341 |
| Total revenue | 19,163,710 | 18,073,214 |

Since September 2020, the Group began to provide services for the transmission of electrical energy to Novo Angrenskaya TPP JSC, which directly entered into an agreement for the sale of electricity with a mining and metallurgical plant. According to the protocol of the interdepartmental tariff commission No. 5 of 29 July 2020 the tariff for the transportation of electricity was 49.4 Soums per 1 kW, tariff updated to 46.47 Soums per 1 kWh by protocol No. 7 of 2 August 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**14. COST OF SALES**

| <i>In millions of Uzbekistan Soms</i> | 2021 | 2020 |
|---|-------------------|-------------|
| Cost of purchased electricity | 19,546,401 | 16,493,763 |
| Depreciation and amortisation | 218,139 | 257,696 |
| Technological loss of electrical energy | 581,267 | 415,319 |
| Payroll and related expenses | 154,460 | 99,537 |
| Repair and technical maintenance | 29,734 | 51,168 |
| Materials | 33,129 | 22,131 |
| Taxes | 40,223 | 22,159 |
| Others | 52,389 | 32,438 |
| Total | 20,655,742 | 17,394,211 |

15. OTHER INCOME

| <i>In millions of Uzbekistan Soms</i> | 2021 | 2020 |
|---|----------------|-------------|
| Income from write-off of accounts payable and depositor's debts | 147,330 | 1,681 |
| Gain on disposal of property, plant and equipment | 19,846 | 14,736 |
| Gain on disposal of other assets | 4,881 | 859 |
| Other operating income | 20,568 | 4,005 |
| Total | 192,625 | 21,281 |

On March 27, 2019, the President of the Republic of Uzbekistan signed a decree No.PP-4229 "On further development and reform of the electricity network in the Republic of Uzbekistan", on the basis of which rights and obligations of JSC "Uzbekenergo" and receivables and payables related to the procurement of electricity of "Energosotish" branch of JSC "Uzbekenergo" were transferred to the NES Uzbekistan. In order to ensure the implementation of the Resolution of the President of the Republic of Uzbekistan dated December 29, 2018 No PK-4088, TES companies compile comparative acts in exchange for the reduction of receivables in accordance with the mutual agreement with the NES in October 2021.

16. GENERAL AND ADMINISTRATIVE EXPENSES

| <i>In millions of Uzbekistan Soms</i> | 2021 | 2020 |
|---------------------------------------|----------------|-------------|
| Payroll and related expenses | 151,554 | 119,597 |
| Frequency regulation services | 24,520 | 26,580 |
| Bank commissions | 18,826 | 19,683 |
| Depreciation and amortisation | 36,066 | 6,503 |
| Consulting services | 10,766 | 8,212 |
| Materials | 4,273 | 3,369 |
| Other expenses | 63,904 | 56,195 |
| Total | 309,909 | 240,139 |

17. INCOME TAX**a) Components of income tax expense**

Income tax expense comprises the following components:

| <i>in millions of Uzbekistan Soms</i> | 2021 | 2020 |
|--|-----------------|-------------|
| Current income tax | 1,262 | 3,901 |
| Deferred income tax | (89,863) | 80,709 |
| Income tax (benefit)/expense for the year | (88,601) | 84,610 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**17. INCOME TAX (continued)****b) Reconciliation of income tax expense to profit or loss multiplied by the applicable tax rate**

The current income tax rate applied to the Company's profits is 15% (2020: 15%).

The following is a reconciliation of the estimated and actual income tax expense.

| <i>In millions of UZS</i> | 2021 | 2020 |
|--|------------------|----------------|
| Loss before income tax | 2,432,555 | 28,279 |
| Theoretical tax benefit at statutory rate – 15% (2020: 15%) | (364,883) | (4,242) |
| Unrecognised tax loss | 308,242 | - |
| Change in tax rate | - | 52,974 |
| Other permanent differences | (31,960) | 35,878 |
| Income tax (benefit)/expense for the year | (88,601) | 84,610 |

c) Deferred taxes by type of temporary differences

Differences between IFRS and the tax legislation of the Republic of Uzbekistan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their basis for calculating income taxes. For the purpose of calculating deferred taxes, the revaluation of fixed assets in accordance with the National Accounting Standards of the Republic of Uzbekistan is excluded from the tax base of fixed assets due to the fact that this amount is subject to inclusion in taxable income upon disposal of the fixed asset.

The tax effect of the movement on temporary differences is detailed below:

| <i>In millions of Uzbekistan Soums</i> | 1 January 2021 | Credited to profit or loss | 31 December 2021 |
|---|---------------------------|---------------------------------------|-----------------------------|
| Property, plant and equipment | (559,995) | (33,805) | (593,800) |
| Tax losses carried forward | - | 308,242 | 308,242 |
| Trade and other receivables | 252,898 | 114,026 | 366,924 |
| Other current assets | 1,861 | 1,580 | 3,441 |
| Borrowings | 9,285 | 8,495 | 17,780 |
| Other liabilities | 3,345 | (433) | 2,912 |
| Less: unrecognized deferred tax assets | - | (308,242) | (308,242) |
| Net deferred tax asset/(liability) | (292,606) | 89,863 | (202,743) |

| <i>In millions of Uzbekistan Soums</i> | 1 January 2020 | Credited to profit or loss | 31 December 2020 |
|---|---------------------------|---------------------------------------|-----------------------------|
| Property, plant and equipment | (408,543) | (151,452) | (559,995) |
| Trade and other receivables | 190,314 | 62,584 | 252,898 |
| Other current assets | 2,282 | (421) | 1,861 |
| Borrowings | 2,519 | 6,766 | 9,285 |
| Others | 1,531 | 1,814 | 3,345 |
| Net deferred tax asset/(liability) | (211,897) | (80,709) | (292,606) |

18. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if they are under common control, or one party has the ability to control the other party, or can significantly influence or exercise joint control over the other party's business decisions. When considering the relationship with each of the possible related parties, the economic content of the relationship is taken into account, not just its legal form.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**18. RELATED PARTY TRANSACTIONS (continued)**

Balances due from related parties as at 31 December 2021 are presented below:

| <i>In millions of Uzbekistan Soums</i> | Shareholder | Associates | Entities under common control | Total |
|--|--------------------|-------------------|--------------------------------------|--------------|
| Borrowings | 53,268 | – | – | 53,268 |
| Trade and other receivables | – | – | 2,204,541 | 2,204,541 |
| Prepayments to suppliers | 51,902 | – | 29,129 | 81,031 |
| Trade payables | – | – | 7,319,906 | 7,319,906 |
| Contractual liabilities | – | – | 35,517 | 35,517 |

Balances due from related parties as at 31 December 2020 are presented below:

| <i>In millions of Uzbekistan Soums</i> | Shareholder | Associates | Entities under common control | Total |
|--|--------------------|-------------------|--------------------------------------|--------------|
| Borrowings | 209,509 | – | 7,232 | 216,741 |
| Trade and other receivables | – | – | 2,035,510 | 2,035,510 |
| Prepayments to suppliers | – | 313 | 74,895 | 75,208 |
| Trade payables | – | 735 | 3,520,768 | 3,521,503 |
| Contractual liabilities | – | – | 41,863 | 41,863 |
| Other liabilities | – | – | – | – |

The following are the items of income from transactions with related parties:

| <i>In millions of Uzbekistan Soums</i> | 2021 | 2020 |
|--|--------------|--------------|
| Revenue | 17,791,533 | 16,598,779 |
| Cost of sales | (19,546,401) | (15,501,095) |

The table below summarizes the remuneration for key management:

| <i>In millions of Uzbekistan Soums</i> | 2021 | 2020 |
|--|-------------|-------------|
| Short-term benefits | | |
| Salaries | 748 | 607 |
| Bonuses | 953 | 714 |
| Social Security costs | 199 | 157 |

Short-term bonuses are payable in full within 12 months after the end of the period in which the related service is rendered by management.

The main management consists of members of the management board of the parent company. The Board consisted of six members in 2021 (2020: six members).

19. FINANCIAL RISK MANAGEMENT

The risk management function of the Company is carried out in relation to financial, operational and legal risks. Financial risk includes market risk (foreign exchange risk, interest rate risk and other price risk), credit risk and liquidity risk. Operational and legal risk management should ensure the proper functioning of the internal policies and procedures of the Company in order to minimize these risks.

Market risk

The company is exposed to market risks. Market risks are associated with open positions in: a) foreign currencies, b) interest-bearing assets and liabilities, and c) equity instruments, which are subject to the risk of general and specific market movements.

The effect of market risk presented below is based on a change in one factor while all other variables remain unchanged. In practice, this is hardly possible and changes in several factors can be correlated - for example, changes in interest rates and exchange rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**19. FINANCIAL RISK MANAGEMENT (continued)****Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's financing activities. Also, the Group's exposure to the risk of changes in foreign exchange rates relates to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency).

The following tables demonstrate the sensitivity to a reasonably possible change in the US Dollar rate, with all other variables held constant. The Group's exposure to foreign currency changes for all other currencies is not material.

| <i>In millions of Uzbekistan Soums</i> | Increase/(decrease) in the exchange rate in absolute terms (UZS) | Increase/(decrease) in exchange rate | Effect on profit before tax |
|--|---|---|--|
| At 31 December 2021 | | | |
| USD | 325 /(2,168) | 3%/(20%) | 71,887/(479,245) |
| At 31 December 2020 | | | |
| USD | 325 /(2,168) | 3%/(20%) | (66,030)/(440,197) |

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities, primarily trade receivables (*Note 6*) and cash and cash equivalents (*Note 8*). The Group's exposure and the creditworthiness of its counterparties are controlled constantly. The maximum exposure to the credit risk is represented by the carrying value of each financial asset (*Notes 6 and 8*).

Book value of financial assets recognized in consolidated financial statements of the Group less impairment allowance reflects the maximal extent of the Group's credit risk.

The following table shows the balance of cash and cash equivalents and restricted cash placed in banks at the reporting date using the credit rating agency "Standard & Poor's" and "Fitch" less accrued provisions:

| <i>In thousands of Tenge</i> | Location | Rating | | 31 December | 31 December |
|------------------------------|-----------------|-------------------|-------------|--------------------|--------------------|
| | | 2021 | 2020 | 2021 | 2020 |
| JSC UzPSB | Uzbekistan | BB-/stable | BB-/stable | 222,245 | 296,618 |
| JSC Microkreditbank | Uzbekistan | BB-/stable | BB-/stable | 112,368 | - |
| PJSC Orient Finans Bank | Uzbekistan | B+ /stable | B /stable | 5,634 | 500 |
| JSC MB Ipotekabank | Uzbekistan | BB-/stable | BB-/stable | 2,399 | 5,991 |
| JSC Trustbank | Uzbekistan | B/stable | B /stable | 1,662 | 7,180 |
| JSCB Kapitalbank | Uzbekistan | B-/stable | B-/stable | 102 | 1,551 |
| | | | | 344,410 | 311,840 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**19. FINANCIAL RISK MANAGEMENT (continued)****Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The risk of changes in market interest rates relates primarily to the Group's long-term loans and borrowings with floating interest rates. To manage this risk, the Group constantly analyzes the movement of interest rates. In order to reduce the impact of this risk, measures are taken to maintain an optimal ratio of loans and borrowings with fixed and floating rates.

The following is the expected impact on profit/(loss) for the reporting period due to changes in the basis points ("bp") of the floating interest rate, ceteris paribus:

| | 31 December 2021 | 31 December 2020 |
|--|-------------------------------------|-------------------------------------|
| <i>In millions of Uzbekistan Soums</i> | Impact on profit or loss | Impact on profit or loss |
| Higher 200 Basis points | (42,643) | (23,843) |
| Lower 200 Basis points | 42,643 | 23,843 |

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The company is exposed to risk due to the daily need to use available cash. Liquidity risk is managed by the Company's finance department.

The following table presents a maturity analysis of the Group's financial liabilities based on the contractual maturities of the respective liabilities.

| <i>In millions of Uzbekistan Soums</i> | Note | Up to 1 year | From 1 to 5 years | More than 5 years | Total |
|--|-------------|-------------------------|------------------------------|------------------------------|-------------------|
| As at 31 December 2021 | | | | | |
| Liabilities | | | | | |
| Trade and other accounts payable | 11 | 7,496,509 | – | – | 7,496,509 |
| Loans and borrowings | 10 | 252,911 | 803,599 | 2,040,335 | 3,096,845 |
| Total future payments, including future principal and interest payments | | 7,749,420 | 803,599 | 2,040,335 | 10,593,354 |
| As at 31 December 2020 | | | | | |
| Liabilities | | | | | |
| Trade and other accounts payable | 11 | 3,812,792 | – | – | 3,812,792 |
| Loans and borrowings | 10 | 358,588 | 666,830 | 1,638,796 | 2,664,214 |
| Total future payments, including future principal and interest payments | | 4,171,380 | 666,830 | 1,638,796 | 6,477,006 |

The company strives to maintain a stable funding base, consisting primarily of borrowed funds, payables from core activities and other payables. The Company's liquidity portfolio includes cash and cash equivalents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**19. FINANCIAL RISK MANAGEMENT (continued)****Fair value hierarchy**

The Group uses the following hierarchy to determine and disclose fair values of financial instruments by valuation model:

- Level 1: prices in active markets for identical assets or liabilities (without any adjustments).
- Level 2: other methods for which all inputs that have a significant effect on the recorded fair value are observable in the market, either directly or indirectly.
- Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market information.

The table below shows the hierarchy of sources of measurements of the Group's assets and liabilities at fair value:

Liabilities for which fair values are disclosed

| <i>In millions of Uzbekistan Soums</i> | 31 December 2021 | Level 1 | Level 2 | Level 3 |
|--|-----------------------------|----------------|------------------|----------------|
| Loans and borrowings (Note 10) | 2,867,474 | – | 2,867,474 | – |

| <i>In millions of Uzbekistan Soums</i> | 31 December 2020 | Level 1 | Level 2 | Level 3 |
|--|-----------------------------|----------------|------------------|----------------|
| Loans and borrowings (Note 10) | 2,538,750 | – | 2,538,750 | – |

For the years ended 31 December 2021 and 31 December 2020, there were no transitions between Levels 1, 2 and 3 of the fair value of financial instruments.

Fair value of financial instruments

At 31 December 2021 and 31 December 2020, management has determined that the fair value of the Group's financial instruments, such as trade receivables and payables, cash and cash equivalents, and restricted cash, approximates their carrying amount, principally due to the short maturity of these instruments. The loans and borrowings of the Group are carried at amortized cost, which approximates their fair value.

20. CONTINGENT LIABILITIES**Business environment**

Despite the improvements in the economic situation of the Republic of Uzbekistan in recent years, the country's economy displays some characteristics inherent in emerging markets. These characteristics include, among others, low liquidity in the debt and equity markets and the continuing development of the legal framework, including the legislative framework in the energy sector. In addition, the economy of Uzbekistan is particularly susceptible to the influence of political, legal, financial and regulatory transformations in the Republic of Uzbekistan.

The prospects for economic stability in the Republic of Uzbekistan largely depend on the effectiveness of economic measures taken by the Government, as well as on the development of the legislative and regulatory framework and the political situation, which are beyond the control of the Company.

The Group's financial condition and results of operations will continue to be influenced by political and economic transformations in the Republic of Uzbekistan, including the application of current and future legislation and tax regulations, which have a significant impact on the financial markets of the Republic of Uzbekistan and the economy as a whole. The Group believes that the general conditions of an emerging market are no more significant than those faced by similar companies in Uzbekistan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. CONTINGENT LIABILITIES (continued)**Business environment (continued)**

The following main economic indicators were observed in Uzbekistan in 2021:

- Official inflation for 2021: 10.0% (2020: 11.1%);
- Official exchange rate: 31 December 2020: US\$1 = 10,837.66 UZS (31 December 2020: US\$1 = 10,476.56 UZS);
- GDP growth 7.4% (2020: 1.6%);
- Central Bank refinancing rate – 14% (2020: 14.0%).

Contractual obligations

For the purpose of implementing the program to ensure the stable operation of the energy system, the Group entered into contracts with contractors as part of the implementation of the following investment projects: Modernization and reconstruction of substations of trunk grids, Construction of a 220 kV transmission line Takhiatash TPP – Substation Khorezm – Sarymai settlement, Construction of a 500 kV transmission line Surkhan-Puli-Khumri, Construction of external power supply facilities for traction substations of an electrified railway line under construction on the Pap-Namangan-Andijan section, Construction of a 220 kV line in the size of 500 kV 177 km from Navoi TPP to 220 kV Besopan switching point and others.

In 2020 and 2021, the Group entered into a number of long-term contracts for the purchase of the entire volume of electricity with producers using renewable energy sources.

21. EVENTS AFTER REPORTING DATE

There were no significant events after the reporting period