National Electric Grid of Uzbekistan JSC

Consolidated financial statements

As at and for the year ended 31 December 2022
with independent auditor's report

CONTENTS

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Independent auditor's report

To the Shareholder and those charged with governance of JSC National Electric Grid of Uzbekistan

Opinion

We have audited the consolidated financial statements of JSC National Electric Grid of Uzbekistan and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022 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 3,767,740 million of Uzbek Soum during the year ended 31 December 2022 and, as of that date, the Group's current liabilities exceeded its current assets by 10,830,866 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.

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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.

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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

29 June 2023

FE Audit Organization „Ernst & Young" LLC

FE Audit Organization "Ernst & Young" LLC
Certificate authorizing audit practice No. 66 registered with the Ministry of Finance of the Republic of Uzbekistan.

Engagement partner / Qualified auditor	Pavel Zholdaspayev Auditor's qualification certificate authorizing audit practice No. 06151 dated 10.02.2023 issued by "Buxgalterlar va auditorlar imtihon markazi"
General director	Nataliya Kim Auditor's qualification certificate authorizing audit practice No. 05555 dated 12.07.2018 issued by "Buxgalterlar va auditorlar imtihon markazi"

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

In millions of Uzbekistan Soums	Note	31 December 2022	31 December 2021
Assets			
Non-current assets			
Property, plant and equipment	5	**7,052,259**	6,293,528
Right-of-use assets	12	**15,124,237**	-
Investments in associates and joint ventures		**8,019**	6,024
Advances paid for non-current assets		**323,375**	66,694
Deferred tax assets	17	**3,354**	3,252
Other non-current assets		**3,816**	5,510
Total non-current assets		**22,515,060**	6,375,008
Current assets			
Inventory		**207,428**	241,029
Trade and other receivables	6	**2,075,386**	2,755,538
Advances paid		**365,694**	141,305
Income tax prepaid		**2,102**	4,140
VAT recoverable and other prepaid taxes	7	**273,325**	273,742
Restricted cash	8	**553,206**	253,778
Cash and cash equivalents	8	**80,075**	90,632
Other current assets		**40,867**	28,972
Total current assets		**3,598,083**	3,789,136
Total assets		**26,113,143**	10,164,144
Equity			
Share capital	9	**5,202,310**	5,202,310
Reserve capital		**2,429**	2,429
Accumulated loss		**(9,556,335)**	(5,786,334)
Equity attributable to the Group's owner		**(4,351,596)**	(581,595)
Non-controlling interest		**2,759**	498
Total equity		**(4,348,837)**	(581,097)
Liabilities			
Non-current liabilities			
Loans and borrowings	10	**3,165,647**	2,579,310
Lease liabilities		**12,599,173**	-
Deferred tax liabilities	17	**268,211**	205,995
Total non-current liabilities		**16,033,031**	2,785,305
Current liabilities			
Loans and borrowings	10	**311,806**	288,165
Trade and other accounts payable	11	**10,617,355**	7,496,509
Lease liabilities	12	**2,913,946**	-
Advances received		**458,763**	99,577
Income tax payable		**-**	85
Taxes payable other than income tax		**8,953**	11,996
Other current liabilities		**118,125**	63,604
Total current liabilities		**14,428,949**	7,959,936
Total liabilities		**30,461,980**	10,745,241
Total equity and liabilities		**26,113,143**	10,164,144

O'ZBEKISTON RESPUBLIKASI "O'ZBEKISTON MILLIY ELEKTR TARMOQLARI" AKSIYADORLIK JAMIYATI

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

Kholboev S.N.
Chief Accountant

The explanatory notes on pages 5 to 37 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the year ended 31 December 2022

In thousands of Uzbekistan Soums	Notes	2022	2021
Revenue	13	**21,119,528**	19,163,710
Cost of sales	14	**(22,843,254)**	(20,655,742)
Gross profit		**(1,723,726)**	(1,492,032)
Other operating income		**172,642**	192,625
General and administrative expenses	15	**(358,451)**	(309,909)
Accrual of provision for expected credit losses		**48,163**	(663,547)
Operating loss		**(1,861,372)**	(2,272,863)
Share in profit of associates and joint ventures, net		**1,995**	1,273
Finance income		**11,608**	484
Finance costs	16	**(1,771,868)**	(77,357)
Foreign exchange loss, net		**(85,506)**	(84,092)
Loss before income tax		**(3,705,143)**	(2,432,555)
Income tax (expense)/benefit	17	**(62,597)**	88,601
Net loss for the year		**(3,767,740)**	(2,343,954)
Loss attributable to:			
- Owners of the Group		**(3,770,001)**	(2,342,412)
- Non-controlling interest		**2,261**	(1,542)
Net loss for the year		**(3,767,740)**	(2,343,954)
Other comprehensive income for the year		**-**	-
Total comprehensive loss for the year		**(3,767,740)**	(2,343,954)
Total comprehensive loss attributable to:			
- Owners of the Group		**(3,770,001)**	(2,342,412)
- Non-controlling interest		**2,261**	(1,542)
Total comprehensive loss for the year		**(3,767,740)**	(2,343,954)

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

Kholboev S.N.
Chief Accountant

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

		Attributable to the owner of the Group					
In millions of Uzbekistan Soums	Note	Share capital	Reserve capital	Accumulated loss	Total equity attributable to the owner of the Group	Non-controlling interest	Total equity
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)
Net loss for the period		–	–	(3,770,001)	(3,770,001)	2,261	(3,767,740)
Total comprehensive loss for period		–	–	(3,770,001)	(3,770,001)	2,261	(3,767,740)
Balance at 31 December 2022		5,202,310	2,429	(9,556,335)	(4,351,596)	2,759	(4,348,837)

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

O'ZBEKISTON RESPUBLIKASI "O'ZBEKISTON MILLIY ELEKTR TARMOQLARI" AKSIYADORLIK JAMIYATI

Kholboev S.N.
Chief Accountant

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

In millions of Uzbekistan Soums	Notes	2022	2021
Cash flow from operating activities			
Loss before income tax		**(3,705,143)**	(2,432,555)
Adjustments for:			
Finance costs		**1,771,868**	77,357
Foreign exchange loss, net		**85,506**	84,092
(Recovery)/accrual of provision for expected credit losses		**(48,163)**	663,552
Depreciation of property, plant and equipment and right-of-use assets		**684,621**	265,604
Loss/(gain) from disposal of fixed assets		**2,219**	(4,786)
Share in profit of associates and joint ventures, net		**(1,995)**	(1,273)
Finance income		**(11,608)**	(484)
Other non-cash operating expenses		**15,828**	148
Operating cash flows before changes in working capital		**(1,206,867)**	(1,348,345)
Change in trade and other receivables		**641,408**	(1,291,292)
Change in inventory		**33,601**	(189,454)
Change in other current assets		**(11,895)**	5,272
Change in advances paid		**(224,389)**	(19,735)
Change in trade and other payables		**3,123,393**	3,686,877
Change in advances received		**359,186**	(26,957)
Change in other liabilities		**56,216**	-
Change in taxes payables other than income tax		**(3,043)**	(106,722)
Changes in working capital		**3,767,610**	709,644
Income taxes paid		**-**	(1,297)
Interest paid		**(65,430)**	(52,643)
Net cash flows received from operating activities		**2,702,180**	655,704
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,221,744)**	(856,527)
Transfers in restricted cash		**(299,428)**	(240,609)
Net cash flows used in investing activities		**(1,521,172)**	(1,097,136)
Cash flows from financing activities			
Proceeds from borrowings		**758,385**	590,674
Repayment of borrowings		**(257,950)**	(353,992)
Repayment of lease liabilities		**(1,692,000)**	-
Dividends paid		**-**	(4,043)
Net cash flows received from financing activities		**(1,191,565)**	232,639
Net change in cash and cash equivalents		**(10,557)**	(208,793)
Cash and cash equivalents at the beginning of the year		**90,632**	298,671
Effect of exchange rate changes on cash and cash equivalents		**-**	754
Cash and cash equivalents at the end of the year	8	**80,075**	90,632

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

Kholboev S.N.
Chief Accountant

The explanatory notes on pages 5 to 37 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 group 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, 2022 and 2021 the Group's shareholder is Ministry of Finance of the Republic of Uzbekistan (herein after – the Shareholder). The Group's ultimate controlling party is the Government of Uzbekistan.

As of 31 December, 2022 and 2021 the Group had interests in the following subsidiaries operating in the Republic of Uzbekistan:

Subsidiaries	Main activity	31 December 2022 % ownership	31 December 2021 % ownership
Uzenergoinjiniring 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 Group and its subsidiaries are hereinafter collectively referred to as the "Group".

The head office of the Group 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 Group on 27 June 2023.

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 group's functional currencies, because they generally reflect the economic substance of the underlying transactions and circumstances of those companies.

The Functional currency of the Group 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 2022 was 11,225.46 UZS per US Dollar. This rate was used to translate monetary assets and liabilities denominated in US Dollars as of 31 December 2022 (10,837.66 UZS per US$1 at 31 December 2021). The exchange rate of the Central Bank of Uzbekistan as of June 27, 2023 was 11,487.44 UZS per 1 US Dollar.

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 UZS 3,767,740 million for the year ended 31 December 2022 (2021: UZS 2,343,954 million) and as of that date its current liabilities exceeded current assets by UZS 10,830,866 million (2021: UZS 4,170,800 million).

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 10 of the Inter-agency Tariff Commission under the Cabinet of Ministers of the Republic of Uzbekistan dated 29 July 2022, 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 2023, it is expected to transfer electricity sales and purchase activities, as well as respective trade receivables and trade payables (as of 31 December 2022) 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.

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 Group. Control is presumed to exist 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. 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.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories (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.

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.

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 lease liability.

Subsequent measurement

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

<u>Loans and borrowings</u>

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.

<u>Trade and other payables</u>

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial liabilities (continued)

Lease liabilities

At the commencement date of the lease, lease liabilities are measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax (continued)

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.

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 2022 (unless otherwise stated). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting pronouncements and revised standards (continued)

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

An onerous contract is a contract under which the unavoidable of meeting the obligations under the contract costs (i.e., the costs that the Group cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

These amendments had no impact on the financial statements of the Group as the Group had not identified any contracts as being onerous.

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

In accordance with the transitional provisions, the Group applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

These amendments had no impact on the financial statements of the Group as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the period.

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

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Group applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

These amendments had no impact on the financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

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

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

In accordance with the transitional provisions, the Group applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the financial statements of the Group as there were no modifications of the Group's financial instruments during the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective

The new and amended standards 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 new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

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

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

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;
- 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 reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Definition of Accounting Estimates - Amendments to IAS 8

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's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

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

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements 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 apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently revisiting their accounting policy information disclosures to ensure consistency with the amended requirements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The Group is currently assessing the impact of the amendments.

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

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. During 2022 thermal power plants were put into exploitation and the Group recognized right-of-use assets and lease liabilities in the amount of UZS 15,124,237 million and UZS 15,513,119 million, respectively, as at 31 December 2022 *(Note 12)*.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment of non-current assets

In 2022 the Group incurred net losses of 3,767,740 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 2022.

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 2032 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 2022, 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 2022:

Key assumptions	Value	Recoverable amount sensitivity to key assumptions
Discounting rate (WACC)	18.33%	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)	70,563	Increase/(decrease) in electricity transmission by 10% will not lead to impairment
Electricity transmission tariff, soum/kWh*	66	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

In millions of Uzbekistan Soums	Buildings and premises	Machinery and equipment	Vehicles	Others	Construction in progress	Total
Cost at						
1 January 2021	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
Additions	81,764	–	–	–	1,026,768	1,108,532
Transfer	86,899	935,419	(17,725)	(2,120)	(1,002,473)	–
Disposals	(17,828)	(25,398)	(443)	(5,535)	–	(49,204)
As at 31 December 2022	445,013	6,595,622	106,655	6,593	1,377,751	8,531,634
Accumulated depreciation						
1 January 2021	(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)
Depreciation charge	(7,856)	(295,393)	(7,137)	(857)	–	(311,243)
Disposals	3,187	6,337	130	992	–	10,646
As at 31 December 2022	(79,576)	(1,358,612)	(33,815)	(7,372)	–	(1,479,375)
Carrying value						
As at 31 December 2022	365,437	5,237,010	72,840	(779)	1,377,751	7,052,259
As at 31 December 2021	219,271	4,616,045	98,015	6,741	1,353,456	6,293,528

As at 31 December 2022, the historical cost of fully depreciated property, plant and equipment in use is UZS 259,094 million (2021: UZS 246,661 million).

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 Company.

Capitalization of borrowing costs

During the year ended 31 December 2022, the Group capitalized borrowing costs, which amounted to UZS 39,225 million at an average rate of 1%-5% (for the year ended 31 December 2021: UZS 12,684 million at an average rate 0.94-1.84%) *(Note 10)*.

6. TRADE AND OTHER RECEIVABLES

In millions of Uzbekistan Soums	31 December 2022	31 December 2021
Trade accounts receivables	**4,473,385**	5,201,700
Less: provision for expected credit losses	**(2,397,999)**	(2,446,162)
	2,075,386	2,755,538

Trade receivables mainly consisted of receivables from regional power grid enterprises at 31 December 2022 in the amount of UZS 4,461,559 million (31 December 2021: UZS 4,610,275 million).

6. TRADE AND OTHER RECEIVABLES (continued)

Below is information on trade receivables by currency:

In millions of Uzbekistan Soums	31 December 2022	31 December 2021
In UZS	**2,028,802**	2,294,759
In USD	**46,584**	460,779
	2,075,386	2,755,538

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

In millions of Uzbekistan Soums	2022	2021
As of 1 January	**2,446,162**	1,782,610
Accrual	**330,449**	663,552
Recoveries	**(378,612)**	-
As of 31 December	**2,397,999**	2,446,162

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 provision matrix:

	Trade accounts receivable					
			Days past due			
In millions of Uzbekistan Soums	Total	Current	1-30 days	31-60 days	61-90 days	Above 91 days
31 December 2022						
Percentage of expected credit losses		23.8%	41.1%	55.9%	72.5%	100.0%
Estimated total gross carrying amount in case of default	4,473,385	1,410,495	1,047,789	644,610	360,492	1,009,999
Expected credit losses	(2,397,999)	(335,344)	(430,650)	(360,486)	(261,520)	(1,009,999)
	2,075,386	1,075,151	617,139	284,124	98,972	-
31 December 2021						
Percentage of expected credit losses		23.9%	35.9%	51.1%	64.4%	100.0%
Estimated total gross carrying amount in case of default	5,201,700	1,685,103	1,352,483	900,979	467,288	795,847
Expected credit losses	(2,446,162)	(403,490)	(485,437)	(460,272)	(301,116)	(795,847)
	2,755,538	1,281,613	867,046	440,707	166,172	-

As at 31 December 2022, the provision for expected credit losses on debts from territorial companies of electricity networks amounted to UZS 2,397,999 million (31 December 2021: UZS 2,446,162 million).

7. VAT RECOVERABLE AND OTHER PREPAID TAXES

In millions of Uzbekistan Soums	31 December 2022	31 December 2021
VAT	**267,091**	270,076
Property tax	**1,890**	28
Land tax	**1,888**	5
Others	**2,456**	3,633
	273,325	273,742

8. CASH AND CASH EQUIVALENTS

In millions of Uzbekistan Soums	**31 December 2022**	31 December 2021
Cash at current bank accounts		
Bank balances payable on demand – USD	**2,798**	23,587
Bank balances payable on demand – UZS	**77,277**	67,045
Total cash and cash equivalents	**80,075**	90,632

During 2022 and 2021, 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 UZS 523,301 million (2021: UZS 142,927 million) as a guarantee for payment under these contracts. In addition, Group also deposited UZS 29,905 million (2021: UZS 108,376 million) 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

In millions of Uzbekistan Soums	**31 December 2022**	31 December 2021
Number of outstanding shares	**52,023,111,103**	52,023,111,103
Nominal and paid-in amount	**5,202,310**	5,202,310

During 2021, the Group received substation and other fixed assets of the Navoi Mining and Metallurgy Plant at fair value of UZS 310,025 million as an additional capital contribution by the Shareholder. According to the internal order on April 23, 2021, the Company additionally issued 3,100,258,418 units of ordinary shares at a par value of 100 UZS, for a total of UZS 310,025 million to its single shareholder. As at 31 December 2022 and 2021, the total value of the authorized capital is UZS 5,202,310 million.

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 UZS 4,043 million. 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 UZS 3,842 million in equity as a transaction with a 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 Group, 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.

10. LOANS AND BORROWINGS

In millions of Uzbekistan Soums	31 December 2022	31 December 2021
Domestic financial institutions		
Ministry of Finance of the Republic of Uzbekistan	**28,515**	53,268
Kapital Bank JSCB	**239**	9,590
Total domestic financial institutions	**28,754**	62,858
International financial institutions		
International bank for reconstruction and development ("IBRD")	**1,540,855**	1,167,254
Asian Development Bank ("ADB")	**773,195**	665,895
International Development Association (IDA)	**634,293**	571,256
Eximbank of China	**249,409**	264,884
European Bank for Reconstruction and Development ("EBRD")	**200,878**	10,505
Islamic Development Bank ("IDB")	**50,069**	124,823
Total international financial institutions	**3,448,699**	2,804,617
Total loans and borrowings borrowings	**3,477,453**	2,867,475
Less: the amount due to be paid within 12 months from the reporting date	**311,806**	288,165
Amounts due more than 12 months	**3,165,647**	2,579,310

Ministry of Finance of the Republic of Uzbekistan

In 2022, 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 UZS 21,000 million at an interest rate of 5% with a maturity of 20 September 2025.

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.

European Bank for Reconstruction and Development ("EBRD")

In 2021, two loan agreements were signed with 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 USD 96,100 thousand. 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. During 2022, the Group received funds in the amount of USD 8,841 thousand (UZS 99,096 million equivalent in UZS). The loan will be fully repaid in 2037. As at 31 December 2022, the outstanding balance of the loan was USD 9,882 thousand (UZS 110,928 million equivalent in UZS) (2021: 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 USD 82,500 thousand. 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. During 2022, the Group received funds in the amount of USD 7,549 thousand (UZS 87,611 million equivalent in UZS). The loan will be fully repaid in 2033. As at 31 December 2022, the outstanding balance of the loan was USD 8,013 thousand (UZS 89,950 million equivalent in UZS) (2021: USD 510 thousand (UZS 6,233 million equivalent in UZS)).

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 USD 110,000 thousand. 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 2022, the outstanding balance of the loan was USD 67,949 thousand (UZS 762,722 million equivalent in UZS) (2021: USD 70,504 thousand (UZS 764,095 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 USD 35,000 thousand, 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 2022, the outstanding balance of the loan was USD 9,218 thousand (UZS 103,471 million equivalent in UZS) (2021: USD 9,797 thousand (UZS 106,175 million equivalent in UZS)).

In 2017, for implementation of the modernization and reconstruction of substations of backbone networks, the loan agreement was signed with the IBRD through the Ministry of Finance of the Republic of Uzbekistan ("MF RUz") in the amount of USD 92,000 thousand. 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. During 2022, the Group received funds in the amount of USD 26,260 thousand (UZS 290,185 million equivalent in UZS). The loan will be fully repaid in 2041. As at 31 December 2022, the outstanding balance of the loan was USD 53,721 thousand (UZS 603,050 million equivalent in UZS) (2021: USD 27,397 thousand (UZS 296,984 million equivalent in UZS)).

In 2022, for for implementation of the modernization and reconstruction of substations of backbone networks, the credit line agreement was signed with the IBRD through the Ministry of Finance of the Republic of Uzbekistan ("MF RUz") in the amount of USD 380,000 thousand. The credit line is secured by a guarantee of the Government of the Republic of Uzbekistan. Loan interest is charged at 1.25%. The loan will be fully repaid in 2051. As at 31 December 2022, the outstanding balance of the loan was USD 6,379 thousand (UZS 71,612 million equivalent in UZS) (2021: USD 0 thousand (UZS 0 million equivalent in UZS)).

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 USD 33,019 thousand 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 2022, the outstanding balance of the loan was USD 22,252 thousand (UZS 249,409 million equivalent in UZS) (2021: USD 24,441 thousand (UZS 264,884 million equivalent in UZS)).

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 2022, the outstanding balance of the loan was: SDR 417 thousand (UZS 6,229 million equivalent in UZS) (2021: SDR 450 thousand (UZS 6,827 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)", the loan agreement was signed with the Asian Development Bank in the amount of USD 150,000 thousand. 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. During 2022, the Group received funds in the amount of USD 11,720 thousand (UZS 129,518 million equivalent in UZS). The loan will be fully repaid in 2040. As at 31 December 2022, the outstanding balance of the loan was USD 68,430 thousand (UZS 766,966 million equivalent in UZS) (2021: USD 60,810 thousand (UZS 659,068 million equivalent in UZS)).

10. LOANS AND BORROWINGS (continued)

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 at 31 December 2022, the outstanding balance of the loan was USD 37,868 thousand (UZS 425,083 million equivalent in UZS) (2021: USD 39,466 thousand (UZS 427,715 million equivalent in UZS));
- In the amount of USD 18,840 thousand with an interest rate of 1.43%. The credit line is secured by a guarantee of the Government of the Republic of Uzbekistan. During 2022, the Group received funds in the amount of USD 5,654 thousand (UZS 62,477 million equivalent in UZS). The loan will be fully repaid in 2041. As at 31 December 2022, the outstanding balance of the loan was USD 18,666 thousand (UZS 209,210 million UZS equivalent) (2021: USD 13,245 thousand (UZS 143,541 million equivalent in UZS)).

In millions of Uzbekistan Soums	**31 December 2022**	31 December 2021
Non-current		
Term loans		
- In USD	**3,139,111**	2,553,310
- In UZS	**20,307**	6,325
- in SDR	**6,229**	5,009
- In Islamic Dinar	**–**	14,666
Total non-current loans and borrowings	**3,165,647**	2,579,310
Current		
Current part of non-current borrowing:		
- In UZS	**8,447**	55,098
- in USD	**289,480**	202,175
- in SDR	**205**	591
- In Islamic Dinar	**13,674**	30,301
Total current loans and borrowings	**311,806**	288,165
Total loans and borrowings	**3,477,453**	2,867,475

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

	2022	2021
Effective interest rate of loans and borrowings		
- in USD	**0.20%-3.41%**	0.97%-3.30%
- in SDR	**2.05%**	2.5%
- in UZS	**21.00%-23.00%**	20.00%-21.00%
Finance lease liabilities		
- in USD	**2.42%**	2.96%
- in Islamic Dinar	**2.03%-5.30%**	4.69%-5.74%

The Group is required to comply with certain conditions, mainly related to loans and borrowings. As of 31 December 2022 and 2021, the Group complied with the terms and conditions of the loan agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. LOANS AND BORROWINGS (continued)

International Development Association ("IDA") (continued)

Changes in liabilities arising from financing activities:

In millions of Uzbekistan Soums	31 December 2021	Proceeds	Repayments	Reclas-sifications	Other *	31 December 2022
Long-term loans and borrowings	2,579,310	758,385	–	(240,703)	68,655	3,165,647
Short term loans and borrowings	288,165	–	(257,950)	240,703	40,888	311,806
Total	2,867,475	758,385	(257,950)	–	109,543	3,477,453

In millions of Uzbekistan Soums	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

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

11. TRADE AND OTHER ACCOUNTS PAYABLE

In millions of Uzbekistan Soums	31 December 2022	31 December 2021
Accounts payable for purchased power	10,264,513	7,319,906
Accounts payable for purchased gas	212,780	–
Accounts payable for construction works and supplied equipment	44,704	101,963
Other accounts payable	95,358	74,640
Total trade and other payables	10,617,355	7,496,509

Below is information about accounts payable by currency:

In millions of Uzbekistan Soums	31 December 2022	31 December 2021
UZS	10,394,048	7,262,913
USD	219,554	227,872
Euro	3,753	5,724
Total	10,617,355	7,496,509

12. LEASES

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

In millions of Uzbekistan Soums	2022
As of 1 January	–
Additions	15,489,785
Depreciation expense	(365,548)
As of 31 December	15,124,237

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. LEASES (continued)

Set out below are the carrying amounts of lease liabilities and the movements during the period:

In millions of Uzbekistan Soums	2022
As of 1 January	**-**
Additions	**15,489,785**
Interest accrual	1,715,334
Payments	**(1,692,000)**
As of 31 December	**15,513,119**

The maturity analysis of lease liabilities are disclosed in *Note 19.*

The following are the amounts recognised in profit or loss:

In millions of Uzbekistan Soums	2022
Depreciation expense of right-of-use assets	365,548
Interest expense on lease liabilties	1,715,334
Total amount recognized in profit or loss	**2,080,882**

13. REVENUE

In millions of Uzbekistan Soums	2022	2021
Sales of electricity	**20,868,248**	18,934,523
- Domestic sales	**20,075,328**	17,791,533
- Export sales	**792,920**	1,142,990
Electricity transmission services	**153,022**	133,517
Electricity transit services	**47,184**	31,864
Other	**51,074**	63,806
Total revenue	**21,119,528**	19,163,710

In millions of Uzbekistan Soums	2022	2021
Revenue recognition terms		
At a given point in time	**20,868,248**	18,934,523
Over a period of time	**251,280**	229,187
Total revenue	**21,119,528**	19,163,710

14. COST OF SALES

In millions of Uzbekistan Soums	2022	2021
Cost of purchased electricity	**21,187,753**	19,546,401
Technological loss of electrical energy	**689,990**	581,267
Depreciation and amortisation	**657,641**	218,139
Payroll and related expenses	**160,279**	154,460
Taxes	**83,134**	40,223
Repair and technical maintenance	**15,733**	29,734
Materials	**7,183**	33,129
Others	**41,541**	52,389
Total	22,843,254	20,655,742

15. GENERAL AND ADMINISTRATIVE EXPENSES

In millions of Uzbekistan Soums	2022	2021
Payroll and related expenses	**168,363**	151,554
Frequency regulation services	**38,426**	24,520
Materials	**33,746**	4,273
Bank commissions	**19,750**	18,826
Consulting services	**19,439**	10,766
Depreciation and amortisation	**7,831**	36,066
Other expenses	**70,896**	63,904
Total	**358,451**	309,909

16. FINANCE COSTS

In millions of Uzbekistan Soums	2022	2021
Interest on lease liabilities	**1,715,334**	–
Interest on borrowings	**56,534**	77,357
Total	**1,771,868**	77,357

17. INCOME TAX

a) Components of income tax expense

Income tax expense comprises the following components:

in millions of Uzbekistan Soums	2022	2021
Current income tax	**483**	1,262
Deferred income tax	**62,114**	(89,863)
Income tax expense/(benefit) for the year	**62,597**	(88,601)

b) Reconciliation of income tax expense to profit or loss multiplied by the applicable tax rate

The current income tax rate applied to the Group's profits is 15% (2021: 15%).

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

In millions of Uzbekistan Soums	2022	2021
Loss before income tax	**3,705,143**	2,432,555
Theoretical tax benefit at statutory rate – 15% (2021: 15%)	**(555,771)**	(364,883)
Unrecognised tax loss	**647,175**	308,242
Other permanent differences	**(28,807)**	(31,960)
Income tax expense/(benefit) for the year	**62,597**	(88,601)

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.

17. INCOME TAX (continued)

c) Deferred taxes by type of temporary differences (continued)

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

In millions of Uzbekistan Soums	1 January 2022	Credited to profit or loss	31 December 2022
Property, plant and equipment	(593,800)	(40,064)	(633,864)
Tax losses carried forward	308,242	647,175	955,417
Right-of-use assets and lease liabilities	–	(6,283)	(6,283)
Trade and other receivables	366,924	(7,225)	359,699
Other current assets	3,441	(4,719)	(1,278)
Borrowings	17,780	(1,537)	16,243
Other liabilities	2,912	(2,286)	625
Less: unrecognized deferred tax assets	(308,242)	(647,175)	(955,417)
Net deferred tax liability	(202,743)	(62,114)	(264,857)

In millions of Uzbekistan Soums	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 liability	(292,606)	89,863	(202,743)

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.

Balances due from related parties as at 31 December 2022 are presented below:

In millions of Uzbekistan Soums	Shareholder	Entities under common control of the Shareholder	Total
Borrowings	28,515	–	28,515
Trade and other receivables	–	1,889,856	1,889,856
Prepayments to suppliers	22,290	–	22,290
Trade payables	–	10,284,376	10,284,376
Contractual liabilities	–	428,251	428,251

18. RELATED PARTY TRANSACTIONS (continued)

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

In millions of Uzbekistan Soums	Shareholder	Entities under common control of the Shareholder	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
Other liabilities	–	–	–

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

In millions of Uzbekistan Soums	2022	2021
Revenue	20,075,328	17,791,533
Cost of sales	(21,187,753)	(19,546,401)

The table below summarizes the remuneration for key management:

In millions of Uzbekistan Soums	2022	2021
Short-term benefits		
Salaries	807	748
Bonuses	1,112	953
Social security costs	222	199

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 2022 (2021: six members).

19. FINANCIAL RISK MANAGEMENT

The risk management function of the Group 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 Group in order to minimize these risks.

Market risk

The Group 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.

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.

In millions of Uzbekistan Soums	**Increase/(decrease) in the exchange rate in absolute terms (UZS)**	**Increase/(decrease) in exchange rate**	**Effect on profit before tax**
At 31 December 2022			
USD	325/(2,168)	3%/(20%)	115,553/(770,352)
At 31 December 2021			
USD	325/(2,168)	3%/(20%)	71,887/(479,245)

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:

In millions of Uzbekistan Soums	Location	Rating 2022	Rating 2021	31 December 2022	31 December 2021
JSC UzPSB	Uzbekistan	BB-/stable	BB-/stable	350,540	222,245
JSC Microkreditbank	Uzbekistan	BB-/stable	BB-/stable	225,918	112,368
JSCB Kapitalbank	Uzbekistan	B-/stable	B-/stable	32,630	102
Central Bank of Uzbekistan	Uzbekistan	BB-/stable	BB-/stable	22,683	–
JSC MB Ipotekabank	Uzbekistan	BB-/stable	BB-/stable	815	2,399
JSC Trustbank	Uzbekistan	B/stable	B/stable	695	1,662
PJSC Orient Finans Bank	Uzbekistan	B+ /stable	B+ /stable	–	5,634
				633,281	344,410

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:

In millions of Uzbekistan Soums	**31 December 2022 Impact on profit or loss**	31 December 2021 Impact on profit or loss
Higher 200 Basis points	**(56,369)**	**(42,643)**
Lower 200 Basis points	**56,369**	**42,643**

Liquidity risk

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

In millions of Uzbekistan Soums	Note	Up to 1 year	From 1 to 5 years	More than 5 years	Total
As at 31 December 2022					
Liabilities					
Trade and other accounts payable	11	10,617,355	–	–	10,617,355
Loans and borrowings	10	449,147	922,556	2,334,992	3,706,695
Lease liabilities		2,913,947	12,415,871	47,180,308	62,510,126
Total future payments, including future principal and interest payments		13,980,449	13,338,427	49,515,300	76,834,176
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

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

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:

In millions of Uzbekistan Soums	31 December 2022	Level 1	Level 2	Level 3
Assets for which fair values are disclosed				
Cash and cash equivalents	80,075	80,075	–	–
Restricted cash	553,206	553,206	–	–
Trade and other receivables	2,075,386	–	–	2,075,386
Other current assets	40,867			40,867
Liabilities for which fair values are disclosed				
Trade and other accounts payable	10,617,355			10,617,355
Loans and borrowings	3,477,453	–	1,670,121	1,807,332
Lease liabilities	15,513,119	–	–	15,513,119
Other current liabilities	118,125			118,125

In millions of Uzbekistan Soums	31 December 2021	Level 1	Level 2	Level 3
Assets for which fair values are disclosed				
Cash and cash equivalents	90,632	90,632	–	–
Restricted cash	253,778	253,778	–	–
Trade and other receivables	2,755,538	–	–	2,755,538
Other current assets	28,972			28,972
Liabilities for which fair values are disclosed				
Trade and other accounts payable	7,496,509			7,496,509
Loans and borrowings	2,867,475	–	1,177,759	1,689,716
Other current liabilities	63,604			63,604

For the years ended 31 December 2022 and 31 December 2021, 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 2022 and 31 December 2021, 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 Group.

Influence of domestic political and geopolitical events in the world

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.

Many countries have imposed, and continue to impose, new sanctions on specified Russian entities and individuals. Sanctions have also been imposed on Belarus. The situation, together with potential fluctuations in commodity prices, foreign exchange rates, restrictions to imports and exports, availability of local materials and services and access to local resources, will directly impact entities that have significant operations or exposures in, or to, Russia, Belarus or Ukraine. However, the war and its direct and indirect consequences may impact entities other than those with direct interests in the involved countries.

For the purpose of managing the country risk, the Group controls transactions with counterparties within the limits set, which are reviewed regularly.

Inflation and the current economic environment

The impact of the macroeconomic and geopolitical environment has exacerbated inflationary pressures in almost all economies around the world. High and rising energy prices are having a negative impact on the cost of other goods and services, resulting in significant consumer-price increases in many countries.

Prices of many commodities, including food, remain high. In 2022 the inflation rate reached 12.23% in Uzbekistan.

Due to the growing geopolitical tensions, since February 2022, there has been a significant increase in volatility in the stock and currency markets, as well as a significant volatility of UZS against US dollar and Euro.

On 18 March 2022, the Central Bank of Uzbekistan made a decision to raise the refinancing rate from 14% to 17% per annum. 10 June 2022 the refinancing rate was decreased to 16% per annum. On 21 July 2022 the refinancing rate was set at 15% per annum.

The Group continues to assess the effect of these events and changes in economic conditions on its operations, financial position and financial performance.

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 2020-2022, 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.