National electrical grid of Kyrgyzstan OJSC

Financial statements

For the year ended 31 December 2021
with independent auditor's report

CONTENTS

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Independent auditor's report

To the Shareholders and Board of Directors of Open Joint Stock Company National Electric Grid of Kyrgyzstan

Qualified Opinion

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

In our opinion, except for the possible effects of the matter described in the "Basis for a qualified opinion" section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for a qualified opinion

As at 31 December 2021 and 31 December 2020, the Company recognized deferred tax asset in respect of tax losses carried forward from prior periods of 1,273,700 thousand soms and 1,201,678 thousand soms, respectively. We were unable to obtain sufficient appropriate audit evidence in respect of certain assumptions used by the Company in the projections of taxable income. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. In addition to the matters set out in the Basis for Qualified Opinion section of our report, we have identified the following matters as key audit matters to be disclosed in our report. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of fixed assets	
The issue of testing property, plant and equipment for impairment was one of the most significant for our audit, because property, plant and equipment represent a significant portion of the Organization's total assets at the reporting date, and also because the process of management's assessment of the recoverable amount of property, plant and equipment is complex, largely subjective and is based on assumptions, in particular, on the forecast of established tariffs for the transmission of electricity, the costs of construction and repairs of existing and under construction facilities, which depend on the expected future market or economic conditions in the Kyrgyz Republic.	As part of our audit procedures, we have, among others, assessed the Organization's assumptions and methodologies, in particular those relating to electricity transportation revenue forecasts, long-term growth rates and discount rates. We compared observable model parameters, such as discount rates, with available external sources of information. We also analyzed the sensitivity of the model to a change in key valuation parameters and the Organization's disclosures of those assumptions on which the impairment test results are most dependent.

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Accounting of borrowings

A significant part of the Company's liabilities falls on loans received from the Government of the Kyrgyz Republic represented by the Ministry of Finance of the Kyrgyz Republic. The fair value at the date of initial recognition, as well as significant modifications of such financial instruments, is determined by the Organization based on valuation models that may involve complex assumptions and unobservable inputs. Different valuation methods and the use of different assumptions may have a significant effect on the result of a fair value measurement. This matter was one of the most significant for our audit due to the use of significant management judgments in relation to the calculation of the fair value of loans received.

As part of our procedures, we, among others:

- received confirmation letters from lenders to confirm balances;
- analyzed the assumptions of the Organization's management in determining the market rate;
- studied loan agreements to understand the conditions associated with credit lines and the amount of funds available for disbursement;
- conducted an analysis of changes in loan agreements to determine significant modifications;
- assessed the treatment of capitalized borrowing costs arising from new agreements and borrowing costs relating to loans ended;
- compared the classification of loans and borrowings as short-term or long-term liabilities with the results of the analysis of the fulfillment of restrictive conditions on the corresponding loans and borrowings.

We also analyzed the relevant disclosures in the financial statements.

Responsibilities of management and the Board of directors for the financial statements

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

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

The Board of directors is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

We communicate with the Board of Directors 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.

Paul Cohn
Audit Partner / General Director
Ernst & Young LLC

Auditor Qualification Certificate Series A No.0366, registration number No.0446 of October 22, 2018

License to perform audit activities series A № 0036 registration No. 0065 dated 20 February 2010 issued by The State Service for Financial Market Regulation and Supervision under the Government of Kyrgyz Republic

Toktogula Str., 125/1
Bishkek 720001, Kyrgyz Republic

26 March 2022

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

In thousands of soms	Notes	31 December 2021	31 December 2020
Assets			
Non-current assets			
Property, plant and equipment	5	**39,645,440**	37,636,313
Intangible assets		**47,255**	47,969
Advances paid for non-current assets	6	**1,194,449**	1,441,464
Non-current trade receivables	7	**238,082**	471,901
Investments		**18,399**	18,399
Other non-current assets		**3,904**	2,453
		41,147,529	39,618,499
Current assets			
Inventory	8	**237,985**	300,488
Trade accounts receivable	9	**380,351**	446,784
VAT receivable and other prepaid taxes	10	**16,165**	140,307
Advances paid and other current assets		**102,992**	9,517
Restricted cash	11	**2,372,770**	1,399,781
Cash and cash equivalents	12	**704,252**	535,928
		3,814,515	2,832,805
Total assets		**44,962,044**	42,451,304
Equity and liabilities			
Equity			
Share capital	13	**1,597,377**	1,597,377
Reserve capital	13	**159,738**	159,738
Accumulated deficit		**(11,735,426)**	(9,695,030)
		(9,978,311)	(7,937,915)
Non-current liabilities			
Borrowings – non-current portion	14	**52,649,323**	48,110,076
Contract liabilities	15	**226,781**	234,319
Employee benefits obligations	16	**46,048**	39,344
Other non-current liabilities		**21,795**	15,824
		52,943,947	48,399,563
Current liabilities			
Borrowings – current portion	14	**1,572,376**	1,346,937
Trade and other accounts payable	17	**159,852**	266,344
Taxes and other liabilities to state budget	18	**76,497**	209,752
Other current liabilities	19	**187,683**	166,623
		1,996,408	1,989,656
Total liabilities		**54,940,355**	50,389,219
Total equity and liabilities		**44,962,044**	42,451,304

General director _____________ *Achikeev Zh.I.*

Chief accountant _____________ *Batyrbekova N.K.*

The explanatory notes 1-32 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE LOSS

For the year ended 31 December 2021

In thousands of soms	Notes	2021	2020
Revenue from contracts with customers	20	**4,184,078**	3,782,779
Cost of sales	21	**(3,518,386)**	(3,437,763)
Gross profit		**665,692**	345,016
General administrative expenses	22	**(297,638)**	(259,626)
Reversal of provision for expected credit losses		**(3,998)**	180,776
Other operating income		**56,278**	39,177
Other operating expenses		**(18,083)**	(14,711)
Operating profit		**402,251**	290,632
Finance income	23	**84,888**	2,608,216
Finance costs	24	**(2,243,505)**	(2,661,434)
Foreign exchange, net	25	**(969,804)**	(7,930,108)
Other income	26	**200,670**	120,055
Other expenses	27	**(93,694)**	(98,863)
Loss before tax		**(2,619,194)**	(7,671,502)
Income tax benefit	28	**–**	–
Loss for the year		**(2,619,194)**	(7,671,502)
Other comprehensive income			
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods			
Remeasurement gain on employee benefits obligations	16	**(10,175)**	5,696
Other comprehensive income for the year, net of tax		**(10,175)**	5,696
Total comprehensive loss for the year, net of tax		**(2,629,369)**	(7,665,806)

General director _______ *AchikeevZh.I.*

Chief accountant _______ *Batyrbekova N.K.*

STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

In thousands of soms	Notes	2021	2020
Cash flows from operating activities			
Proceeds from the sale of electricity transmission services		**4,356,459**	3,789,997
Other proceeds		**114,360**	21,374
Interest received		**27,322**	16,870
Payments to suppliers for goods and services		**(633,041)**	(412,334)
Payments of payroll and related taxes		**(1,016,574)**	(1,165,397)
Other payments to the budget		**(343,200)**	(356,173)
Other payments		**(144,516)**	(60,896)
Net cash flows received from operating activities		**2,360,810**	1,833,441
Cash flows from investing activities			
Purchase of fixed and intangible assets		**(3,213,052)**	(1,833,317)
Received dividends		**507**	384
Net cash flows used in investing activities		**(3,212,545)**	(1,832,933)
Cash flows from financing activities			
Proceeds from borrowings		**3,769,287**	2,605,420
Repayment of borrowings		**(1,307,241)**	(1,155,536)
Interest paid		**(506,522)**	(320,277)
Dividends paid		**(155)**	(138)
Net cash flows used from financing activities		**1,955,369**	1,129,469
Net change in cash and cash equivalents		**1,103,634**	1,129,977
Foreign exchange, net		**37,679**	339,932
Cash and cash equivalents, as at 1 January		**535,928**	465,800
Changes in restricted cash, as at 31 December	11	**(972,989)**	(1,399,781)
Cash and cash equivalents, as at 31 December	12	**704,252**	535,928

General director

AchikeevZh.I.

Chief accountant

Batyrbekova N.K.

The explanatory notes 1-32 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

In thousands of soms	Share capital	Reserve capital	Accumulated loss	Total
As at 1 January 2020	1,597,377	159,738	(2,233,615)	(476,500)
Loss for the year	–	–	(7,671,502)	(7,671,502)
Other comprehensive income for the year, net of tax	–	–	5,696	5,696
Total comprehensive loss	1,597,377	159,738	(9,899,421)	(8,142,306)
Modification of a loan received from the Ministry of Finance of the Kyrgyz Republic	–	–	302,821	302,821
Recognition of discount on receivables from related parties	–	–	(98,430)	(98,430)
As at 31 December 2020	1,597,377	159,738	(9,695,030)	(7,937,915)
As at 1 January 2021	1,597,377	159,738	(9,695,030)	(7,937,915)
Loss for the year	–	–	**(2,619,194)**	**(2,619,194)**
Other comprehensive income for the year, net of tax	–	–	**(10,175)**	**(10,175)**
Total comprehensive loss for the year	**1,597,377**	**159,738**	**(12,324,399)**	**(10,567,284)**
Recognition of the discount on loans received from the Ministry of Finance of the Kyrgyz Republic	–	–	**588,973**	**588,973**
As at 31 December 2021	**1,597,377**	**159,738**	**(11,735,426)**	**(9,978,311)**

General director *Achikeev Zh.I.*

Chief accountant *Batyrbekova N.K.*

The explanatory notes 1-32 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. GENERAL INFORMATION

National electrical grid of Kyrgyzstan OJSC (hereinafter – the "Company" or "NEGK") was established on 7 September 2001 as a result of reorganization of Kyrgyzenergo JSC. During 2001 the division of Kyrgyzenergo JSC was carried out in accordance with long-term governmental program "Reorganization and privatization of Kyrgyzenergo JSC" appointed by the decision of Government No. 333 dated 5 July 1998. As a result of reorganization, Kyrgyzenergo JSC was divided into seven newly formed companies, becoming successors of assets and liabilities, as well as operating activity of Kyrgyzenergo JSC. Shareholders of Kyrgyzenergo JSC received equivalent share in newly formed companies.

The Company was initially registered on 25 December 2001, certificate No. 16742-3301-AO and reincorporated on 16 May 2007, certificate No. 16742-3300-AO (ИУ).

The Company consists of 6 branches, training center and head office located in Bishkek, conducting administrative and coordinative control on operational and maintenance field activities of the branches. Registered office of the Company is located in the Kyrgyz Republic, Bishkek, Zhibek-Zholu Avenue, 326.

The Company is a legal entity, registered in accordance with the law of the Kyrgyz Republic. Apart from transmission of electric power, the Company is responsible for the following activities:

- Operational and dispatch control of national electrical grids;
- Administration of production and consumption schedules of electric power and capacity in the Kyrgyz energy system in real time mode, implementing the terms of contracts for the sale and purchase of electricity;
- Administration of inter-state flows of electric power and its capacity in real time mode in accordance with electric power sales-purchase agreements;
- Provision of services to the fellow power systems related to frequency control (covering the disbalance of daily schedules of power flow and transit of electric power through national electrical grids);
- Administration of trading on wholesale market of electricity in accordance with concluded contracts;
- Ensuring reliable and safe operation of its energy assets in accordance with applicable regulations and rules, carrying out repair work and tests, performing construction and installation works, reconstruction and modernization of equipment;
- Sale of electricity to Kumtor Gold Company CJSC under perpetual license No. 1 – ГАЕ No. 00312 dated 29 March 2002;
- In case of emergency, taking measures to ensure the safety of the Company's assets and guaranteed electricity supply, as specified in the Rules of the National Electrical Grid;
- Participation in the development and implementation of the National Electric Power Program.

The Company consists of the following branches: Chui, Osh, Naryn, Jalal-Abad, Issyk-Kul and Talas high-voltage electrical grids plants. NEGK is a substantial component of the energy sector and a natural monopolist. The Company is a significant component in the implementation of the energy development strategy of the Kyrgyz Republic. As part of the strategy, the Company carries out a significant works to reorganize and modernize its technical facilities. The Company constructed new substation "Datka" in 2013 and new high-voltage electrical grid "Datka-Kemin" and substation "Kemin". Most of the construction, reconstruction and modernization works held by the Company are financed by means of long-term loans provided by the Government of the Kyrgyz Republic, which obtained the funds from international financial donors.

As at 31 December 2021 and 2020, Company owned 1.2% and 10% ordinary shares of Optima Bank OJSC and Sredazenergosetproekt JSC, accordingly. The financial statements were approved for issue by the General director and Chief accountant of the Company on 26 March 2022.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. BASIS OF REPARATION

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These financial statements have been prepared on a historical cost basis, except for certain financial instruments in accordance with IFRS 9, which are measured at fair value. The financial statements are presented in Kyrgyz som and all amounts have been rounded to the nearest thousand, unless otherwise indicated.

COVID-19 commentary

Since March 2020, there has been significant volatility in the stock, foreign exchange and commodity markets, including the fall in oil prices and the depreciation of the som against the US dollar and euro.

The coronavirus pandemic has turned into a global economic crisis. The significant drop in the price of oil suggests that the effects of the crisis will be more severe for the oil and gas industry than for other industries.

The most significant impact of the pandemic is the depreciation of the som against the U.S. dollar for the year ended 31 December 2021, which was reflected in an increase in foreign exchange losses on borrowings in U.S. dollars and other foreign currencies.

The Company has analyzed the impact of changing micro and macroeconomic conditions on the Company's financial position and results of operations.

As a result, management performed impairment testing of the Company's property, plant and equipment within a single cash-generating unit. The company estimated that the quantitative effect of the pandemic cannot be estimated with enough confidence at this time due to the uncertainty and duration of the pandemic. In addition, the electricity sector in the Kyrgyz Republic remains vulnerable to political, legislative, tax and regulatory changes in the country. The prospects for economic stability of the Kyrgyz Republic largely depend on the effectiveness of economic measures taken by the Government, as well as on the development of legal, control and political systems, that is, on circumstances that are beyond the control of the Company.

Management believes it is taking all the necessary measures to maintain the sustainability and growth of the Company's business in the current circumstances. The company will continue to monitor the situation closely.

Going concern

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

As at the reporting date, the Company's current assets exceeded its current liabilities by 554,663 thousand soms and for the year then ended the Company incurred net comprehensive loss of 2,629,369 thousand soms (for the year ended 31 December 2020: net loss of 7,665,806 thousand soms).

Management anticipates that the Company will continue its activities in accordance with the principle of going concern, and by accepting this judgment, management took into account the current intent and the financial position of the Company. In assessing the Company's ability to continue as a going concern, the following factors were considered:

- The Company is a strategically important asset for the Kyrgyz Republic, which transmits electric power throughout the country, to distributing entities and large industrial consumers. In addition, the Company is a system operator, performing centralized operational and dispatching management of the national energy system of the Kyrgyz Republic.
- According to Article 5 of the Law of the Kyrgyz Republic *On the Special Status of the Cascade of Toktogul Hydroelectric Power Plants and the National High-Voltage Transmission Line*, one of the principles of the state policy towards the Company is state incentives, which the management believes will enable the Company to continue its operations in the foreseeable future.
- The Company actively participates in the implementation of the CASA-1000 project with the support of the World Bank Group, the Islamic Development Bank, European Investment Bank, as well as several other international donor organizations. The purpose of the Project is to create conditions for sustainable electricity trade conditions between Tajikistan and the Kyrgyz Republic in Central Asia and Afghanistan and Pakistan in South Asia, as a result of which the Company expects a significant increase in revenues from the transmission of electrical energy from export.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

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

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

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

The amendments include the following practical expedients:

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

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

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

On 28 May 2020, the IASB issued *COVID-19-Related Rent Concessions* – amendment to IFRS 16 *Leases*. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.

The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Company has not received COVID-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company 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 Company.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

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. The amendments to the definition of materiality are not expected to have a significant impact on the Company's financial statements.

Framework – Amendments to IFRS

In May 2020, the IASB issued Amendments to IFRS *3 Business Combinations – Reference to the Conceptual Framework.* The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately.

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

In May 2020, the IASB issued *Property, Plant and Equipment – Proceeds before Intended Use*, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

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

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

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

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

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

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

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

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

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

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Company will apply the amendments 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 amendments are not expected to have a material impact on the Company.

IAS 41 Agriculture – Taxation in fair value measurements

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

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted.

The amendments are not expected to have a material impact on the Company.

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 Company.

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.

Current versus non-current classification of assets and liabilities

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification of assets and liabilities (continued)

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Foreign currency transactions

The Company's financial statements are presented in Kyrgyzstan soms, which is also the Company's functional currency.

Transactions in foreign currencies are initially recorded by the Company's subsidiaries at their respective functional currency spot rates, determined by the National Bank of the Kyrgyz Republic (NBKR), at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss with the exception of monetary items that are designated as part of the hedge of the Company's net investment in a foreign operation. These are recognized in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognized in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

Exchange rates for foreign currencies in which the Company had significant transactions are represented as follows:

Exchange rate as at the end of the year (to som)	**31 December 2021**	31 December 2020
1 USD	**84.7586**	82.6498
1 SDR	**118.6705**	117.9311
1 CHF	**92.3526**	92.0642
1 KWD	**280.2383**	268.1487
1 EUR	**95.7857**	101.3204
1 KZT	**0.1964**	0.1966
1 RUR	**1.1409**	1.1188

Average exchange rate for the year (to som)	**2021**	2020
1 USD	**84.6399**	77.3616
1 SDR	**120.6050**	107.8584
1 CHF	**92.6530**	82.6084
1 KWD	**280.4886**	252.4357
1 EUR	**100.1739**	88.4016
1 KZT	**0.1987**	0.1871
1 RUR	**1.1495**	1.0732

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the capitalization criteria are met.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Property, plant and equipment transferred from customers or other parties is initially measured at the fair value at the date on which control is obtained.

Depreciation is calculated over the estimated useful lives set out in the following table:

	Useful life
Buildings and constructions	5-100 years
Machinery and equipment	2-45 years
Transfer devices	15-59 years
Vehicles	5-15 years
Other	3-15 years

Subsequent expenditures are included in the carrying amount of this asset or reflected as a separate asset providing only that there is probability that the Company will have economic benefits from the usage of this asset, and its cost can be reliably measured. Special spare parts and auxiliary equipment with significant initial cost and useful life over one year are reflected within property, plant and equipment. Other spare parts and auxiliary equipment are reflected within inventories in the statement of comprehensive income upon transfer to operation.

Land and construction in progress are not depreciated.

For depreciation, it applies a straight-line depreciation method for all groups of fixed assets. The useful life of an item of property, plant and equipment is periodically reviewed and if assumptions differ materially from previous estimates, the depreciation charge for the current and future periods is adjusted. Depreciation is charged on a monthly basis, starting from the month in which the facility was put into operation.

If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amounts of the carrying amount of property, plant and equipment and on depreciation expenses recognized in the statement of comprehensive income.

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.

Estimated useful lives and methods for calculating depreciation of assets are reviewed annually and, if necessary, relevant changes are made prospectively.

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 capitalized as part of the cost of the asset. All other borrowing costs are expensed in the reporting period in which they are incurred. Borrowing costs include interest and other costs incurred by the Company in connection with the borrowing of funds.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

Impairment losses are recognized in the statement of comprehensive income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized 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 recognized. 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 recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income.

Financial instruments – initial recognition and subsequent measurement

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

Financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined in accordance with IFRS 15.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Initial recognition and measurement (continued)

The Company's financial assets include cash and cash equivalents, restricted cash and trade receivables.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortized cost (debt instruments)

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired. The Company classifies trade receivables as financial assets at amortized cost.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of comprehensive profit or loss.

Despite the criteria for classifying debt instruments as measured at amortized cost or fair value through other comprehensive income as described above, upon initial recognition the Company may, at its sole discretion, classify debt instruments as measured at fair value through profit or loss if such classification removes or significantly reduces the accounting discrepancy.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value and net changes in their fair value are recognized in the statement of comprehensive profit or loss.

This category includes derivative instruments and listed equity investments which the Company had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on listed equity investments are also recognized as other income in the statement of profit or loss when the right of payment has been established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired;
- The Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company 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 Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company 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 Company could be required to repay.

Impairment of financial assets

The Company recognizes an allowance for estimated credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECL are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECL are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL).

For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Company applies a simplified approach in calculating ECL. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECL at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, 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. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables and borrowings.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial liabilities (continued)

Subsequent measurement

For purpose of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss;
- Financial liabilities at amortized cost (loans and borrowings).

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated by the Company upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortized cost (loans and borrowings)

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process, except the loans received from the ultimate controlling party or other related parties, gains and losses on substantial derecognition and/or insignificant modification of loan terms of which are recognized in equity.

Amortized 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 amortization is included as finance costs in the statement of comprehensive income.

Trade accounts payable

Liabilities for trade accounts payable are recognized at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether billed to the Company.

Derecognition

A financial liability is derecognized 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 recognized in the statement of comprehensive income, except for loans received from the ultimate controlling party or from other related parties for which profits and losses from derecognition and/or from minor modification of the terms of the loans are recognized as equity.

Offsetting of financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions;
- Reference to the current fair value of another instrument that is substantially the same;
- A discounted cash flow analysis or other valuation models.

Equity

Share capital

External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as an additional paid-in capital.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are approved before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date, proposed, or declared after the reporting date but before the financial statements are authorized for issue.

Leases

The Company assesses at contract inception whether a contract is, or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value-assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use underlying assets.

i) Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-used assets are depreciated on a straight-line basis over the shorter of the lease term and estimated useful lives of the assets.

If ownership of the leased asset transfers to the Company at the end of lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

ii) Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Company as a lessee (continued)

ii) Lease liabilities (continued)

The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Company uses EIR method at the lease commencement date because the interest rate implicit in the lease is not readily determinable. 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 (i.e., 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.

iii) Short-term leases and lease of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and lease of low-value assets are recognized as expense on a straight-line basis over the lease term. An operating lease is defined as a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the statement of comprehensive profit or loss on a straight-line basis over the lease term.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Inventory

Inventories are accounted for on a FIFO basis, except for fuel and lubricants, which are accounted for on a weighted average cost method.

Inventories are valued at the lower of cost and net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity till 3 (three) months or less.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Advances paid

Advances paid are recorded at initial cost less impairment provision. Advances given are classified as non-current when goods or services associated with advances are to be received in more than a year, or if advances are associated with an asset, which at the initial recognition is classified as non-current. Advances for PPE are charged to the cost of these PPE when the Company obtains control over these assets and there is a probability that future economic benefits associated with these assets will flow to the Company. When there are indications of inability to receive goods or services related to advances paid, the carrying amount of advances paid is decreased and related impairment loss is recognized through profit or loss in the statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, considering contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

Transmission of electricity

Electricity transmission contracts provide for only one performance obligation, since electricity transmission obligation does not include any other performance obligations. Revenue from the sale of electric power is recognized based on the accrual method when the electric power is transmitted. Revenue from the sale of electric power is recognized when the significant risks and rewards have passed to the buyer, usually now of transfer of electricity. Revenue is recorded net of VAT.

Trade receivables

A receivable is recognized if an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section *Financial assets – initial recognition and subsequent measurement.*

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized by contract when the payment is made or becomes payable (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under contract on transmission of electricity, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income, net of any reimbursement.

Employee benefit obligations

The Company offers its employees defined benefits after retirement in accordance with the collective agreement. In particular, the agreement stipulates payment of one-time retirement benefit and 50-year anniversary. Right to receipt of benefit is usually granted depending on the period remaining to retirement and availability of minimum length of service.

Accrual of expected expenses on the benefits is carried out during employee labor activity in accordance with methodology, which is used in calculation of post-employment defined benefit liability. In respect of defined benefit liability, the difference between the fair value of pension assets, if any, and current cost of pension liabilities is recognized as asset or liability in the statement of financial position. Remeasurement gains and losses arising during a period are recorded through other comprehensive income. For this purpose, remeasurement gains and losses include the impact of changes in actuarial assumptions, and the impact of past experience on differences between actuarial assumptions and actual data. Remeasurement gains and losses are not reclassified to profit or loss in subsequent periods. Net interest is determined using discounting in relation to the net liability or net defined benefit asset. The company recognizes the mentioned changes in the net defined benefit obligation in the statement of comprehensive income.

Other changes in net surplus or deficit are recognized in the statement of comprehensive income, including the cost of current services and impact of any reduction of staff or dismissal. All assumptions are reviewed at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension obligations

In accordance with the legislation of the Kyrgyz Republic, the Company makes payments in the amount of 10% of employees' salaries to accumulative pension funds. Pension fund payments are withheld from employees' salaries and included within payroll expenses in the statement of comprehensive income when they are incurred. The Company does not have any other pension obligations.

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 Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the 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 recognized for all taxable temporary differences, except:

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

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses:

- When 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 recognized 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 utilized.

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 utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized 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 realized 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 recognized 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Value added tax (VAT)

Revenues, expenses and assets are recognized net of the amount of VAT, except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable;
- Receivables and payables that are stated with the amount of VAT included;
- The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. VAT recoverable relates to purchases. VAT recoverable is reclaimable against VAT related to sales upon payment for the purchases, as well as VAT recoverable is recoupable by claiming of cash refund from tax authorities of the country. In the case of non-recoverability, VAT recoverable amount is expensed in the statement of comprehensive income.

Contingent liabilities and contingent assets

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

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

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's 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 Company based its assumptions and estimates on parameters available when the 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 Company. Such changes are reflected in the assumptions when they occur.

Useful life of property, plant and equipment

The Company assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in the statement of comprehensive income.

Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indicator that an asset may be impaired. If any indicators exist, and in case, when circumstances indicate the carrying value may be impaired, the Company estimates the asset's recoverable amount. The Company's impairment test for assets is based on value-in-use calculations.

The Company considers dynamics of the electricity tariffs and demand from the major participants of electricity market, among other factors, when reviewing for indicators of impairment.

The management performed an impairment test as at 31 December 2021 for property, plant and equipment of the Company within single cash generating unit.

The Company used the cash-generating unit's value-in-use to determine the recoverable amount. As a result of the test, the Company identified that no impairment of property, plant and equipment is necessary as at 31 December 2021.

Considering uncertainties associated with future growth in electricity transmission tariffs the Company performed value in use calculation based in real cash flows discounted at real discount rate, with no consideration of growth in cash flows by future inflation index.

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

Impairment of non-financial assets (continued)

The key assumptions for the recoverable amount are discussed below:

Long-term growth rate – in estimation of recoverable amount of the assets, management of the Company used long-term growth rate of 2.7%.

The forecast of long-term growth rate was made on the basis of management's expectations in respect of average historical growth for previous years and perspective increase in sales volume within expected GPD of Kyrgyz Republic.

Discount rate – discount rates of 6.72% and 5.89% for terminal value, which were calculated to reflect the current market assessment of the risks specific to the Company, and were estimated based on the weighted average cost of capital, excluding inflation effect. Further changes to the discount rate may be necessary in the future to reflect changing risks for the industry and changes to the weighted average cost of capital.

Provision for expected credit losses on trade receivables

The Company uses a provision matrix to calculate expected credit losses ECL for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future *(Note 9)*.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and benefit already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities.

The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the country where the Company is registered with the relevant companies.

In assessing tax risks, management considers to be probable obligations the known areas of tax positions that the Company would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, the determination of expected outcomes from pending tax proceedings and the outcome of ongoing compliance audits by tax authorities.

Management believes that as at 31 December 2021 and 2020, the interpretation of the applicable law is appropriate and there is a probability that the Company's tax position will be confirmed.

As the Company assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognized.

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized in the financial statements, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. As at 31 December 2021, and 2020 the Company recognizes a deferred tax asset for losses to the extent necessary to fully cover the deferred tax liability on other items.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Employee benefit obligations

The cost and the present value of the employee benefit obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation and its long-term nature, a defined benefit liability is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of risk-free government bonds and extrapolated maturity corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the specific countries. Future salary increases and pension increases are based on expected future increase in salaries.

The employee benefit obligations as at 31 December 2021 amounted to 52,398 thousand soms (31 December 2020: 44,295 thousand soms).More details are provided in *Note 16*.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value reported in the financial statements.

5. PROPERTY, PLANT AND EQUIPMENT

In thousands of soms	Buildings and constructions	Machinery and equipment	Vehicles	Other	Construction in progress	Total
Cost						
At 1 January 2020	853,158	46,003,379	229,209	133,291	485,556	47,704,593
Additions	732	3,627	3,971	574	2,455,352	2,464,256
Transfers	3,927	188,800	37,415	7,102	(237,244)	-
Receipts from exchanges and contracts with suppliers	10,315	173,058	-	197	639	184,209
Disposals	(762)	(22,418)	(3,980)	(3,118)	(332)	(30,610)
At 31 December 2020	867,370	46,346,446	266,615	138,046	2,703,971	50,322,448
Additions	**-**	**-**	**14,738**	**-**	**3,482,295**	**3,497,033**
Receipts from exchanges and contracts with suppliers	**-**	**7,783**	**-**	**-**	**4,373**	**12,156**
Income from exchange transactions	**42,114**	**1,048,090**	**-**	**9,240**	**(1,099,444)**	**-**
Disposals	**-**	**(89,131)**	**-**	**(3,291)**	**-**	**(92,422)**
At 31 December 2021	**909,484**	**47,313,188**	**281,353**	**143,995**	**5,091,195**	**53,739,215**
Accumulated depreciation						
At 1 January 2020	(224,810)	(10,797,860)	(106,170)	(87,096)	-	(11,215,936)
Charge for the period	(22,895)	(1,433,895)	(18,656)	(12,865)	-	(1,488,311)
Disposals	325	15,438	12	2,337	-	18,112
At 31 December 2020	(247,380)	(12,216,317)	(124,814)	(97,624)	-	(12,686,135)
Charge for the period	**(23,026)**	**(1,431,420)**	**(20,552)**	**(11,850)**	**-**	**(1,486,848)**
Disposals	**-**	**75,595**	**-**	**3,613**	**-**	**79,208**
At 31 December 2021	**(270,406)**	**(13,572,142)**	**(145,366)**	**(105,861)**	**-**	**(14,093,775)**
Net book value						
At 31 December 2020	619,990	34,130,129	141,801	40,422	2,703,971	37,636,313
At 31 December 2021	**639,078**	**33,741,046**	**135,987**	**38,134**	**5,091,195**	**39,645,440**

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2021, construction in progress consisted of equipment, materials and capitalized interest in the amount of 3,320,963 thousand soms as a part of the Central Asia to South Asia Power Transmission Project CASA-1000 (31 December 2020: 1,909,598 thousand soms).

The CASA-1000 project is the largest energy project that involves the construction of a 500 kV high voltage grids with a length of 455.6 km from the 500 kV Datka substation to the Kyrgyz-Tajik border. The project will connect the energy systems of Kyrgyzstan and Tajikistan with Afghanistan and Pakistan for the further organization of a single electricity market.

The Company capitalized the interest on loans into the construction in progress cost. Capitalized borrowing costs for the year ended 31 December 2021 amounted to 101,063 thousand soms (31 December 2020: 82,551 thousand soms). The rates used to determine the amount of borrowing costs eligible for capitalization were 1,7% under the credit facility specified in *Note 14*, which is the effective interest rate on these loans.

As at 31 December 2021, the value of fully depreciated but still in use property, plant and equipment amounted to 962,489 thousand soms (31 December 2020: 956,845 thousand soms). The Company does not have property, plant and equipment that is temporarily unused or in a non-working condition and must be written off.

6. ADVANCES PAID FOR NON-CURRENT ASSETS

As at 31 December 2021, advances in the amount of 1,194,449 soms thousand issued for non-current assets include advances issued to suppliers for the construction of a 500 kV high voltage grids with a length of 455.6 km from the 500 kV Datka substation to the Kyrgyz-Tajik border, as part of the project for the transmission of electricity from Central Asia to South Asia CASA-1000 (31 December 2020: 1,441,464 thousand soms). As at 31 December 2021, a significant portion of the advances has been paid to Mitas Energy and Metal Construction INC, which is the main contractor for the construction of the CASA-1000 project.

7. NON-CURRENT TRADE RECEIVABLES

As at 31 December 2021, the Company recognized non-current trade receivables at amortized cost by discounting expected cash inflows from debtors at a rate of 9,23% per annum, which reflects the market borrowing rate at the date these receivables were incurred. These receivables represent amounts receivables from related parties. The Company recognized the amount of income from amortization of the discount of receivables in the amount of 56,985 thousand soms for the year in finance income in the statement of comprehensive loss ended 31 December 2021 (Discount recognition in 2020: 98,430 thousand soms in equity).

8. INVENTORIES

As at 31 December 2021, and 2020, inventories comprised:

In thousands of soms	**31 December 2021**	31 December 2020
Spare parts	**103,431**	106,020
Raw and other materials	**92,946**	160,186
Construction materials	**22,300**	17,851
Fuel	**2,317**	1,619
Other inventories	**16,991**	14,812
	237,985	300,488

Raw materials and other materials are represented by inventories that are used as consumables for high-voltage electrical grid and substations in the ordinary course of the Company's business activity.

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. TRADE ACCOUNTS RECEIVABLE

As at 31 December 2021 and 2020, trade accounts receivable comprised:

In thousands of soms	**31 December 2021**	31 December 2020
Trade accounts receivable from related parties	**232,679**	307,423
Trade accounts receivable from third parties	**184,054**	171,649
Less: allowance for expected credit losses (ECL)	**(36,382)**	(32,288)
	380,351	446,784

Movement in the provision for ECL was as follows:

In thousands of soms	**2021**	2020
At 1 January	**(32,288)**	(212,689)
Provisions for ECL	**(9,651)**	(43,702)
Reversal from actual cash receipts	**5,557**	180,983
Reversal due to change of ECL model	**–**	43,120
At 31 December	**(36,382)**	(32,288)

The ageing analysis of accounts receivable is as follows:

			Days past due to		
In thousands of soms	**Total**	**Current**	**<90 days**	**>90 days**	**>360 days**
31 December 2021					
Expected credit loss rate		**2.06%**	**11.29%**	**44.99%**	**100.00%**
Estimated total gross carrying amount at default	**416,733**	**361,577**	**4,572**	**40,307**	**10,277**
Expected credit loss	**(36,382)**	**(7,455)**	**(516)**	**(18,134)**	**(10,277)**

			Days past due to		
In thousands of soms	Total	Current	<90 days	>90 days	Total
31 December 2020					
Expected credit loss rate		1.00%	34.27%	22.30%	30.54%
Estimated total gross carrying amount at default	479,072	388,387	51,484	14,720	24,481
Expected credit loss	(32,288)	(3,884)	(17,645)	(3,283)	(7,476)

As at 31 December 2021 and 2020, trade accounts receivables were denominated in:

In thousands of soms	**31 December 2021**	31 December 2020
Soms	**368,636**	431,149
US dollars	**10,602**	9,511
Tenge	**1,113**	6,124
	380,351	446,784

10. VAT RECEIVABLE AND OTHER PREPAID TAXES

In thousands of soms	**31 December 2021**	31 December 2020
VAT	**–**	124,143
Other	**16,165**	16,164
	16,165	140,307

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. RESTRICTED CASH

As at 31 December 2021, restricted cash represents tranches received under a loan agreement between the Government of the Kyrgyz Republic and the European Investment Bank for the implementation of the CASA-1000 project. These funds are used to pay for supplies from Mitas Energy and Metal Construction Company. This funds are expected to be spent within 12 months after the reporting date.

12. CASH AND CASH EQUIVALENTS

As at 31 December 2021 and 2020, cash and cash equivalents comprise the following:

In thousands of soms	**31 December 2021**	31 December 2020
Current accounts with banks, in national currency	**390,070**	245,829
Current accounts with banks, in foreign currencies	**152,202**	255,471
Deposits	**134,759**	-
Cash in transit, in soms	**26,858**	34,412
Cash on hand, soms	**363**	216
	704,252	535,928

Current bank accounts in som and in foreign currency accrue interest in the amount of 6% and 2% per annum, respectively,

As at 31 December 2021 and 2020, cash and cash equivalents were denominated in the following currencies:

In thousands of soms	**31 December 2021**	31 December 2020
Som	**467,293**	280,457
US dollar	**236,953**	255,465
Russian ruble	**4**	4
Euro	**2**	2
	704,252	535,928

13. EQUITY

As at 31 December 2021, and 2020, the share capital of the Company was equal to 1,597,377 thousand soms. As at the indicated dates, the number of shares was 965,237,234 shares with a par value of 1.65 soms. As at 31 December 2021, the issued shares of the Company are held by the following shareholders:

	Quantity of shares	**Share of ownership (%)**
National Energy Holding Company OJSC	776,873,392	80.49%
Social Fund of the Kyrgyz Republic	127,040,460	13.16%
Other legal entities	13,564,546	1.40%
Individual shareholders	47,758,836	4.95%
	965,237,234	**100%**

The capital structure includes share authorized capital, reserve capital and retained earnings/cumulative loss. The reserve capital is formed in accordance with the legislation of the Kyrgyz Republic on joint-stock companies based on the decision of the General Meeting of Shareholders and amounts to 10% of the share capital and in order to cover the losses of the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. BORROWINGS

As at 31 December 2021, and 2020, borrowings comprised the following:

In thousands of soms	**Nominal interest rate**	**Effective interest rate**	**31 December 2021**	31 December 2020
Borrowings denominated in US dollars	0-4%	4.81-8.96%	**48,074,108**	44,940,713
Borrowings denominated in Euro	1.5%	1.71%	**4,670,879**	2,968,876
Borrowings denominated in Special drawing right	0-5%	6.38-7.82%	**992,235**	1,068,086
Borrowings denominated in Swiss franc	0-7%	4.85-7.82%	**452,724**	451,970
Borrowings denominated in Kuwaiti dinar	0%	6.38-8.09%	**28,954**	24,607
Borrowings denominated in Kyrgyz soms	0%	6.38-6.38%	**2,799**	2,761
			54,221,699	49,457,013
Less: current portion			**(1,572,376)**	(1,346,937)
Borrowings, non-current portion			**52,649,323**	48,110,076

The total balance of the borrowings presented in the table above, has been provided by the Government of the Kyrgyz Republic, represented by the Ministry of Finance of the Kyrgyz Republic, for the construction, reconstruction and modernization of electrical grids and related components. The Government of the Kyrgyz Republic obtained the funds provided to the Company from international financial donors such as the Asian Development Bank, the European Investment Bank, the Export-Import Bank of China, the Islamic Development Bank, a grant from the Swiss Confederation, the Kuwait Arab Development Fund, the Export-Import Bank of Turkey, the International Development Association and the Northern Development Fund.

As the total amount of the borrowings bear a below-market interest rate as at 31 December 2021, the amortized cost of loans was determined by discounting future cash flows at the market interest rate determined at the date of the loans, which are within the range shown in the table above. The company recognized a discount on loans received in 2021 in the amount of 588,973 thousand soms in equity. Borrowing finance costs for the year ended 31 December 2021, accrued using the effective interest method, amounted to 2,240,282 thousand soms (2020: 2,657,163 thousand soms).

In accordance with the order of the Government of the Kyrgyz Republic No. 119-r dated 4 May 2021 and the resolution of the Jogorku Kenesh of the Kyrgyz Republic No. 4678-VI dated 23 June 2021, NEG of Kyrgyzstan OJSC restructured part of the loan obligations received from the International Development Association for implementation of the CASA-1000 Electricity Transmission and Trade Project in Central and South Asia. This restructuring did not result in significant changes and, accordingly, the results of the restructuring were recognized as part of finance costs in the statement of comprehensive loss.

The borrowings do not include any financial covenants. As at 31 December 2021, the Company did not violate contractual obligations under loan agreements concluded with the government of the Kyrgyz Republic, represented by the Ministry of Finance of the Kyrgyz Republic.

As at 31 December 2021, the nominal value of these loans was 70,946,684 thousand soms (31 December 2020: 66,304,838 thousand soms). As at 31 December 2021, the Company did not have fixed assets transferred as collateral for loans received.

15. LIABILITIES UNDER CONTRACTS WITH SUPPLIERS

Liabilities under contracts with suppliers include:

In thousands of soms	**31 December 2021**	31 December 2020
Contractual liability with suppliers	**145,502**	153,040
Warranty liability	**81,279**	81,279
	226,781	234,319

The main amounts of contractual obligations relate to the long-term provision of services in exchange for gratuitous fixed assets received from these suppliers. Guarantee obligations include a bank guarantee of the supplier in case of untimely supply or provision of services under the contract.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. EMPLOYEE BENEFIT OBLIGATIONS

The Company has employee benefit obligations, primarily consisting of additional payments to the standard benefit package for all employees.

The defined benefit obligation includes:

In thousands of soms	2021	2020
Present value of employee benefits obligations as at 1 January	**44,295**	50,617
Accretion expense *(Note 24)*	**3,223**	4,271
Current service cost	**3,582**	2,135
Actuarial gain	**10,175**	(5,696)
Benefits paid	**(8,877)**	(7,032)
Present value of employee benefits obligations as at 31 December	**52,398**	44,295
Less: current portion *(Note 19)*	**(6,350)**	(4,951)
Non-current portion of present value of employee benefits obligations as at 31 December	**46,048**	39,344

The main assumptions used in determining the Company's defined benefit obligations are summarized in the following table:

	31 December 2021	31 December 2020
Discount rate	**10.04%**	9.10%
Average salary increase	**4.06%**	3.29%
Mortality rate	**8.95%**	8.95%
Employee turnover rate	**5.27%**	4.08%

17. TRADE AND OTHER ACCOUNTS PAYABLE

As at 31 December 2021 and 2020, accounts payable comprise:

In thousands of soms	31 December 2021	31 December 2020
Accounts payable to related parties *(Note 29)*	**89,195**	81,698
Accounts payable to third parties	**70,657**	184,646
	159,852	266,344

As at 31 December 2021 and 2020, trade and other payables were denominated in the following currencies:

In thousands of soms	31 December 2021	31 December 2020
Som	**119,502**	96,394
US dollar	**30,562**	165,908
Russian ruble	**9,144**	–
Euro	**644**	3,397
Tenge	**–**	645
	159,852	266,344

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. TAX AND OTHER LIABILITIES TO THE STATE BUDGET

As at 31 December 2021 and 2020, tax and other liabilities to the budget include:

In thousands of soms	**31 December 2021**	31 December 2020
Social insurance obligations	**28,759**	20,151
VAT payable	**37,816**	–
Income tax	**9,919**	9,672
VAT provision	**–**	179,927
Other	**3**	2
	76,497	209,752

As at 31 December 2021, the Company did not accrue additional estimated liability for VAT payable claimed by the tax authorities in relation to the provision of frequency control services to a counterparty from Kazakhstan. Also, the Company has a tax prepayment in respect of the provision of services in previous years.

19. OTHER CURRENT LIABILITIES

As at 31 December 2021 and 2020, other current liabilities comprised:

In thousands of soms	**31 December 2021**	31 December 2020
Due to employees	**144,239**	133,713
Dividends payable	**8,397**	8,552
Current portion of employee benefits obligations	**6,350**	4,951
Other	**28,697**	19,407
	187,683	166,623

20. REVENUE FROM CONTRACTS WITH CUSTOMERS

In thousands of soms	**2021**	2020
Transmission of electricity to distribution companies	**2,804,237**	2,607,555
Sales of electricity	**879,718**	829,170
Transmission of export electricity	**120,174**	63,009
Realization of unplanned electricity	**5,995**	2,817
Frequency control services	**3,179**	–
Other transmission of electricity	**370,775**	280,228
	4,184,078	3,782,779

In thousands of soms	**2021**	2020
Geographical area		
Northern zone	**1,307,473**	1,229,577
Eastern zone	**1,287,354**	1,200,875
Southern zone	**1,089,126**	1,006,273
Export	**120,174**	63,009
Other	**379,951**	283,045
	4,184,078	3,782,779

In thousands of soms	**2021**	2020
Type of customers		
Electricity distributing companies	**2,804,237**	2,607,555
Mining companies	**879,718**	829,170
Large industrial entities	**360,603**	273,467
Other	**139,520**	72,587
	4,184,078	3,782,779

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

In thousands of soms	2021	2020
Terms of revenue recognition		
Services transferred over time	**4,184,078**	3,782,779
Total revenue from contracts with customers	**4,184,078**	3,782,779

21. COST OF SALES

In thousands of soms	2021	2020
Depreciation	**1,480,934**	1,481,209
Payroll and related taxes	**960,061**	958,055
Purchased electricity for Kumtor Gold Company	**611,439**	581,500
Recovery of transit losses	**154,951**	158,917
Materials	**139,490**	119,391
Business trip expenses	**40,246**	34,259
Coordination services	**33,727**	30,632
Fuel	**31,770**	21,967
Repair works	**12,476**	4,856
Unplanned electricity flow expenses	**6,821**	4,086
Current transit expenses	**4,577**	6,216
Frequency control share	**1,590**	–
Other	**40,304**	36,675
	3,518,386	3,437,763

22. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of soms	2021	2020
Salary and related taxes	**220,194**	211,356
Materials	**11,548**	8,226
Vacation package reimbursement	**11,062**	2,978
Monitoring costs of National Energy Holding Company OJSC	**7,245**	–
Taxes, other than income tax	**8,044**	7,070
Business trip expenses	**6,972**	3,652
Depreciation	**5,745**	5,873
Repair and maintenance	**2,499**	743
Other	**24,329**	19,728
	297,638	259,626

23. FINANCE INCOME

In thousands of soms	2021	2020
Income from amortization of discount on receivables	**56,985**	–
Interest income	**27,396**	16,870
Dividends	**507**	383
Gain on modifications of loans	**–**	2,590,963
	84,888	2,608,216

24. FINANCE COSTS

In thousands of soms	2021	2020
Interest expenses on borrowings *(Note 14)*	**2,240,282**	2,657,163
Accretion expenses on employee benefits obligations *(Note 16)*	**3,223**	4,271
	2,243,505	2,661,434

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. FOREIGN EXCHANGE (LOSS)/GAIN, NET

Fluctuations in the exchange rate of the som in 2021 led to a negative exchange rate difference, as the Company has significant bank borrowings denominated in foreign currency.

26. OTHER INCOME

In thousands of soms	**2021**	2020
Income from the creation of a reserve for taxes	**80,915**	–
Grant of World Bank for preparation of the CASA-1000 project	**60,647**	35,063
Exchange on contracts with customers	**29,331**	74,462
Gain on sale of inventory	**24,715**	5,879
Other	**5,062**	4,651
	200,670	120,055

27. OTHER EXPENSES

In thousands of soms	**2021**	2020
Expenses on grant of World Bank for the preparation of the CASA-1000 project	**65,870**	37,396
Loss on disposal of property, plant and equipment	**19,045**	4,446
Provision for inventory	**8,227**	37,714
Other	**552**	19,307
	93,694	98,863

28. INCOME TAX EXPENSES

In thousands of soms	**2021**	2020
Current income tax		
Current income tax expenses	–	–
Deferred tax		
Deferred income tax expenses/(benefit)	–	–
Income tax expense/(benefit)	–	–

In the Kyrgyz Republic in 2021 and 2020, the income tax rate was 10%.

Below is a reconciliation of the 10% income tax rate and the actual amount of income tax recognized in the statement of comprehensive income:

In thousands of soms	**2021**	2020
Loss before income tax	**(2,619,194)**	(7,671,502)
Tax benefit at statutory income tax rate of 10%	**(261,919)**	(767,150)
Change in allowance for unrecognized tax assets	**176,920**	766,297
Amortization of discount on borrowings	**111,849**	(15,406)
Other permanent differences	**(26,850)**	16,259
Income tax expense/(benefit)	–	–

28. INCOME TAX EXPENSES (continued)

The following is the tax effect on major temporary differences that give rise to deferred income tax assets and liabilities as at 31 December 2021 and 2020:

In thousands of soms	**31 December 2021**	**Change through profit or loss**	31 December 2020	Change through profit or loss	31 December 2019
Deferred tax asset					
Tax losses carried forward	**1,273,700**	**72,022**	1,201,678	128,305	1,073,373
Contract liabilities	**22,678**	**7,374**	15,304	10,885	4,419
Accruals	**9,298**	**(25,108)**	34,406	1,541	32,865
Employee benefits obligations	**4,605**	**671**	3,934	(1,128)	5,062
Provision for ECL	**3,638**	**409**	3,229	(18,040)	21,269
	1,313,919	**55,368**	1,258,551	121,563	1,136,988
Deferred tax liability					
Property, plant and equipment	**(1,313,919)**	**(55,368)**	(1,258,551)	(121,563)	(1,136,988)
	(1,313,919)	**(55,368)**	(1,258,551)	(121,563)	(1,136,988)
Deferred tax expense	**–**	**–**	–	–	–
Net deferred tax (liabilities)/assets	**–**	**–**	–	–	–

The Company offsets tax assets and tax liabilities only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes.

As at 31 December 2021, the Company had significant tax losses that can be carried forward and used against future taxable income in the amount of 18,429,842 thousand soms (31 December 2020: 20,122,431 thousand soms). The Company expects that the Company's operations will be loss-making for the foreseeable future and will not generate taxable income against which these losses can be offset. Accordingly, as at 31 December 2021, a deferred tax asset was recognized only in the amount of 1,273,700 thousand soms in respect of tax losses (31 December 2020: 1,201,678 thousand soms).

29. TRANSACTIONS WITH RELATED PARTIES

Related parties include the Company's key management personnel, entities in which the Company's key management personnel directly or indirectly hold a significant interest, and other entities controlled by the Government of the Kyrgyz Republic. Transactions with related parties were carried out on terms agreed between the parties, which do not necessarily correspond to market rates, with the exception of certain regulated services, which are provided on the basis of tariffs offered to related and third parties.

The following table shows the total amount of transactions that were completed with related parties as at 31 December 2021 and 2020:

In thousands of soms	**31 December 2021**	31 December 2020
Cash and cash equivalents	**438,765**	501,301
Trade accounts receivable, net of allowance for ECL	**232,679**	307,423
Trade and other accounts payable	**(89,195)**	(81,698)
Borrowings	**(54,221,699)**	(49,457,013)

For the year ended 31 December 2021 and 2020, the Company had the following transactions with related parties:

In thousands of soms	**2021**	2020
Revenue	**2,814,206**	2,614,326
Finance costs related to borrowings	**(2,240,282)**	(2,657,163)

Compensation to key management personnel

As at 31 December 2021, the key management personnel of the Company consisted of 6 people (31 December 2020: 7 people), and the amount of remuneration paid to key management personnel is 8,404 thousand soms and 9,460 thousand soms respectively.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial liabilities comprise borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations and construction of equipment. The Company's financial assets comprise trade receivables, cash and cash equivalents that arrive directly from its operations.

The Company is exposed to foreign currency risk, credit risk and liquidity risk.

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 Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's financing activities. Also, the Company's exposure to the risk of changes in foreign exchange rates relates to the Company's operating activities (when revenue or expense is denominated in a different currency from the Company's functional currency).

The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar, Swiss franc and euro exchange rate, with all other variables held constant. The Company's exposure to foreign currency changes for all other currencies is not material.

In thousands of soms	Increase/ (decrease) in exchange rate	Effect on (loss)/profit before tax
At 31 December 2021		
US dollar	**13%**	**(6,221,425)**
US dollar	**(10%)**	**4,785,711**
Euro	**13%**	**(607,298)**
Euro	**(10%)**	**467,152**
Swiss frank	**13%**	**(58,854)**
Swiss frank	**(10%)**	**45,272**
At 31 December 2020		
US dollar	14%	(6,277,830)
US dollar	(11%)	4,932,581
Euro	14%	(416,118)
Euro	(11%)	326,950
Swiss frank	14%	63,276
Swiss frank	(11%)	(49,717)

Credit risk

Credit risk arises primarily from cash and cash equivalents and from customers, including receivables outstanding and confirmed transactions. The company provides its services to only a few large buyers with a stable financial position and an appropriate credit history. The carrying amount of cash and cash equivalents and trade receivables, less allowances for expected credit losses, represents the maximum exposure to credit risk. The Company does not have a policy of assigning internal ratings and setting credit limits for counterparties.

The Company is exposed to credit risk from its operating activities. The Company holds cash and cash equivalents at Optima Bank OJSC and RSK Bank OJSC. The indicated banks were not assigned credit ratings.

Liquidity risk

The management of the Company has built an appropriate liquidity risk management framework in accordance with the short, medium and long-term funding and liquidity management requirements. The Company manages its liquidity risk by maintaining adequate reserves, bank loans and credit lines, by monitoring projected and actual cash flows and comparing maturity dates of financial assets and liabilities.

The Company assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. The Company has access to a sufficient variety of sources of funding and debt maturing within 12 (twelve) months can be rolled over with existing lenders.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

In thousands of soms	On demand	Due more than 1 month but not later than 3 months	Due more than 3 months but not later than 1 year	Due more than 1 year but not later than 5 years	Due more than 5 years	Total
At 31 December 2021						
Borrowings	**190,002**	**402,109**	**1,770,851**	**23,626,036**	**53,310,321**	**79,299,319**
Trade and other accounts payable	**159,852**	**–**	**–**	**–**	**–**	**159,852**
	349,854	**402,109**	**1,770,851**	**23,626,036**	**53,310,321**	**79,459,171**
At 31 December 2020						
Borrowings	173,233	362,620	1,589,307	20,033,495	54,377,277	76,535,932
Trade and other accounts payable	266,344	–	–	–	–	266,344
	439,577	362,620	1,589,307	20,033,495	54,377,277	76,802,276

Capital management

The primary objective of the Company's capital management is to ensure that it will be able to keep abiding going concern principle maximizing the shareholder's value by the leverage optimization.

The Company manages its capital structure and adjusts it with the consideration of changes in economic conditions. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2021.

Fair values of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in a forced or liquidation sale. The following methods and assumptions were used to determine fair values:

Fair value hierarchy

- The carrying amounts of cash and cash equivalents, trade receivables, trade and other payables approximate fair value due to the short-term nature of these financial instruments. The amortized cost of non-current receivables approximates their fair value.
- The fair value of unquoted instruments, borrowings from the Government of the Kyrgyz Republic, represented by the Ministry of Finance, is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, 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 data.

As at 31 December 2021 and 2020, the Company did not have any financial instruments classified as Level 1 or Level 3 financial instruments.

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

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair values of financial instruments (continued)

Fair value hierarchy (continued)

As at 31 December 2021 and 2020 the management assessed that the fair value of financial instruments of the Company, such as trade receivables and payables, other financial assets, cash and cash equivalents, approximates their carrying amounts largely due to the short-term maturities of these instruments. Borrowings are stated at amortized costs which approximate their fair values.

Changes in finance liabilities

In thousand soms	1 January 2021	Repayment	Loan increase	Finance costs	Discount recognition	Interest capitali-zation	Foreign exchange, net	31 December 2021
Borrowings	49,457,013	**(1,813,763)**	**3,769,287**	**2,240,282**	**(588,973)**	**101,063**	**1,056,790**	**54,221,699**

In thousand soms	1 January 2020	Repayment	Loan increase	Finance costs	Discount recognition	Amortization of discount	Gain on modification	Foreign exchange, net	31 December 2020
Borrowings	40,297,554	(1,475,813)	2,605,420	1,301,237	(302,821)	1,438,473	(2,590,963)	8,183,926	49,457,013

31. COMMITMENTS AND CONTINGENCIES

Operating environment

The Kyrgyz Republic continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the country's economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The decline in mineral prices has a negative impact on the economy of the Kyrgyz Republic. Interest rates in soms remain high. The combination of the above resulted in reduced access to capital, a higher cost of capital and increased uncertainty regarding further economic growth, which could negatively affect the Company's financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

Taxation

Various types of legislation and regulations in the Kyrgyz Republic are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors of the Kyrgyz Republic. Instances of inconsistent opinions between laws and regulations are not unusual, including opinions on interpretations of IFRS with regard to revenue, expenses and other items of the financial statements. The current regime of penalties and interest related to reported and discovered violations of the Kyrgyz Republic's law, are severe. Penalties generally can be 100% of principal tax amounts and interest is assessed at the rate of 0.09% established by Tax Code. As a result, penalties and interest can amount to multiples of any assessed taxes.

The Company believes it has paid or accrued all taxes that are applicable. Where legislation concerning the provision of taxes is unclear, the Company has accrued tax liabilities based on management's best estimate. The Company's policy is to accrue contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. Due to uncertainties associated with the Kyrgyz Republic tax system, the ultimate amount of taxes, penalties and interest, if any, may exceed the amount accrued to date and accrued at 31 December 2021. The effect of this is that additional tax liabilities may arise. However, because of the range of uncertainties described above in assessing any potential additional tax liabilities, management is unable to estimate the financial effect in relation to the amount of additional tax liabilities, if any, together with any related penalties and charges for which the Company may be liable.

Environmental matters

As laws and regulations relating to environmental pollution and remediation charges evolve in the Kyrgyz Republic, the Company may incur future costs, the amount of which cannot be currently determined due to factors such as the uncertainty surrounding the identification of parties responsible for such costs and the Kyrgyz Government's assessment of the ability of the parties involved to pay for the costs of environmental remediation. Management believes it is remote that such costs would have a material impact on the Company's financial position and, accordingly, no additional provision for environmental claims or penalties has been accrued in the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

31. COMMITMENTS AND CONTINGENCIES (continued)

Antimonopoly legislation

The Company's transactions are subject to antitrust legislation control. It is possible, with the evolution of the interpretation of antitrust law in the Kyrgyz Republic and the changes in the approach of the Antimonopoly Agency, that such transactions could be challenged in the future. Currently, the impact of such issues on financial statements cannot be reliably estimated and, therefore, no provision for any liability has been made in these financial statements.

Insurance

The insurance market in the Kyrgyz Republic is in a developing state and many forms of insurance protection common in other countries are not yet generally available in the Kyrgyz Republic. Nevertheless, the Company has insurance coverage for current operations, insurance of employees against occupational accidents, industrial injuries and industrial diseases, as well as civil liability to third parties at the level of generally accepted principles in the energy industry. Management believes that as at 31 December 2021, the Company's insurance program is in compliance with the major provisions of the Company's business rules.

32. SUBSEQUENT EVENTS

Restructuring of the energy sector

On 8 February 2022, in accordance with the order of the Chairman of the Cabinet of Ministers of the Kyrgyz Republic, the "Concept for restructuring the management system of the energy industry of the Kyrgyz Republic" was approved, according to which in 2022 the acquisition of distribution energy companies (Severelectro OJSC, Vostokelectro OJSC, Oshelectro OJSC and Jalalabatelectro OJSC) by "National Electrical Grid of Kyrgyzstan" OJSC with the allocation of the function of selling electrical energy.

The main goal of the reforms in the energy industry is to localize the internal resources of the subsidiaries of the National Energy Holding by optimizing costs and business processes in order to ensure the sustainable operation of the industry, its financial recovery, the commissioning of new generating capacities and strengthening the energy security of the Kyrgyz Republic.

The Company considers these events as non-adjusting events after the reporting period, the quantitative effect of which cannot be estimated at the current moment with a sufficient degree of certainty. The Company's management is currently analyzing the potential impact.