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SAMARKAND REGIONAL STATE UNITARY ENTERPRISE "SUVOKOVA"

Financial Statements,
For the year ended 31 December 2016 and
Independent Auditors' Report

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Independent Auditors' Report

To the Owner and Management of Samarkand State Unitary Enterprise "Suvokova"

Adverse opinion

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying financial statements do not present fairly (or do not give a true and fair view of) the financial position of the Samarkand State Unitary Enterprise "Suvokova" (hereinafter - the "Company") as at 31 December 2016, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2016, 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

Basis for Adverse opinion

1. The Company's IFRS financial statements as of and for the year ended 31 December 2015 and 2016 includes adjustments and reclassifications of statutory financial data in order to reflect the transition from local accounting standards to International Financial Reporting Standards. We were not provided with sufficient appropriate information and explanation regarding the nature and the period, to which these adjustments relate, so that we were not able to assess their potential effect over the Company's IFRS financial statements as of and for the year ended 31 December 2016.

2. As it is disclosed in Note 6 to the accompanying financial statements, as at 31 December 2016 the net carrying value of the property, plant and equipment amounts UZS 101,055,344 thousand (2015: UZS 54,026,872 thousand thousand), representing 78% of the Company's assets (2015: 90% of the Company's assets). Based on the audit procedures performed we identified certain indicators for impairment of these assets as of the reporting date, such as:

   - the Company incurred loss from its operations for 2016 in the amount of UZS 8,842,043 thousand and as at 31 December 2016 the accumulated losses amount UZS 31,811,946 thousand;
   - the Company's net assets amount UZS 49,017,789 thousand and are below its share capital in the amount of UZS 16,913,863; and
   - there are indications that some of the property, plant and equipment are obsolete or physically damaged.

   However, the Company has not carried out an impairment review on the property, plant and equipment as at 31 December 2016 required by the accepted accounting policy disclosed in note 5.7 in order to determine whether adjustments are needed to be made to the carrying amount of the property, plant and equipment. Due to the nature and complexity of these assets, we were not able to make our own estimate and to determine the value of impairment provision on the carrying value of the Company's property, plant and equipment as at 31 December 2016.

3. As it is disclosed in Note 9 to the accompanying financial statements, as at 31 December 2016, the balance of Company's inventories amounts UZS 2,071,127 thousand (2015: UZS 400,485 thousand) Inventories are carried at cost. Based on the audit procedures performed we identified cases of inventory' obsolence and physical damage. The Company's management did not assess the net realisable value of its inventories as of the reporting date. Owing to the nature and complexity of these assets we were not able to make our own estimates and to determine whether adjustment to the carrying amount of the inventories are needed as at 31 December 2016.

4. As it is disclosed in note 16 to the accompanying financial statements, for the year ended 31 December 2016 revenues are in the amount of UZS 35,302,424 thousand. Based on the audit procedures performed, we have identified that the data in the billing system for individuals is based on budgetary norms for the use of the sewage system per person, while the actual use of sewerage by individuals may differ materially. Due to the lack of sufficient appropriate data and supporting documents, we were not able to obtain reasonable assurance with the completeness and accuracy of revenues and related receivables from individuals for the year ended 31 December 2016.

5. As it is disclosed in Statement of changes in equity, during 2017, the Company has recognized net assets in amount of UZS 11,438,934 thousand, arising from inclusion of its branches. The financial data of these branches were not included in the Company's financial statements prior to 01 January 2016. This represents departure from adopted accounting policy, which requires such financial data to be included in the Company's financial statements from the moment when control is established. Accordingly, any correction has to be made retroactively in the first set of financial statements authorized for issue after identification of the errors, with restatement of the comparative amounts presented for the periods in which the errors occurred. Consequently, as at 31 December 2015, accumulated losses of the Group described above, are understated, while the assets are overstated in the amount of UZS 11,438,934 thousand.

Key audit matters

Key audit matters are matters that, according to our professional judgment, were the most significant for our audit of financial statements for the current period. These matters were considered in the context of our audit of the financial statements in general as well as in the formation of our opinion on this reporting, and we do not express a separate opinion on these matters.

Key audit matter	What audit procedures were performed on key audit matters?
1. Revenue recognition Revenue is a significant amount, formed from a set of individually insignificant transactions. To process data related to revenue, the Company uses billing information accounting systems and relies on the results of these systems. The most significant risks of revenue distortion arise in connection with: • the registration, processing and transmission of data on the parameters of the services provided between the switching equipment, billing system and the accounting system; • the correct application of tariffs that are constantly changing throughout the year. • Full coverage of individuals and legal entities that are subscribers of the company.	Our audit procedures included evaluating the Company's policies and controls in the field of information systems to determine their effectiveness in terms of the ability to prevent and / or identify distortions or loss of data related to revenue. We tested the following key controls for systems involved in revenue generation: • We checked the frequency of the backup and conducted an inspection of the server rooms to ensure that adequate security measures were in place to ensure physical security; • We verified that only authorized program changes could be implemented and that these authorized software changes were properly implemented by reviewing the documentation for testing these changes before implementation; • for new tariffs introduced during the year, we examined the documentation relating to the application of tariffs in the test mode before commencing their commercial application; • we made a recalculation of the amounts accrued to subscribers, multiplying the parameters of the rendered services with the corresponding tariffs;

	• • We reconciled information about subscriber payments received from payment agents with the corresponding data in the billing system. We also carried out analytical procedures to verify that the general direction and dynamics of revenue by type of services are consistent with our understanding of the Company's activities and the industry as a whole.

Other Matter

The financial statements of the Company for the year ended 31 December 2015 were audited by another auditor who expressed disclaimer of opinion on those statements on 31 March 2016 due to scope of limitation for impairment of property, plant and equipment, net realizable value of inventories, charter capital, trade payables, general and administrative expenses related to the Project Coordination Group and not recognized financial results from branches.

Responsibility of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS and for the internal control system that management considers necessary for 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 ability of the Company to continue continuous operation, for disclosure, as appropriate, of information relating to business continuity and for reporting on the basis of the going concern principle, unless the management intends to liquidate the Company, to cease its activities or, when it does not have a real alternative to such actions.

Management and those charged for corporate governance are responsible for overseeing the preparation of the Company's financial statements.

Auditor's responsibility for the audit of financial statements

The objectives of our audit 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 planning and performance of 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 entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

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

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

The engagement partner responsible for the audit resulting in this independent auditor's report is Nematulla Karimov

Managing Partner: Karimov N.F

Audit Manager: Yulchiev N.N

Auditor: Usmanov L.A

AO «Grant Thornton» LLC,
14 May 2018
Tashkent, Uzbekistan

Statement of financial position

	Notes	As at 31 December 2016	As at 31 December 2015
ASSETS			
Non current assets			
Fixed and non-material assets	6	101 055 344	54 026 872
Investments	7	-	44 066
Total Non - current assets		**101 055 344**	**54 070 938**
Current assets			
Inventory	8	2 071 127	400 485
Trade and other receivables	9	25 723 968	5 013 537
Cash and Cash Equivalents	10	518 534	571 052
Total Current assets		**28 313 629**	**5 985 074**
Total Assets		**129 368 972**	**60 056 012**
EQUITY AND LIABILITY			
Equity			
Charter capital	11	13 048 353	3 160 229
Restricted Capital	12	3 959 507	3 088 107
Retained earnings		(31 811 946)	(11 890 970)
Total Equity		**(14 804 086)**	**(5 642 634)**
Long term liability			
Long-term borrowings	13	72 510 905	62 229 621
Other long-term liabilities		55 615 834	-
Total Long term Liability		**128 126 739**	**62 229 621**
Current Liability			
Trade payables	14	14 083 310	3 429 596
Current portion of long-term liability	13	1 963 010	39 429
Total Current Liability		**16 046 319**	**3 469 025**
Total Liability		**144 173 059**	**65 698 646**
Total Equity and Liability		**129 368 973**	**60 056 012**

Approved and signed on behalf of the Company:

Yusupov K.SH
Acting director

Osmanova L.I
Chief Accountant

30 April 2018

The notes on pages 12 to 36 are an integral part of these financial statements.

Statement of comprehensive income

	Notes	For the year ended 31 december 2016	For the year ended 31 december 2015
Revenue	15	35 302 424	7 213 570
Cost of Sales	16	(29 032 205)	(5 334 036)
Gross Profit		**6 270 219**	**1 879 534**
General and Administrative expenses	17	(6 310 877)	(1 119 783)
Provision for impairment of trade recievables		(2 586 059)	28 775
Governmental grant	18	4 473 160	-
Other operating income	19	2 120 099	65 055
Operating profit		**3 966 542**	**853 581**
Finance cost	20	(14 193 738)	(7 717 003)
Finance income	20	1 805 211	340 325
Loss before tax expense		**(8 421 985)**	**(6 523 097)**
Income tax expense	21	(60 058)	(16 927)
Net loss		**(8 482 043)**	**(6 540 024)**
Total Comprehencive loss for the year		**(8 482 043)**	**(6 540 024)**

Approved and signed on behalf of the Company:

Yusupov K.SH
Acting director

Osmanova L.I
Chief Accountant

30 April 2018

The notes on pages 12 to 36 are an integral part of these financial statements.

Statement of changes in equity

	Charter capital	Restricted Capital	Retained Earning	Total
Opening balance 1 January, 2015	**3 160 229**	**1 617 894**	**(5 350 946)**	**(572 823)**
Other comprehensive loss for the year	-	-	**(6 540 024)**	**(6 540 024)**
Adjustment	-	-	-	-
Contribution of the Government of the Republic of Uzbekistan in kind	-	**1 470 213**	-	**1 470 213**
Closing balance 31 december, 2015	**3 160 229**	**3 088 107**	**(11 890 970)**	**(5 642 634)**
Profit for the year	-	-	**(8 482 043)**	**(8 482 043)**
Increase in the unification of branches as of 01/01/2016	-	-	(11 438 934)	**(11 438 934)**
Increase / decrease in Restricted Capital	-		-	-
Increase the authorized capital	9 888 124	-	-	**9 888 124**
Contribution of the Government of the Republic of Uzbekistan in kind	-	871 400	-	**871 400**
Other changes	-	-	-	-
Closing balance 31 december, 2016	**13 048 353**	**3 959 507**	**(31 811 946)**	**(14 804 086)**

Approved and signed on behalf of the Company:

Yusupov K.B.H.
Acting director

Osmanova L.I
Chief Accountant

30 April 2018

The notes on pages 12 to 36 are an integral part of these financial statements.

Statement of cash flows

	Notes	For the year ended 31 december 2016	For the year ended 31 december 2015
Cash flows from operating activities			
Loss for the year before taxation		(8 421 985)	(6 523 097)
Adjustments to reconcile gains to net cash flows from operating activities:			
Depreciation of fixed and intangible assets	6	5 242 652	469 140
Impairment of investments in Suvokawa district authorities		44 066	-
Provision for impairment of trade receivables	9	2 586 060	(28 775)
Governmental Grants	18	(4 473 160)	
Financial Cost	20	1 763 230	30 617
Exchange differences, net amount	20	(10 625 297)	7 346 061
Operating cash before changes in working capital		**(13 884 433)**	**1 293 946**
Increase in trade receivables and other receivables		(20 710 431)	(1 565 208)
Increase inventory		(1 670 642)	8 104
Decrease / increase in trade and other payables		10 653 714	1 887 435
Change in working capital		**(25 611 793)**	**330 331**
Cash flows from financing activities			
Increase the authorized capital		9 888 124	
Interest paid	20	(21 817 296)	(378 835)
Net cash provided by financing activities		**(11 929 172)**	**1 245 442**
Cash flows from investing activities			
Purchase of fixed assets		(52 271 124)	(19 906 374)
Obtaining government subsidies		871 400	-
Net cash used in investing activities		**(51 399 723)**	**(19 906 374)**
Cash flows from operating activities			
Receipt of borrowed funds		90 811 750	18 957 634
Repayment of borrowed funds		(1 923 581)	(36 874)
Net cash from financing activities		**88 888 170**	**18 920 760**
Net (decrease) in cash and cash equivalents		(52 518)	255 514
Cash and cash equivalents at the beginning of the year	10	571 052	315 538
Cash and cash equivalents at the end of the period	10	**518 534**	**571 052**

Approved and signed on behalf of the Company:

Yusupov K.SH
Acting director

Osmanova L.I
Chief Accountant

30 April 2018

The notes on pages 12 to 36 are an integral part of these financial statements.

Notes to financial statements

1 The Company and its operations

The state unitary enterprise "Suvokava" (hereinafter referred to as the Company) is a commercial organization that was formed by the orders of the Cabinet of Ministers of the Republic of Uzbekistan No. 215 dated October 16, 2015 and No. 306 of October 30, 2015 "On Measures for Implementing the Main Directions for the Development of Water Supply and Sewerage Organizations" .

According to the proposal of the Cabinet of Ministers of the Republic of Karakalpakstan, regional khokimiyats, the Ministry of Economy, the Ministry of Finance of the Republic of Uzbekistan, the Uzbek agency "Uzkommunkhizmat", a single state unitary enterprise "Suvokova" was established with branches in cities and regions on the basis of operating organizations of water supply and sewerage (hereinafter - Company).

In accordance with the proposal, the standard structures of the state unitary enterprises of Suvokova, as well as their city and regional branches, integrated measures to ensure the implementation of priority tasks for the development and modernization of drinking water supply and sewerage systems, improving the system for connecting business entities to water supply networks and sanitation on a turnkey basis.

The enterprise has the rights of an independent economic enterprise and is managed in accordance with the legislation of the Republic of Uzbekistan. Being a member of the khokimiyat of the Samarkand region, and being the assignee of the Regional Production Enterprise "Suvokova" of the Samarkand region, reorganized into the State Unitary Enterprise "Suvokova" is considered a defendant in all parameters of legal and financial and economic activities.

The Company operates in Samarkand city and is wholly owned by the Communal Service Department on behalf of the Government of the Republic of Uzbekistan and has social and economic importance to Samarkand region. The capability of the Company to continue as a going concern depends on continuous support of the Government of Uzbekistan.

The main activities of the Company are:

- Implementation of the government policy on water supply, implementation of plans and tasks
- Construction of facilities on the basis of funds allocated by the state
- Monitoring and improvement of the activities of branches under the order of the organization
- The use of existing sewerage lines, the development of the company's lines, for the continuous provision of water supply to the population, organizations, institutions and enterprises, improvement, as well as providing water supply in an amount sufficient for firefighting.
- Treatment of sewage waste and constant agitation in the provision of water supply
- Participation in the development of annual and long-term plans for the development of the water sector of the region
- Monitoring of the development of the billing system in cities and regions
- Ensuring the implementation of foreign investments aimed at the development of water supply and sewage systems in accordance with the state program.

The total number of employees as at 31December, 2016 was 249 people (2015: 265 people).

The legal address of the Company: Republic of Uzbekistan, Samarkand, 104147, Uzbekistan Street, 114-A.

In addition to the nature and objectives of the Company's activities, it plays a significant role in the ongoing social and economic reforms implemented in the Republic of Uzbekistan. Consequently, the Company's activities are strictly controlled by the state authorities, and, in accordance with the resolution of the Public Utilities Department No.01-8 of January 9, 2011, utilities like the Company are allowed to have a maximum gross margin of 10%.

The Government of the Republic of Uzbekistan has accepted the Project on reconstruction of sewage treatment plants in the cities of Bukhara and Samarkand on the basis of a loan agreement No. 4633-UZ dated November 26, 2009 between the International Development Agency (IDA) and the Republic of Uzbekistan.

1. The Company's Operation (Continuation)

The project includes the following parts (components):

Part A. Physical Investments

- repair of the sewerage system in the city of Bukhara, including:
- repair and replacement of existing sewer pipes;
- repair of existing water pumping stations;
- slight expansion of the sewage system;
- repair of a water treatment plant in the city of Bukhara, including repair and replacement of equipment, financing of minor construction works and increase of energy output;
- providing working equipment;
- provision of engineering advice and other technical assistance for repairs.

Repair of the sewerage system in the city of Samarkand, including:

- repair and replacement of existing sewer pipes;
- repair of existing water pumping stations and construction of additional water pumping stations;
- repair of the main water treatment plant and the Farhad water treatment plant, including repair and replacement of equipment, financing of minor construction works and increase of energy output;
- providing working equipment;
- provision of engineering advice and other technical assistance for repairs.

Part B. Institutional strengthening and capacity-building

Institutional strengthening and capacity building of Bukhara SUE through:

- development of communication strategies and campaigns to improve public awareness;
- training of personnel in the management of public services with an emphasis on the focus on the consumer;
- establishing a pilot system for dispatch control and data collection for faster response to emergencies and for daily activities.

Institutional strengthening and capacity building of the Samarkand SUEthrough

- development of communication strategies and campaigns to improve public awareness;
- training of personnel in the management of public services with an emphasis on the focus on the consumer;
- establishing a pilot system for dispatch control and data collection for faster response to emergencies and for daily activities.

Part C. Feasibility study for future investments

Financing of the feasibility study for future priority investments in the water supply sector.

Part D - Project Management

Improving the management of the PCU Project, monitoring and coordination capacity through the provision of goods, and consulting services, including project audit and training, and financing of operating costs.
The total funding for the Project is estimated at $ 67.95 million. The project is funded from various sources, including a MAP loan of 35.60 million special drawing rights (equivalent to 55.0 million US dollars) with an interest rate of 0.75% per annum of the principal. The interest rate on liabilities in the amount of 0.5% per annum should be paid on unused loan amounts. The principal amount of the loan must be repaid every six months for a period of 35 years, including a grace period of 10 years beginning in 2019. Another source of financing is the Government of the Republic of Uzbekistan, whose contribution is 12.96 million US dollars. It is planned that the Project will last until 2019.

2 The economic environment the Company operating

2.1 General Characteristics

The economy of the Republic of Uzbekistan continues to show some features of the developing market. The government develops the legislative, tax and regulatory framework required in a market economy, and also conducts significant economic and social changes. The future stability of the Uzbek economy largely depends on the ongoing reforms and transformations, as well as on the effectiveness of economic, financial and monetary measures undertaken by the Government.

In view of the fact that the reform process is still incomplete, the operations conducted in Uzbekistan involve risks that are not typical for economically developed countries. Among them, in particular, the inconvertibility of UZS in most countries outside the Republic of Uzbekistan, there is a low level of liquidity in the debt securities market and the capital market, as well as continuing inflation.

From 1 January, 2015 until 28 June, 2017, the refinancing rate remained at 9 percent per annum. Since 29 June, 2017, the refinancing rate from the Central Bank of the Republic of Uzbekistan has been increased to 14 percent per annum.

The further economic development of the Republic of Uzbekistan largely depends on the effectiveness of economic measures, financial mechanisms and monetary policy adopted by the Government, as well as the development of the tax, regulatory and legal and political system.

The state of the economy of the Republic of Uzbekistan is characterized by relatively average inflation rates. During 2016, the inflation rate was less than 5.7 percent (in 2015: less than 5.6 percent).

Dynamics of growth and macroeconomic stability are provided in Uzbekistan. Uzbekistan's GDP growth in 2016 was 7.8 percent (in 2015: 8.0 percent).

2.2 Currency transactions

Foreign currencies, especially the US dollar and the Euro, play a significant role in determining the economic parameters of many economic transactions in the Republic of Uzbekistan. The table below shows the rates of UZ soum in relation to the US dollar and Euro, set by the Central Bank of Uzbekistan:

	US Dollar	Euro
As at 31december, 2016	3 231,48	3 419,23
As at 31december, 2015	2 809,98	3 074,19

3 Basis of Presentation of Financial Statements

3.1 Applicable Standards

The accompanying financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards ("IFRS") approved by the International Accounting Standards Committee ("IASB") on the basis of the historical cost convention, adjusted for the initial recognition of financial instruments at fair value.

The company maintains accounts in accordance with the requirements of the current legislation of the Republic of Uzbekistan. These financial statements are prepared on the basis of these accounts with the adjustments necessary to bring it in line with IFRS in all material respects.

3.2 Functional and Presentation Currency

The national currency of the Republic of Uzbekistan is "Uzbek Sum" (hereinafter referred to as "UZS"). UZS was selected as a functional currency, as well as the currency in which these financial statements are presented.

All financial statement data has been rounded to the nearest thousand.

4 Important assessments and professional judgement

The preparation of financial statements in accordance with IFRS requires management to apply judgments, assumptions and estimates that affect the application of accounting policies and to reflect the amounts of assets and liabilities, income and expenses in the financial statements. Estimates and associated assumptions are based on historical experience and other applicable factors necessary to determine the carrying amount of assets and liabilities. Despite the fact that the estimates are based on the most complete knowledge of the management of the current situation, the actual results, in the final analysis, may differ materially from the accepted estimates.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities in the next financial year. Estimates and assumptions are continually analyzed on the basis of management experience and other factors, including expectations of future events that management believes are reasonable in the light of current circumstances. In the process of applying accounting policies, management also uses professional judgment and assessment. A professional judgment that has the most significant effect on the amounts recognized in the financial statements and estimates that result in material adjustments to the carrying amounts of assets and liabilities within the next financial year include:

Provision for doubtful debts

Management of the Company forms a provision for doubtful debts to account for settlement losses caused by the inability of debtors to make the required payments. When assessing the adequacy of the allowance for doubtful debts, the management proceeds from its own estimate of the distribution of outstanding balances of accounts receivable by the limitation period, the accepted practice of writing off, the creditworthiness of the client and changes in the terms of payment. With the continuing deterioration in the financial position of the debtors, the actual amount of write-offs may exceed the expected amount.

Continuity of activity

These financial statements reflect the Management's assessment of those impacts that affect the Company's operations and financial position. The future development of the economy of the Republic of Uzbekistan depends to a large extent on the effectiveness of measures taken by the Government of the Republic

Uzbekistan and other factors, including legislative and political events beyond the control of the Company. The Company's management is not able to predict the consequences of the impact of these factors on the financial situation in the future. Management believes that the Company will continue to function as a continuously operating enterprise. In making this decision, the management had in mind the current intention and further

4. Important assessments and professional judgement (Continuation)

support of the State. The management believes that the State will enable the Company to fulfill its obligation in the future.

Tax legislation and potential tax revenues and expenses

The tax, currency and customs legislation of the Republic of Uzbekistan allows for various interpretations. The Company's potential tax revenues and expenses are estimated by management at each reporting date. Liabilities for income tax are estimated by management in accordance with applicable law. Liabilities for fines, penalties and taxes, other than income tax, as of the reporting date are recognized in accordance with the most probable estimate of the management of the forthcoming expenses for these taxes.

Initial recognition of transactions with related parties

In the normal course of business, the Company conducts transactions with related parties. In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", financial instruments should be initially recognized at fair value. In the absence of an active market for such transactions, professional judgments are used to determine whether transactions at market or non-market interest rates have been performed. The basis for judging is the pricing of similar types of transactions with unrelated parties and the analysis of the effective interest rate.

5. Summary of Significant Accounting Policy

5.1 Changes in International Financial Reporting Standards

Applying new IFRS standards

The following changes to the applicable IFRS standards came into effect, effective January 1, 2016:

- Amendments to IFRS 11 "Joint Ventures" (issued in May 2014) to account for the acquisition of shares in joint operations that are a separate business.
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (issued in May 2014) to clarify the permitted methods for calculating depreciation.
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" (issued in September 2014) to address the inconsistency between the requirements of the standards with respect to the sale or contribution of assets to the associate or a joint venture by an investor.
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures about Participation in Other Organizations" and IAS 28 "Investments in Associates and Joint Ventures" (issued in December 2014) , explaining the order of accounting for investment in investment organizations.
- Amendments to IAS 1 "Presentation of Financial Statements" (issued in December 2014). The standard has been amended to clarify the notion of materiality and explains that an entity is not required to provide a separate disclosure required by IFRS if the information arising from this disclosure is immaterial, even if the IFRS requirement contains a list of individual disclosures or describes them as minimum requirements.
- "Annual Improvements to IFRS, the period 2012-2014."

The Company reviewed these amendments to standards in the preparation of financial statements. Changes to the current standards did not have a significant impact on the Company's financial statements.

Standards, clarifications and changes to existing standards that have not entered into force and are not applied by the Company ahead of schedule

A number of new standards, interpretations and amendments to the standards enter into force for annual periods beginning on or after 1 January 2017. In particular, the Company did not early apply the following standards, clarifications and changes to standards:

- IFRS 15 Revenue under contracts with customers (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018). The new standard establishes the basic principle that revenue

5. Summary of Significant Accounting Policy (Continuation)

should be recognized when goods are transferred or services are provided to the buyer at a contract price. Revenue from the sale of goods accompanied by the provision of services that can be clearly separated is recognized separately from the revenue from the provision of services, and discounts and rebates from the contract price are allocated to individual elements of revenue. In cases where the amount of payment is changed for any reason, revenue is reflected in the amount of the minimum amounts that are not subject to a significant risk of cancellation. The costs of enforcing contracts with customers should be recognized as an asset and written off throughout the period in which the benefits of the contract are realized.

- IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The standard supersedes IAS 17 Leases and introduces a single reflection model for all types of leases in the statement of financial position in a manner similar to the current treatment of financial lease contracts and requires that assets and liabilities be recognized for most leases, with the exception of specially stipulated cases. For the lessors, there have been minor changes in the current rules established by IAS 17 "Leases". Early application is permitted if the IFRS 15 "Revenue under contracts with customers" standard is applied at the same time ahead of schedule.
- IFRIC 22 "Advances received and issued in a foreign currency" (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018) clarifies the procedure for determining the applied exchange rates on initial recognition of the proceeds received and issued advances.
- Amendments to IFRS 9 Financial Instruments (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). IFRS 9 Financial Instruments replaces parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification and measurement of financial assets. Financial assets should be classified in two valuation categories: subsequently measured at fair value and subsequently measured at amortized cost. cost. The choice of the valuation method should be made at the initial recognition. The classification depends on the business model of financial instruments management organization and on the characteristics of cash flows provided for in the contract on the instrument. The requirements for hedge accounting have been adjusted to establish a closer relationship between accounting and risk management. The standard provides organizations with the option to choose between the accounting policies applying the hedge accounting requirements contained in IFRS 9 Financial Instruments or the continued use of IAS 39 Financial Instruments: Recognition and Measurement to all hedging instruments, since The present standard does not provide for accounting for cases of macro hedging.
- Amendments to IAS 7 "Statement of Cash Flows" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended standard obliges to disclose the reconciliation of movements for liabilities arising from financial activities.
- Amendments to IAS 12 "Income Taxes" for recognition of deferred tax assets for unrealized losses (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 2 Share-based Payment (issued in June 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments clarify the procedure for recording changes in the terms of remuneration on the basis of shares and the obligation to pay tax withheld from the amount of remuneration provided on the basis of shares.
- Amendments to IFRS 4 "Insurance Contracts" (issued in September 2016 and effective for annual periods beginning on or after 1 January 2018) relate to the simultaneous application of IFRS 4 "Insurance Contracts" and IFRS 9 Financial Instruments.
- Amendments to IAS 40 Investment Property (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments establish more precise requirements for determining the principles for classifying and stopping the assignment of property to investment real estate.

The Company is currently assessing how these changes will affect its financial position and performance.

Management also makes certain judgments in applying accounting policies. Such assessments and judgments are continually analyzed on the basis of historical data and other information, including forecasts and expectations of future events that appear to be reasonable in the light of emerging circumstances. Actual results may differ from those estimates, and management may review its estimates in the future, both in the positive and in the negative, taking into account the facts associated with each assessment.

5. Summary of Significant Accounting Policy (Continuation)

The following are the assumptions that may have the most significant effect on the financial statements and estimates that could result in significant changes in the carrying amounts of assets and liabilities within the next financial year.

5.2. Valuation at fair value

The Company estimates financial instruments held for trading and recognized as at fair value through profit or loss, available-for-sale financial assets, derivative financial instruments, investment properties at fair value at each balance sheet date.

Fair value is the price that would have been received upon the sale of an asset or paid in the transfer of an obligation in an evaluation environment conducted in an organized market between market participants at the valuation date. The fair value estimate assumes that the sale of an asset or the transfer of an obligation takes place:

- either in the market that is the underlying for the asset or liability;
- or in the absence of the main market in the most favorable market for the asset or liability.

The fair value of an asset or liability is estimated using assumptions that would be used by market participants in determining the price of an asset or liability, assuming that market participants act in their best interests. An estimate of the fair value of a non-financial asset takes into account the ability of a market participant to generate economic benefits from using the asset in the best and most efficient manner or selling it to another market participant who will use this asset in the best and most efficient manner.

The Company uses valuation techniques that are acceptable in the circumstances and for which data are available that are sufficient to estimate fair value, while maximizing the use of relevant observable inputs and minimizing unobservable inputs.

All assets and liabilities the fair value of which is measured or disclosed in the financial statements are classified within the hierarchy of sources of fair value as described below, based on the lowest-level inputs that are relevant to the fair value measurement as a whole:

- Level 1: quotes in an active market with respect to identical assets or liabilities (without any adjustments).
- Level 2: data other than quotations relating to Level 1, available directly (ie quotes) or indirectly (that is, data derived from quotations). This category includes instruments that are valued using: market quotations in active markets for similar instruments, market quotes for similar instruments on the market that are not considered as active, or other valuation techniques, all of whose data are used directly or indirectly based on observed baseline data.
- Level 3: data that is not available. This category includes tools that are evaluated using information that is not based on observable inputs, while such unobservable data has a significant impact on the valuation of the instrument. This category includes instruments valued on the basis of quotations for similar instruments for which significant unobservable adjustments or judgments are required to reflect the difference between the instruments.

In the case of assets and liabilities that are recognized in the financial statements on a periodic basis, the Company determines the transfer between the levels of the sources of the hierarchy, re-analyzing the classification (based on the initial data of the lowest level, which are significant for the assessment of fair value in general) at the end of each reporting period.

5.3. Classification of financial assets

The Company distributes its financial assets to the following accounting categories: loans and receivables. Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments, except for those that the Company intends to sell as soon as possible.

5.4. Classification of financial liabilities

The Company classifies its financial liabilities into financial liabilities carried at amortized cost.

5. Summary of Significant Accounting Policy (Continuation)

5.5. Financial instruments - the main approaches to evaluation

Financial instruments are carried at fair value or amortized cost, depending on their classification. Below is a description of these estimation methods.

Fair value is the price that can be obtained upon the sale of an asset or paid when transferring an obligation to conduct a transaction on a voluntary basis between market participants at the valuation date. The best confirmation of fair value is the quoted price in an active market. An active market is a market in which transactions with an asset or an obligation are conducted with sufficient frequency and in sufficient volume to obtain information about assessments on an ongoing basis. Valuation methods, such as the discounted cash flow model, and models based on data from similar transactions performed on market conditions, or the financial data of an investee are used to determine the fair value of financial instruments for which market information on the price of transactions is not available. The Company uses such methods of estimating fair value, which are the most acceptable under given conditions and use the main observables as much as possible.

Amortized cost - represents the amount at which the financial instrument was measured at initial recognition, less principal repayments, reduced or increased by the amount of accrued interest, and for financial assets - less the amount of losses (direct or through the use of an allowance account) from impairment. Accrued interest includes depreciation of deferred transaction costs at initial recognition, as well as any premiums or discount from the repayment amount using the effective interest method. Accrued interest income and accrued interest expense, including accrued coupon income and amortized discount or premium (including deferred when providing commission, if any) are not shown separately, but are included in the carrying amount of the relevant items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period to ensure a constant interest rate in each period (effective interest rate) on the carrying value of the instrument. The effective interest rate is the rate applied when the estimated future cash payments or receipts are accurately discounted (excluding future credit losses) over the expected life of the financial instrument or, where appropriate, a shorter period to the net book value of the financial instrument. The effective interest rate is used to discount cash flows from floating rate instruments until the next interest change date, with the exception of a premium or discount, that reflects the credit spread at the floating rate specified for this instrument or other variable factors that are set regardless of the market value . Such premiums or discounts are amortized over the entire expected period of the instrument's circulation. The calculation of the present value includes all fees and amounts paid or received by the parties to the contract that form an integral part of the effective interest rate.

5.6. Fixed assets

Property, plant and equipment are stated at cost, less accumulated depreciation and, if necessary, provision for impairment.

The costs of minor repairs and maintenance are accounted for as they arise. Expenses for replacement of large components of fixed assets are capitalized with subsequent write-off of the replaced component. At each financial year end, management assesses property, plant and equipment for impairment. In the case of impairment of property, plant and equipment, they are written off to the higher of value received from use and fair value less costs to sell. The carrying amount of the asset is reduced to the recoverable amount; an impairment loss is recognized in the statement of comprehensive income. The gain or loss on disposal of property, plant and equipment in the amount of the difference in the consideration received and their carrying amount is recognized in profit or loss.

5. Summary of Significant Accounting Policy (Continuation)

Depreciation - The depreciation of an object begins when it becomes available for use. Depreciation on property, plant and equipment is calculated using a straight-line method, that is, a uniform reduction in the cost to the residual value over the following estimated useful lives of the assets:

	Useful life (in years)
Buildings and Constructions	50
Machinery and Equipment	8-12
Computers and Office Equipments	5-7
Others	5

The residual value of the asset is the estimated amount that the Company would currently receive if the asset was sold, less estimated costs of disposal if the condition and age of the asset were consistent with the age and condition that the asset will have at the end of its useful life .

If the Company intends to use the asset before the end of its physical life, the residual value of the asset is zero. The residual value of assets and their useful life are reviewed and, if necessary, adjusted at the end of each reporting period

5.7. Income tax

Income taxes are recognized in the financial statements in accordance with the requirements of Uzbek law, effective or substantively enacted at the financial year end.

Income tax expense comprises current and deferred taxes and is recognized in the statement of comprehensive income unless they are to be recognized in other comprehensive income or equity because they are related to transactions that are also recognized in other comprehensive income or capital in the same or in any other reporting period.

Current tax is the amount that is expected to be paid or recovered from the budget in respect of taxable profit or loss for the current and previous periods. Taxable profits or losses are calculated on the basis of an assessment if the financial statements are approved before the filing of the relevant tax returns. Taxes other than income tax are included in general and administrative expenses.

Deferred income taxes are calculated using the balance sheet method for carrying forward tax losses and temporary differences arising between the tax base of assets and liabilities and their carrying amount in the financial statements. The carrying amount of deferred tax is calculated at tax rates that are expected to apply during the period of reversal of temporary differences or use carried forward for future tax loss periods at the tax rates, in full or in principal moments at the balance sheet date. Deferred tax assets for deductible temporary differences and deferred tax losses are recognized only if there is a high probability of future taxable profits, which can be reduced by the amount of such deductions.

5.8. Uncertain tax positions

Management reassesses the Company's uncertain tax positions at the end of each reporting period. Liabilities are recorded for those positions of income tax, which, according to the management, are likely to lead to additional tax charges in case of challenging these positions by the tax authorities. Such an assessment is carried out on the basis of interpretation of the tax legislation that was in effect or substantially entered into force at the end of the reporting period and any known court decision or other decision on such matters.

Liabilities for fines, penalties and taxes, other than income tax, are recorded on the basis of management's best estimate of the costs required to settle liabilities at the end of the reporting period.

5. Summary of Significant Accounting Policy (Continuation)

5.9. Inventory

Inventories are recorded at the lower of the original cost and net realizable value. The cost of inventories is determined using the FIFO method. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling costs.

5.10. Trade receivables

Trade receivables and other receivables are carried at amortized cost using the effective interest method.

5.11. Impairment of financial assets carried at amortized cost

Impairment losses are recognized in the statement of comprehensive income as they are incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and affect the amount or timing of estimated future cash flows that are related to the financial asset or with a group of financial assets that can be assessed with sufficient reliability. If the Company does not have objective evidence of impairment for an individually assessed financial asset (regardless of its materiality), this asset is included in a group of financial assets with similar credit risk characteristics and is assessed in conjunction with them for impairment. The main factors that the Company takes into account when considering the issue of impairment of a financial asset are its overdue status and the ability to exercise collateral, if any.

The following are the other main criteria on the basis of which the existence of objective evidence of an impairment loss is determined:

- delay in any next payment, while late payment can not be explained by a delay in the work of settlement systems;
- poor social knowledge base of users about the sewage system (private individuals);
- the counterparty experiences significant financial difficulties, as evidenced by financial information about the counterparty at the Company's disposal;
- the counterparty is considering the possibility of declaring bankruptcy or other financial reorganization;
- there is a negative change in the payment status of the counterparty due to changes in national or local economic conditions affecting the counterparty; or
- the cost of collateral, if any, is significantly reduced as a result of the deteriorating market situation.

If the terms of an impaired financial asset carried at amortized cost are reviewed as a result of negotiations or modified in any other way because of the financial difficulties of the other party, the impairment is determined using the original effective interest rate until the conditions are revised.

Impairment losses are always recognized by creating a provision in such amount to bring the asset's carrying amount to the present value of expected cash flows (which does not include future loan losses that have not yet been incurred) discounted using the original effective interest rates for this asset. Calculation of the discounted value of the expected cash flows of the financial asset to which collateral is secured includes cash flows that may arise as a result of the creditor's entry into possession of the debtor's property, less the cost of obtaining and selling collateral, regardless of the likelihood of the creditor entering into possession of the debtor's property.

If, in a subsequent period, the amount of the impairment loss decreases and this decrease can be objectively related to an event occurring after the impairment was recognized (such as an increase in the customer's credit rating), the previously recognized impairment loss is reversed by adjusting the created provision through the statement of comprehensive income .

5. Summary of Significant Accounting Policy (Continuation)

Assets that can not be repaid and for which all necessary procedures have been completed for the purpose of full or partial recovery and the final amount of the loss is determined are written off against the provision for impairment on the balance sheet. Subsequent recoveries of previously written-off amounts are credited to the impairment loss account in the statement of comprehensive income.

5.12. Prepayments.

Prepayments are recorded at historical cost less allowance for impairment. A prepayment is classified as a long-term if the expected period of receipt of goods or services related to it exceeds one year, or if the prepayment relates to an asset that will be recorded as non-negotiable on initial recognition. The amount of the prepayment for the acquisition of the asset is included in its carrying amount when the Company receives control of this asset and there is a possibility that the future economic benefits associated with it will be received by the Company.

Other prepayments are written off when you receive goods or services related to it. If there is a sign that the assets, goods or services relating to the prepayment will not be received, the carrying amount of the prepayment is to be reduced and the related impairment loss is recorded in the statement of comprehensive income.

5.13. Cash and Cash Equivalents

Cash includes cash and cash on bank accounts. Cash equivalents include short-term financial assets that can be easily transferred to cash and have a maturity of less than three months. Restricted funds include cash balances and cash equivalents that are not to be used for other purposes than those provided for in the loan terms or under banking law. Restricted funds are not included in the statement of cash flows.

5.14. Deferred income tax

Deferred tax assets and liabilities are calculated on temporary differences using the balance sheet liability method. Deferred tax assets and liabilities are included in the financial statements for all temporary differences between the tax base of assets and liabilities and their carrying amount that is recorded in the financial statements. Deferred tax assets are recognized only if it is probable that the existence of future taxable profit will allow the deferred tax assets to be realized or if such assets can be offset against existing deferred tax liabilities. Deferred tax assets and liabilities are calculated at tax rates that are expected to apply in the period when assets are realized or liabilities are discharged on the basis of tax rates in effect at the balance sheet date or about which the effective date in the near future was reliably known as of the reporting date. Deferred income taxes are recognized for all temporary differences associated with investments in subsidiaries and associates, as well as joint ventures, unless it is possible to check the timing of the reversal of temporary differences and when it is probable that the temporary differences will not decrease in the foreseeable future.

5.15. Value added tax

Value added tax related to sales proceeds is payable to the budget on an earlier of two dates: (a) the date of receipt of receivables from customers or (b) the date of delivery of goods or services to customers. VAT paid on the acquisition of goods and services is generally recoverable by offset against VAT accrued on sales proceeds upon receipt of the seller's invoice. Such offset is made in accordance with the tax legislation. VAT payable and VAT paid are disclosed in the statement of financial position in its detailed form as assets and liabilities. When a provision is made for the impairment of receivables, the impairment loss is recognized in the total amount due, including VAT.

VAT is applied at the following rates for sewerage services:

- 20% - the standard rate applied to legal entities; and
- 0% is the zero rate applied when selling services to individuals.

5. Summary of Significant Accounting Policy (Continuation)

5.16. Capitalization of borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of an asset whose preparation for its intended use or for sale necessarily requires considerable time (an asset that meets certain requirements) are included in the cost of this asset.

Capitalization of borrowing costs begins when:

a. the Company bears costs for the qualifying asset;
b. the Company bears borrowing costs;
c. the Company shall take the necessary steps to prepare the asset for use or sale.

The Company capitalizes borrowing costs that could have been avoided if it had not made capital expenditures on qualifying assets. Capitalized borrowing costs are calculated on the basis of the average cost of the Company's assets (weighted average interest expenses apply to expenses for qualifying assets), except when the funds are borrowed for the acquisition of a qualifying asset.

5.17. Trade payables

Debt for the main activity is accrued upon the fact of the counterparty's performance of its contractual obligations and is accounted for at amortized cost using the effective interest method.

5.18. Reserves for future expenses and payments

Reserves for future expenses and payments are non-financial liabilities with an indefinite period or amount. They are accrued if, as a result of a certain event in the past, the Company has legally substantiated or voluntarily assumed obligations, it is probable that an outflow of resources providing for economic benefits will be required to settle the obligation and the amount of the obligation can be estimated in monetary terms with a sufficient degree of reliability.

Reserves, including post-employment compensation and a reserve for obligations for the liquidation of fixed assets and environmental restoration, are recognized if, as a result of a past event, the Company has a current legal or voluntarily assumed obligation, the settlement of which is likely to require disposal of resources and which can be estimated in monetary terms with a sufficient degree of reliability. Liabilities are recognized immediately after they are identified at the current fair value of the expected future cash flows associated with the settlement of these liabilities. The initial assessment of the costs of the liquidation of fixed assets (and subsequent changes in estimates) are capitalized as part of fixed assets.

5.19. Chartered Capital

Chartered capital is the aggregate in monetary terms of contributions (shares at a nominal value) of the founders (shareholders) in the Company's property when it is created to support the activities within the framework defined by the constituent documents. The chartered capital of the Company is the collective property of the founders and at the same time the property of the Company as a legal entity. The procedure for forming and changing the chartered capital is regulated by the legislation of the Republic of Uzbekistan.

5.20. Restricted Capital

Contributions of the Government of the Republic of Uzbekistan are capitalized upon receipt and are recorded at fair value, which are designated as cash and in kind as Capital of restricted use in equity.

5.21. Revaluation of foreign currency

The functional currency of the Company is the currency of the underlying economic environment in which the company operates. The functional currency and reporting currency of the Company is the national currency of the Republic of Uzbekistan - Uzbek Sum (hereinafter referred to as "UZS").

Monetary assets and liabilities are transferred to the functional currency of the Company at the official exchange rate of the Central Bank of the Republic of Uzbekistan (CBU), for the respective reporting dates.

The gains and losses arising from the settlement and the translation of monetary assets and liabilities into the functional currency of the company at the official rate at the end of the year are recognized in the statement of

5. Summary of Significant Accounting Policy (Continuation)

comprehensive income. Recalculation at the exchange rate at the end of the year is not carried out with respect to non-monetary items of the statement of financial position, measured at actual costs.

5.22. Revenue recognition

The source of revenue is the use of the sewage system by legal entities and individuals. Revenues from the sale of services are recognized when the risks and rewards of ownership of the services are transferred, usually at the time the services are provided. The rendered services are taken into account on the basis of indicators of water meters installed in the field. In the absence of water meters, mainly from individuals, revenue is calculated on the basis of agreed and approved by the state standards.

Revenues are shown net of VAT.

The amount of revenue is determined at the fair value of the consideration received or receivable.

5.23. Remuneration of employees and deductions to social insurance funds

On the territory of the Republic of Uzbekistan, the Company implements deductions for a single social tax. These deductions are also reflected on the accrual basis. The single social tax includes contributions to the Pension Fund. The Company does not have its own pension scheme. Salary expenses, contributions to the state pension fund and social insurance fund, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued as the Company's employees provide relevant services.

5.24. Contingent assets and liability

Contingent assets are not recognized in the statement of financial position, and information about them is disclosed in the financial statements when it is probable that the related economic benefits will be received.

Contingent liabilities are not recognized in the statement of financial position, and information about them is disclosed in the financial statements, except for cases when the disposal of resources due to their redemption is unlikely.

5.25. Related party transactions

Related parties are those where one of the parties is controlled by the other or has significant influence in making financial or business decisions of the other party. In considering all possible relationships with related parties, the economic content of such relationships is taken into account, and not only their legal form. Due to the reason that the Company is government related company, applies exemption from IFRS and discloses following about the transactions and related outstanding balances: the name of the government and the nature of its relationship and the nature, type and amount of each individually significant transaction.
The Company disclose key management personnel compensation in total and for each of the following categories: short-term employee benefits, post-employment benefits, other long-term benefits, termination benefits and (e) share-based payment.

5.26. Events after the reporting date

Post-year-end events that provide additional information about a Company's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material. In terms of its products, the Company has one business segment, i.e. production and sale of additives and materials for the construction industry.

5.27. Errors

Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of consolidated financial statements. An entity corrects material prior period errors retrospectively in the first set of consolidated financial statements authorized for issue after their discovery by restating the comparative amounts for the prior period presented in which the error occurred.

6. Fixed Assets

	Buildings and construc-tions	Machinery and Equipment	Computers and Office equipments	Intangible assets	Costruction in progress	Total
Carrying amount as of 31 December, 2015	8 414 101	3 258 876	278 398	42 420	46 558 279	**58 552 074**
Accumulated depreciation	(3 141 760)	(1 232 834)	(146 366)	(4 242)	-	**(4 525 202)**
Net Book Value as at 31 december 2015	**5 272 341**	**2 026 042**	**132 032**	**38 178**	**46 558 279**	**54 026 872**
Associations:						
Book value	5 609 837	48 840 949	1 501 514	274 456	9 992 358	**66 219 114**
Accumulated depreciation	(439 344)	(15 913 786)	(231 220)	(274 456)	-	**(16 858 805)**
Capitalization of borrow ing costs	-	-	-	-	4 060 313	**4 060 313**
Receipts	-	957 873	-	-	12 727	**970 600**
Transfer	49 135 144	-	-	-	(49 135 144)	**-**
Disposals	(725 982)	(1 390 217)	(3 900)	-	-	**(2 120 099)**
Depreciation charge	(3 716 977)	(1 428 351)	(93 082)	(4 242)	-	**(5 242 652)**
Carrying amount as at December 31, 2016	**62 433 100**	**51 667 481**	**1 776 013**	**316 876**	**11 488 533**	**127 682 003**
Accumulated depreciation	(7 298 081)	(18 574 970)	(470 668)	(282 940)	-	**(26 626 659)**
Net Book Value as at 31 december 2016	**55 135 020**	**33 092 510**	**1 305 345**	**33 936**	**11 488 533**	**101 055 344**

The carrying amount of the "Buildings and structures" group basically represents the cost of the sewage treatment plant building and the sewage network system.

The carrying amount of the "Machinery and equipment" groups is basically the cost of tractors, trucks used for cleaning the sewage system and pumps.

Construction in progress is mainly the cost of reconstruction of sewage treatment plants and sewage systems.

The unification of the branches was in accordance with the proposal of the Council of Ministers of the Republic of Karakalpakstan, regional khokimiyats, the Ministry of Economy, the Ministry of Finance of the Republic of Uzbekistan, the Uzbek agency "Uzkommunkhizmat", a single state unitary enterprise "Suvokova" was established with branches in cities and regions on the basis of operating water supply and sewerage organizations.

7. Investments in the Suvokava District Administration

According to the orders of the Cabinet of Ministers of the Republic of Uzbekistan, Uzbekistan No. 215 dated October 16, 2015 and No. 306 of October 30, 2015, "On Measures to Implement the Main Directions for the Development of Water Supply and Sewerage Organizations," the Company was reorganized as the Suvokava State Unitary Enterprise and is a commercial organization. All areas were merged into the Company.

8. Inventory

	As at 31 december 2016	As at 31 december 2015
Spare parts	212 985	214 969
Inventory and accessories	112 091	76 151
Raw materials	1 356 074	51 283
Fuel	50 613	39 073
Other	339 364	19 009
Total reserves	**2 071 127**	**400 485**

Inventories are raw materials, stationery, inventory and household items, spare parts and are recorded at historical cost.

Raw materials mainly include chemicals used in a sewage treatment tank, reinforced concrete curbs and manholes, as well as various cast iron devices (bends, latches, valves, etc.).
Spare parts include spare parts for vehicles, excavators and tractors purchased from suppliers used in the daily activities of the Company.

9. Account recievables

Below is information on other receivables:

	As at 31 december 2016	As at 31 december 2015
Financial assets		
Trade receivables	21 631 743	3 979 582
Receivables for other services	188 911	1 303 845
Accounts receivable under the IDA project	-	116 639
Provision for impairment	(3 701 804)	(1 115 744)
Total accounts receivable	18 118 850	4 284 322
Other non-financial assets:		
Prepayment	7 605 118	629 281
Prepaid taxes	-	99 934
Total non-financial assets in receivables	7 605 118	729 215
Total accounts receivable on operating activities and other receivables	25 723 968	5 013 537

The accounts receivable for the main business, with a maturity of less than three months, are not considered as overdue debts.
At the date of each statement of financial position, the Company assesses all objective factors that may be considered as a depreciation of receivables. In the event that there is sufficient grounds to consider a receivable as impaired, the amount of the allowance for impairment is determined as the difference between the carrying amount of that debt and the expected recoverable amount discounted at the original effective interest rate. In the event that the Company establishes the fact that,
that there are no objective factors of the depreciation of the given receivable, irrespective of the materiality of the amount. The company attributes this debt to the group of arrears with
corresponding characteristics of credit risk, and the fact of impairment of the entire group of receivables is considered.
The main factors that the Company takes into account when considering the issue of impairment of trade receivables is its overdue status for more than 91 days.
Movements in the provision for impairment of trade receivables and other receivables as of 31 December, 2016 and 2015 are as follows:

9 Account receivables (Continuation)

	As at 31 december 2016	As at 31 december 2015
Provision for impairment at 1 January 2016	1 115 744	1 144 519
Provision for impairment of trade receivables	2 586 060	(28 775)
Provision for impairment	**3 701 804**	**1 115 744**

10. Cash and cash equivalents

	As at 31 december 2016	As at 31 december 2015
Settlement accounts in UZS	307 255	203 707
Other special accounts in the UZS	211 278	367 345
Total cash and cash equivalents	**518 534**	**571 052**

Below is an analysis of cash in banks by credit quality:

	As at 31 december 2016	As at 31 december 2015
Cash at banks		
Banks of Uzbekistan	518 534	571 052
Total cash in the bank on demand	**518 534**	**571 052**

The balance of cash and cash equivalents as of 31 December, 2016 is in Joint-Stock Commercial Bank "Ipoteka-Bank" and Joint-Stock Commercial Bank "Hamkorbank". Joint-stock commercial bank "Ipoteka Bank" and Joint-Stock Commercial Bank "Hamkor Bank" have a rating of "Stable" according to the rating, Moody's and long-term rating on deposit in local currency "B2"

11. Chartered Capital

	As at 31 december 2016	As at 31 december 2015
Chartered Capital	13 048 353	3 160 229
Total Equity	**13 048 353**	**3 160 229**

The company was registered by Decree No. 589 of 24 June, 1978, by the Council of Ministers of the Soviet Socialist Republic of Uzbekistan. The company has the rights of an independent economic enterprise and is managed in accordance with the legislation of the Republic of Uzbekistan. The share of the Government of the Republic of Uzbekistan in the authorized capital of the Company is equal to one hundred percent, the amount of the authorized capital of the Company is directly regulated by the Government of the Republic of Uzbekistan.

In accordance with the Decree of the Cabinet of Ministers of the Republic of Uzbekistan No. 306 of 30 October, 2015 "On measures to implement the main directions of development of water supply and sanitation", the authorized capital was increased by 9 888 124 thousand UZS.

12. Restricted Capital

	As at 31 december 2016	As at 31 december 2015
Contribution of the Government of the Republic of Uzbekistan in kind	3 948 830	3 077 430
Contribution of the Government of the Republic of Uzbekistan in cash	10 677	10 677
Total restricted capital	**3 959 507**	**3 088 107**

Under the IDA loan No. 4633 in accordance with Presidential Decree No. 1216 of 29 October, 2009, the State's contribution in kind is provided in the form of exemption from taxes and duties on goods, work, services and vehicles of the Suvokova Agency of the Samarkand region and its contractors.

The contribution of the State on co-financing the Project is capitalized upon its receipt and is recorded at fair value, defined as the cost of construction as capital of restricted use in equity.

13. Long-term borrowings

	As at 31 december 2016	As at 31 december 2015
Non-current portion		
IDA loan issued through the Ministry of Finance	71 676 488	61 478 965
Natexis bank loan issued through the Ministry of Finance	834 418	750 656
Total	**72 510 905**	**62 229 621**
Current Portion:		
The current portion of the loan from Natexis Bank, issued through the Ministry of Finance	1 963 010	39 429
Total	**1 963 010**	**39 429**
Total long-term borrwings	**74 473 915**	**62 269 050**

In addition to the loan agreement No. 4633-UZ dated 26 November, 2009, signed by the IDA and the Republic of Uzbekistan, on 29 November, 2010, a long-term sub-loan agreement was signed. A company valued under Special Drawing Rights (SDRs) of 16.4 million SDRs equivalent to 25.3 million US dollars.

The parties under this sub-loan agreement are the Government of the Republic of Uzbekistan, the Uzbek Agency "Uzkommunkhizmat", the Khokimiyat of the Samarkand region and the Company. Under the sub-loan agreement, the Company is the recipient of funds from IDA through the Ministry of Finance of the Republic of Uzbekistan represented by the Government of the Republic of Uzbekistan.

According to the repayment schedule of the loan agreement, principal repayment starts on 1 November, 2019 with a final maturity date of 1 May, 2044. Under the terms of the loan, 0.75% per annum is paid for the used loan amount and 0.5% per annum is paid for the unused amount.

The loan of Natexis Bank is a sub-loan agreement No. OUZ989C, signed on 19 May, 2005 between the Government of the Republic of Uzbekistan (the main guarantor of the loan of Natexis Bank), Khokimiat of Samarkand (guarantor) to finance the restoration and improvement of the quality of the existing water supply.

14. Trade payables

	As at 31 december 2016	As at 31 december 2015
Financial liabilities		
Accounts payable to suppliers and contractors	12 431 826,46	1 123 547
Total financial liabilities	**12 431 826**	**1 123 547**
Non-financial liabilities		
Taxes payable to the budget	141 387,85	3 168
Advances received	478 424,00	2 147 563
Salary to be paid	1 031 671,22	155 318
Total	**1 651 483**	**2 306 049**
Total trade payables	**14 083 310**	**3 429 596**

15. Revenue

	For the year ended 31 december 2016	For the year ended 31 december 2015
Revenue from legal entities	12 096 026	4 136 223
Revenue from individuals	23 200 393	3 050 032
Revenue from work and services	6 005	27 315
Total revenue	**35 302 424**	**7 213 570**

The source of revenue is the sale of services for water use and sanitation (sewerage) to legal entities and individuals and services for metrology (preventive inspection, inspection and repair of water meters).

Tariffs for the supply of a sewage system are approved by the regional department of the Ministry of Finance of the Republic of Uzbekistan. Companies are allowed to have a gross margin from the total income of not more than 10%.

By population, i.e. Individuals are registered in the specialized program Billing - automation of accounting, control and analysis of indicators of water use and sanitation.

According to concluded agreements with the population for water use, the data on the availability of water meters (meters) have been entered into the program, and if they are not established, then by the number of residents, the data are provided by the self-government bodies. Monthly, the program records data on consumed water volumes (meter readings) collected by line inspectors and, according to the established tariffs, the Company's revenues are calculated. For those categories of the population that do not have water meters (meters), accrual is made monthly according to the tariff for the number of residents.

The technical effectiveness of the billing system is limited. Data on billing for individual clients is based on budgetary norms for using the sewage system per person, while the actual use of sewerage by individuals can vary significantly.

16. Cost of sales

The components of the cost of sales are shown in the table below:

	For the year ended 31 december 2016	For the year ended 31 december 2015
Staff costs	6 867 258	1 998 594
Repair and maintenance expense	1 947 675	1 336 206
Materials and spare parts	1 142 888	967 537
Fuel and energy	11 062 135	609 097
Depreciation	5 118 878	421 432
Other	2 893 371	1 170
Total cost of sales	**29 032 205**	**5 334 036**

17. General and Administrative expenses

	For the year ended 31 december 2016	For the year ended 31 december 2015
Labor costs	2 884 098	573 695
Deductions to social insurance.	718 040	
Taxes other than income tax	1 248 534	245 694
Stationery and supplies	81 593	51 183
Depreciation deductions	123 774	47 708
Bank commissions	273 983	45 223
The services	206 677	44 847
Fuel	123 897	32 928
Communications costs	55 219	19 357
Sponsorship and charity	10 500	16 549
Protection of the environment	3 984	2 605
Commission fees	26 015	738
Fines and penalties	22 078	145
Other expenses	532 485	39 111
Total general and administrative expenses	**6 310 877**	**1 119 783**

18. Governmental grant

	For the year ended 31 december 2016	For the year ended 31 december 2015
Governmental Grant	4 473 160	-
Total Governmental Grant	**4 473 160**	**-**

19. Other operating income

	For the year ended 31 december 2016	For the year ended 31 december 2015
The profit from the disposal of fixed assets	2 120 099	-
Other operating income	-	65 055
Total operating income	**2 120 099**	**65 055**

20. Financial income and expense

	For the year ended 31 december 2016	For the year ended 31 december 2015
Foreign exchange revaluation expenses	(12 430 508)	(7 686 386)
Interest expense on long-term borrowings	(21 817 296)	(378 836)
Less capitalized finance costs	20 054 066	348 219
Financial expenses	**(14 193 738)**	**(7 717 003)**
Income from exchange rate differences	1 805 211	340 325
Financial income	**1 805 211**	**340 325**

The Company capitalized borrowing costs arising from financing directly related to the reconstruction of sewage canals.

The profit and loss from revaluation of foreign currency arises mainly from the revaluation of liabilities in US dollars and EURO for loans from IDA and Natexis Bank as a result of strengthening or weakening of the UZS in relation to the US dollar and EURO.

21. Income tax expense

The Company compiles tax payments for the current period on the basis of tax accounting data that is carried out in accordance with the requirements of the tax legislation of the Republic of Uzbekistan, which may differ from IFRS.

Differences between IFRS and the tax legislation of the Republic of Uzbekistan result in certain temporary differences between the carrying amount of a number of assets and liabilities for the purposes of compiling financial statements and for the purpose of calculating the corporate income tax.

Tax on income (profit) by the Company is accrued in accordance with the Tax Code of the Republic of Uzbekistan. The current tax rate on income (profit) for the Company in 2016 and 2015 amounted to 7.5 percent of the taxable profit.

In accordance with the tax legislation of the Republic of Uzbekistan, the Company also pays other taxes and deductions related to its operating activities.

	For the year ended 31 december 2016	For the year ended 31 december 2015
Loss before tax	**(8 421 985)**	**(6 523 097)**
Estimated amount of compensation for income tax at a statutory rate of 7.5% (2015: 7.5%)	(631 649)	(489 232)
Non-deductible expenses	221 834	162 328
Unrecognized other possible tax assets	469 873	343 831
Income tax expense for the year	**60 058**	**16 927**

22. Contingent assets and liabilities

Legal issues.

In the normal course of business, the Company is subject to lawsuits and claims. In the opinion of the management, the probable liabilities (if any) arising from such claims or claims will not have a material adverse effect on the financial position or performance of the Company in the future.

Insurance.

The market of insurance services in the Republic of Uzbekistan is at the stage of formation and many forms of insurance, common in other countries of the world, are not yet available in Uzbekistan. The company does not have full insurance coverage for its production facilities, losses caused by production delays, or incurred obligations to third parties due to damage to real estate or the environment caused by accidents or the Company's activities. Until the Company has full insurance coverage, there is a risk that the loss or damage of certain assets could have a material adverse effect on the Company's operations and financial position.

Tax law.

Currently in the Republic of Uzbekistan there are a number of legislative acts regulating the system of taxes paid to the Republican and local state budgets. These taxes include value added tax, income tax, and a number of other taxes and social deductions. The tax legislation of the Republic of Uzbekistan is subject to varying interpretations and subject to frequent changes. Often there are different opinions regarding the interpretation of legislative acts both between different departments and within one department (ie the State Tax Committee and its various inspections), which creates uncertainty and the ground for various disputes. Tax declarations and other legal obligations (for example, questions of customs and currency regulation) are subject to review and inspection by a number of agencies that by law have the right to apply significant administrative penalties (including fines and penalties) and may take a tougher position in the interpretation of legislation and verification of tax calculations. As a consequence, tax authorities may file claims for those

22. Contingent assets and liabilities (Continuation)

transactions and accounting methods for which they did not make claims before. This situation creates a greater probability of occurrence of tax risks in the Republic of Uzbekistan than, for example, in other countries with more developed taxation systems. Tax inspections can cover five calendar years of activity, immediately preceding the year of verification. Under certain conditions, earlier periods may be subjected to verification.

As of 31 December, 2016 management believes that it adheres to an adequate interpretation of the relevant legislation, and the Company's position regarding tax, currency and customs issues will be supported by the controlling bodies.

Credit related commitments.

The main purpose of these instruments is to ensure the provision of funds to customers as necessary. The total amount of obligations for guarantees, sureties, letters of credit and other financial liabilities does not necessarily represent future cash requirements, as the expiration or cancellation of these obligations may be possible without the provision of funds to the counterparty. Nevertheless, there is a potential risk, therefore, in the statement of financial position, among other obligations under guarantees, provision is made for credit related commitments with respect to guarantees and guarantees provided, depending on the financial condition of the client. The management of the company does not control issued credit related commitments, as it believes there will be no obligation and accordingly no provision for these contingent credit liabilities has been created.

23. Operations with related parties

For the purposes of these financial statements, the parties are considered to be related if one of them has the ability to control the other or exercise significant influence in making other financial and operational decisions by the other party as set out in IAS 24 "Related Party Disclosures". In considering all possible relationships with related parties, the economic content of such relationships is taken into account, and not only their legal form.

In the normal course of business, the Company conducts transactions with its subsidiaries, associates and joint ventures, as well as with other parties. These operations include settlements, lending, trade finance and foreign exchange transactions.

In the Company's financial statements, transactions with related parties include transactions with both Company Participants and the Company's intrasystem organizations. All related disclosures on related parties are disclosed in the notes to the financial statements.

Key management personnel of the Company receive short-term compensation, including salaries, paid leave and paid sick leave, bonuses and other payments. The total amount of payments to the Company's top management is not public information.

24. Segment information

Operating segments are components that carry out economic activities, while they can generate revenue or may be related to expenses, the operating results of the segments are regularly analyzed by the supreme operational management body, and financial information is available for operating segments. The highest operational management body can be represented by one person or a group of people who allocate resources and evaluate the results of the company's activities. The functions of the supreme operational management body are performed by the Company's Management Board.

The operating segment of the Company's reporting is one operating segment, namely, investment portfolio management of subsidiaries, associates and joint ventures. The management evaluates the operating results of the segment to make decisions about the allocation of resources and evaluation of their performance. The

24. Segment information (Continuation)

Management does not divide the Company's assets and liabilities into segments, as all assets and liabilities are accounted for by the Company's only reporting segment. To conduct an analysis of the Company's operations and make decisions based on this analysis, the Company's Management Board is provided with financial results in the form of operating reports for one segment. The financial results in this operating statement do not differ from those in the financial statements.

25. Fair Value

Fair value is defined as the price at which the instrument can be exchanged as part of a current transaction between interested parties willing to enter into a transaction on market terms, other than forced sale or liquidation. The best confirmation of fair value is the quotation of a financial instrument in an active market. Since for most of the Company's financial instruments there is no liquid market, their fair value must be determined on the basis of current market conditions and specific risks associated with a particular instrument.

The Republic of Uzbekistan continues to show some features of the developing economy, and the existing economic conditions continue to restrict activities in the financial market of the Republic of Uzbekistan. Information on the financial market can be outdated and therefore can not represent the market value of financial instruments.

All financial instruments of the Company are accounted for at amortized cost. Their fair value at Level 3 of the fair value hierarchy was estimated using the discounted cash flow method.

Financial assets carried at amortized cost

The estimated fair value of fixed interest rate instruments is based on the method of discounting the amounts of expected future cash flows using current interest rates for new instruments that involve a similar credit risk and a similar maturity. The discount rate used depends on the credit risk of the counterparty. The carrying amount of financial assets other than investment in the Company is approximately equal to their fair value.

Liabilities recorded at amortized cost

The fair value of liabilities is determined using the valuation technique. The estimated fair value of the instrument with a fixed interest rate and a fixed maturity is based on the expected discounted cash flows using interest rates for new instruments with similar credit risk and a similar period to maturity. The fair value of liabilities repayable on demand or redeemed in advance notification ("obligations payable on demand") is calculated as the amount payable on demand, discounted from the first date of the potential presentation of the demand for the repayment of the obligation. Discount rates used vary from 2.5% to 12% per annum depending on the maturity date and the currency of the obligation. Due to the short maturities, the book value of short-term financial payables approximates its fair value.

26. Management of Risks

The Chairman of the Management Board has overall responsibility for the organization of the Company's risk management system and for overseeing the operation of this system.

The risk management of the Company is carried out in respect of financial risks (market, currency, interest, credit risks, liquidity risks) .The Company's main task in risk management is to identify and analyze the risks faced by the Company, establish acceptable risk limits and appropriate control mechanisms, and for monitoring risks and compliance with the need to make changes in connection with changes in market conditions and the Company's operations.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's profits or the value of its available financial instruments. The goal of market risk management is to control exposure to market risk and keep it within acceptable limits, while seeking to optimize return on investment.

26. Management of Risks (Continuation)

	UZS	USD 1 = 3,231.48 УЗС	EUR 1 = 3 419.23 УЗС	Other	Total 31 December 2016
Finacial Assets					
Cash and Cash Equivalents	518 534	-	-	-	518 534
Trade and other receivables	25 723 968	-	-	-	25 723 968
Total financial assets	**26 242 501**	**-**	**-**	**-**	**26 242 501**
Financial liability					
Trade payables	12 120 300	-	-	-	12 120 300
Long-term borrowings	-	71 676 488	834 418	-	72 510 905
Short-term loans and borrowings received	1 963 010	-	-	-	1 963 010
Derivative financial instruments	-	-			-
Total financial liabilities	**14 083 310**	**71 676 488**	**834 418**	**-**	**86 594 215**
Open balance sheet	**12 159 192**	**(71 676 488)**	**(834 418)**	**-**	**(60 351 713)**

The following table provides an analysis of the Company's currency risk as of December 31, 2015. The Company's financial assets and liabilities are shown in the table at face value in terms of major currencies.

	UZS	USD 1 = 3,231.48 УЗС	EUR 1 = 3 419.23 УЗС	Other	Total 31 December 2015
Finacial Assets					
Cash and Cash Equivalents	571 052	-	-	-	571 052
Trade and other receivables	5 013 537	-	-	-	5 013 537
Total financial assets	**5 584 589**	**-**	**-**	**-**	**5 584 589**
Financial liability					
Trade payables	3 390 167	-	-	-	3 390 167
Long-term borrowings	-	61 478 965	750 656		62 229 621
Short-term loans and borrowings received	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-
Total financial liabilities	**3 390 167**	**61 478 965**	**750 656**	**-**	**65 619 788**
Open balance sheet	**2 194 422**	**(61 478 965)**	**(750 656)**	**-**	**(60 035 199)**

Currency risk

The Company is exposed to foreign exchange risk on the following transactions: provision and receipt of loans in foreign currency; mutual settlements with related parties in foreign currency. Due to the underdevelopment of the instruments of currency risk management in the financial market of Uzbekistan, the Company does not effect currency risk insurance.

The table below shows the changes in the financial result and aggregate income as a result of possible changes in exchange rates used at the end of the reporting period, while all other conditions remain unchanged. A reasonably possible change in the exchange rate for each currency is determined on the basis of the extreme limits of the fluctuations of the rates changed in comparison with the semi-annual dynamics of 2017 with the current rates (for 2015 annual). The semi-annual change in the rate is only for strengthening foreign exchange.

26. Management of Risks (Continuation)

The risk was calculated only for cash balances in currencies other than the functional currency of the Company. The change in the exchange rate will be further negatively reflected in the financial position of the Company, as the Company is forced to attract credit resources from banks and international financial institutions to fulfill the whole investment obligations.

Analysis of sensitivity to foreign exchange risk

The table below presents a sensitivity analysis of the Company to 15% and 16% of the increase and decrease in the sum to the US dollar and euro as of 31 December, 2016 and 2015, 11% and 3.8%, respectively. Management believes that, given the current economic situation in the Republic of Uzbekistan, it is possible that the exchange rate of the sum against the US dollar and euro will fluctuate up to 25%. This level of sensitivity is used internally by the Company when preparing currency risk reports for key management personnel of the Company and represents management's assessment of possible changes in exchange rates. The sensitivity analysis includes only amounts in foreign currencies available for the end of the period, with the conversion at the end of the year using rates that are changed by 25% compared to those in force as of December 31, 2016 and 2015, respectively.

Limitations of sensitivity analysis

The above tables reflect the effect of a change in the main assumption, while other assumptions remain unchanged. In fact, there is a connection between assumptions and other factors. It should also be noted that the sensitivity is non-linear, so interpolation or extrapolation of the results should not be performed.

The sensitivity analysis does not take into account that the Group actively manages assets and liabilities. In addition to this, the financial position of the Company may vary depending on the changes taking place in the market. For example, the Group's strategy in the area of financial risk management is aimed at managing the risk of market volatility. In the case of sharp negative price fluctuations in the securities market, management can resort to such methods as selling investments, changing the composition of the investment portfolio, and also to other methods of protection. Therefore, the change in assumptions may not have an impact on liabilities and significantly affect the assets recorded on the balance sheet at the market price. In this situation, different methods of assessing assets and liabilities can lead to significant fluctuations in the amount of capital.

Other limitations in the above sensitivity analysis include the use (with the aim of disclosing the potential risk) of hypothetical market movements, which are just the Company's forecast of forthcoming market changes that can not be predicted with any degree of certainty. Also a limitation is the assumption that all interest rates change in an identical way.

Interest rate risk.

The Company assumes the risk associated with the effect of fluctuations in market interest rates on its financial position and cash flows. Such fluctuations may increase the level of interest margin, but in the event of unexpected changes in interest rates, interest margin may also decline or cause losses.

Changes in interest rates affect mainly borrowed loans and loans, changing either their fair value (fixed-rate debt) or future cash flows (variable-rate debt). When attracting new loans or loans, the management decides whether a fixed or variable interest rate will be more beneficial to the Company during the expected period before maturity, based on its own professional judgment.

The change in the floating interest rate during the reporting period would not affect the profit or loss for the period, as all borrowed loans were received with a fixed interest rate.

The refinancing rate established by the Central Bank of the Republic of Uzbekistan since June 29, 2017 has been increased from 9% to 14%. This change may have a negative impact on the financial position of the Company, as the Company is forced to attract credit resources from banks and international financial institutions in order to fulfill the whole investment obligations.

26. Management of Risks (Continuation)

Credit risk.

The Company is exposed to credit risk, namely the risk that one party to a financial instrument bears financial losses to the other party by defaulting on its obligations. Exposure to credit risk arises from the provision of services by the Company on deferred payment terms and other transactions with counterparties that result in financial assets.

Financial assets for which the Company has a potential credit risk are mainly due to the related parties' indebtedness for loans, balances with banks and other receivables.

The company issues loans to its structural enterprises. And the obligation to repay loans was not evenly distributed. In this regard, the Company's exposure to credit risk from counterparty debt is significant.

To reduce the credit risk associated with paying suppliers, the Company adheres to the policy of concluding the main contracts for the purchase of goods and services from corporate clients that have a reliable credit history. The Company's accounts are serviced in one bank (see Note 6). The management of the Company believes that the credit risk associated with cash depends on the size of the bank and its reputation.

Maximum exposure to credit risk

The maximum size of the Company's credit risk may vary significantly, depending on the individual risks inherent in specific assets and on general market risks.

The following table shows the maximum exposure to credit risk for financial assets. For financial assets recorded on balance sheet accounts, the maximum exposure to credit risk is the carrying value of these assets, excluding offsets of assets and liabilities and collateral.

	31 December 2016			
	Maximum exposure to credit risk	Offset	Net credit risk after offset	31 december 2016
Cash and Cash Equivalents	518 534	-	518 533,00	518 533,52
Trade recievables	25 723 968	-	25 723 968	25 723 967,75

	31 December 2015			
	Maximum exposure to credit risk	Offset	Net credit risk after offset	31 december 2015
Cash and Cash Equivalents	571 052	-	571 052	571 052,00
Trade recievables	5 013 537	-	5 013 537	5 013 537,00

Liquidity risk.

Liquidity risk is the risk that the Company has difficulty in meeting its financial obligations, which are settled by the transfer of cash or another financial asset. The Company's approach to liquidity management is to ensure, to the extent possible, the Company's continued availability of liquid funds sufficient to pay off its obligations on time, both under normal and stressful conditions, preventing the occurrence of unacceptable losses and without jeopardizing reputation of the Company.

The Company does not provide an analysis of the Company's financial liabilities by maturity, specifying the dates that remain at the reporting date before the end of the contractual terms of the communication of secrecy of information.

26. Management of Risks (Continuation)

The Company's task in the field of capital management is to ensure the Company's ability to continue its uninterrupted business, providing an acceptable level of profitability, respecting the interests of other partners and maintaining an optimal capital structure.

27. Events after reporting date.

According to the Decree of the President of the Republic of Uzbekistan, PD-517 of 18 April, 2017 "On measures to further improvement of the management of the housing and communal services system" and PO-2900 of 18 April, 2017 "On the organization of activities of the Ministry of Housing and Communal Services of the Republic of Uzbekistan", the enterprise was reorganized as the Samarkand regional state unitary enterprise "Suvokova" under the Ministry of Housing and Communal Services.