Public Disclosure Authorized

Public Disclosure Authorized

Bukhara Regional State Unitary Enterprise "SUVOKOVA"

Financial Statements and Independent Auditors' Report

for the year ended 31 December 2017

Contents

INDEPENDENT AUDITORS' REPORT		3
STATEMENT OF FINANCIAL POSITON		6
STATEMENT OF COMPREHENSIVE INCOME		7
STATEMENT OF CHANGES IN EQUITY		8
STATEMENT OF CASH FLOWS		9
Notes to the financial statements		10
6.	Property, plant and equipment	25
7.	Investments in the Suvakava District	27
8.	Deferred expenses	27
9.	Inventories	27
10.	Trade receivables and other receivables	27
11.	Cash and cash equivalents	29
12.	Chartered capital	29
13.	Restricted capital	30
14.	Borrowings	30
15.	Trade payables and other payables	31
16.	Revenues	31
17.	Cost of sales	32
18.	General and administrative expenses	33
19.	Implementation costs	34
20.	Government Grant	34
21.	Other operating income	35
22.	Financial expenses and incomes	35
23.	Income Taxes	35
24.	Contingent liabilities	36
25.	Related Party Transactions	37
26.	Segment Information	37
27.	Fair value	38
28.	Risk Management	38
29.	Subsequent events	42

Grant Thornton
An instinct for growth™

АО ООО «Grant Thornton»
Республика Узбекистан,
100128, Ташкент,
ул. Абая. 1А
Тел.: +998 (71) 244-47-45/46
Факс: +998 (71) 244-47-43

AO "Grant Thornton" LLC
1A, Abay Str.,
Tashkent, 100128,
Republic of Uzbekistan
Tel.: +998 (71) 244-47-45/46
Fax: +998 (71) 244-47-43
W: www.gti.org
E: audit@uzgt.uz

INDEPENDENT AUDITORS' REPORT

To the owner and management of Bukhara Regional State Unitary Enterprise «Suvokova»

Disclaimer of opinion

We do not express an opinion on the accompanying financial statements of the Bukhara State Unitary Enterprise "Suvokova" (hereinafter - the "Company"). Because of the significance of the matters described in the "Basis for disclaimer of opinion" section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We were engaged to audit the financial statements of the Company, which comprise the statement of financial position as at 31 December 2017 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 and other explanatory information.

Basis for disclaimer of opinion

1. As it is disclosed in Note 6 to the accompanying financial statements, as at 31 December 2017 the net carrying value of the property, plant and equipment amounts UZS 236,508,236 thousand (2016: UZS 156,288,474 thousand), representing 82% of the Company's assets (2016: 86% 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 2017 in the amount of UZS 340,663,831 thousand and as at 31 December 2017 the accumulated losses amount UZS 406,595,482 thousand;
   - the Company's net assets amount UZS 363, 950,104 thousand and are below its share capital in the amount of UZS 367,319,949 thousand; 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 2017 required by the accepted accounting policy disclosed in note 5 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 2017.

2. As it is disclosed in Note 9 to the accompanying financial statements, as at 31 December 2017, the balance of Company's inventories amounts UZS 2,128,607 thousand (2016: UZS 2,229,772 thousand)

Inventories are carried at cost. Based on the audit procedures performed we identified cases of inventory' obsolesce and physical damage. The Company's management did not assess the net realizable 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 2017.

3. As it is disclosed in Note 16 to the accompanying financial statements, for the year ended 31 December 2017 revenues are in the amount of UZS 35,289,822 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 2017.

   Furthermore, as it is disclosed in note 16 to the accompanying financial statements, the technical efficiency of the billing system is limited by branches. Due to the lack of reliable data and supporting documents, we were not able to obtain sufficient audit evidence to confirm the completeness and accuracy of the proceeds from individuals. We were unable to determine the need to adjust the revenue or receivables from individuals.

4. As it is disclosed in note 25 to the accompanying financial statements, for the year ended 31 December 2017 the Company did not disclose nature, type and amounts of its transactions with related parties and key management personnel compensation in accordance with note 5.27 to the financial statements and International Financing Reporting standards. We were not provided with sufficient appropriate information on nature, type and amounts of its transactions with related parties and key management personnel compensation. Accordingly, we were not able to determine the nature, type and amounts of its transactions with related parties and key management personnel compensation that should be disclosed in the Company's financial statements as of and for the year ended 31 December 2017.

5. Based on the audit procedures performed and as at 31 December 2017, we identified that the Company did not recognize the general and administrative expenses related to the Project Coordination Group, which are distributed to the Company in accordance with the Project Operating Manual. We were not provided with sufficient appropriate information on the amount of these expenses. Accordingly, we were not able to determine the amount of adjustments required in the Company's financial statements as of and for the year ended 31 December 2017.

Material Uncertainty Related to Going Concern

We draw attention to Note 5.1 of the accompanying financial statements, which indicates that the Company incured a net loss of UZS 340,663, 831 thousand for the year ended 31 December 2017 and, accumulated losses at that date amounted to UZS 406,595,482 thousand. As further indicated in Note 5.1 to the accompanying financial statements, these events or conditions indicate that there is a substantial uncertainty that may raise serious doubts in the Company's ability to continue working as a continuous activity.

Our opinion is not modified in respect of this matter.

Grant Thornton

An instinct for growth™

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

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

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

Management and those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibility for the audit of financial statements

Our responsibility is to conduct an audit of the Company's financial statements in accordance with International Standards on Auditing and to issue auditor's opinion. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements and have fulfilled our other responsibilities under those ethical requirements.

Engagement Partner: N.F. Karimov

Audit manager: N.N. Yulchiev

Auditor: A.Kh. Abdullakhodjaev

AO Grant Thornton LLC

24 December 2018
Tashkent, Uzbekistan

STATEMENT OF FINANCIAL POSITON

	Notes	31 December 2017	31 December 2016
Assets			
Non-current assets			
Property, plant and equipment	6	**236 508 236**	156 288 474
Deferred expenses	8	**68 127**	32 787
Non-current assets		**236 576 364**	156 321 261
Current assets			
Inventories	9	**2 128 607**	2 229 772
Trade and other receivables	10	**44 818 284**	17 276 192
Cash and cash equivalents	11	**1 065 900**	1 244 832
Current assets		**48 012 792**	**20 750 796**
Total assets		**284 589 155**	**177 072 056**
Liabilities and Equity			
Equity			
Charter capital	12	**3 369 845**	3 369 845
Accumulated loss		**(406 595 482)**	(65 931 652)
Restricted capital	13	**39 275 533**	13 544 018
Total equity		**(363 950 103)**	(49 017 788)
Liabilities			
Non-current			
Long-term borrowings	14	**588 023 289**	194 683 690
Non-current liabilities		**588 023 289**	194 683 690
Current			
Accrued interest payable		**1 701 867**	1 701 867
Current portion of long-term borrowings	14	**25 516 939**	21 731 268
Trade payables and other payables	15	**33 297 163**	7 973 020
Current liabilities		**60 515 970**	31 406 155
Total liabilities		**648 539 259**	**226 089 844**
Total equity and liabilities		**284 589 155**	**177 072 056**

Approved and signed on behalf of the Company's management:

Director
Kholmurodov I.R.

Chief Accountant
Rustamov D.B.

24 December 2018

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

	Notes	2017	2016
Revenue	16	**35 289 822**	32 216 186
Cost of sales	17	**(27 951 651)**	(25 209 609)
Gross profit		**7 338 171**	**7 006 577**
General and administrative expenses	18	**(3 582 058)**	(3 128 484)
Sales expense	18	**(2 008 047)**	-
Other operating expenses	18	**(2 293 660)**	(1 979 409)
Impairment of trade and other receivables		**(466 692)**	(4 027 974)
Impairment of cash and cash equvalients		**(2 603)**	-
Government grant	20	**3 785 671**	21 282 510
Other operating income	21	**292 245**	4 373 688
Operating profit		**3 063 027**	**23 526 907**
Finance costs	22	**(337 841 198)**	(33 475 386)
Finance income	22	**8 601**	32 220
Interest expense		**(5 894 261)**	(1 388 816)
Profit before tax		**(340 663 831)**	**(11 305 075)**
Tax expense		**-**	-
Loss for the year		**(340 663 831)**	**(11 305 075)**

Approved and signed on behalf of the Company's management:

Director
Kholmurodov I.R.

Chief Accountant
Rustamov D.B.

24 December 2018

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

	Charter capital	Accumulated loss	Restricted capital	Total equity
Balance at 1 January 2016	**1 138 805**	**11 842 780**	**(54 574 260)**	**(41 592 675)**
Net loss for the year	-	-	(11 305 076)	(11 305 076)
Adjustment	2 231 040	-	-	2 231 040
Contribution of the Government of the Republic of Uzbekistan in kind	-	1 701 238	-	1 701 238
Other changes	-	-	(52 316)	(52 316)
Balance at 31 December 2016	**3 369 845**	**13 544 018**	**(65 931 652)**	**(49 017 788)**
Net loss for the year	-	-	(340 663 831)	(340 663 831)
Contribution of the Government of the Republic of Uzbekistan in kind	-	25 731 515	-	25 731 515
Balance at 31 December 2017	**3 369 845**	**39 275 533**	**(406 595 483)**	**(383 950 103)**

Approved and signed on behalf of the Company's management:

Director
Kholmurodov I.R.

Chief Accountant
Rustamov D.B.

24 December 2018

STATEMENT OF CASH FLOWS

For the year ended 31 December

	2017	2016
Operating activities		
Loss for the year before taxation	(340 663 831)	(7 719 827)
Non-cash adjustments		
Impairment of investments in regional management of Suvakava	-	377 076
Depreciation of fixed assets	5 864 603	(92 124)
Provision for impairment of trade receivables	466 692	1 314 527
Government grant	(3 783 068)	22 983 749
Deferred expense	(35 340)	13 519 465
Exchange rate differences, net amount	-	(33 340 105)
	(338 150 945)	**(2 957 239)**
Increase in trade receivables and other receivables	(31 770 794)	(11 068 134)
Change in inventories	101 165	(1 067 134)
Changes in trade and other payables	36 684 552	(666 236)
Net cash from operating activities	**(333 136 022)**	**(15 758 743)**
Investing activities		
Purchase of fixed assets	(80 219 763)	(67 648 650)
Net cash used in investing activities	**(80 219 763)**	**(67 648 650)**
Financing activities		
Receipt of borrowed funds	393 339 600	88 017 824
Repayment of borrowed funds	-	(5 620 156)
Contribution of Government of Uzbekistan	25 731 515	-
Increase the authorized capital	-	2 231 040
Interest paid	(5 894 261)	(1 388 816)
Net cash used in financing activities	**413 176 853**	**83 239 892**
Net (decrease) in cash and cash equivalents	**(178 932)**	**167 501**
Cash and cash equivalents, beginning of year	1 244 832	1 380 113
Cash and cash equivalents, end of year	**1 065 900**	**1 244 832**

Approved and signed on behalf of the Company's management:

Director
Kholmurodov I.R.

Chief Accountant
Rustamov D.B.

24 December 2018

Notes to the financial statements

1. Main activity of the Company

The company was registered by Decree No. 589 of 24 June 1978 of the Council of Ministers of the Soviet Socialist Republic of Uzbekistan. Due to the economic reforms introduced after independence in 1991, the Government of the Republic of Uzbekistan (hereinafter the Government) decentralized most of the organizations involved in public services. Subsequently, in accordance with the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 371 dated 22 July 1993, the Company was transferred to the direct management of the Municipal - operational association of the Bukhara region, which is fully owned by the Government.

According to the proposal of the Council of Ministers of the Republic of Karakalpakstan, regional hokimiyats, the Ministry of Economy, the Ministry of Finance of the Republic of Uzbekistan, the Uzbek Agency Uzkommunkhizmat, a single state unitary enterprise Suvokov was established with branches in cities and districts based on existing water supply and sewage organizations (hereinafter referred to as the Company).

In accordance with the proposal, typical structures of state-owned unitary enterprises of Suvokova, as well as their city and district branches, comprehensive measures to ensure the implementation of priority tasks for the development and modernization of drinking water supply and sewage systems, improvement of the system of connecting business entities to water supply networks and sewage 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 part of the khokimiyat of the Bukhara region, and being the assignee of the Regional Production Enterprise "Suvokova" of the Bukhara region, reorganized into the State Unitary Enterprise "Suvokova" is considered to be a defendant in all parameters of legal and financial and economic activities.

The company operates in the city of Bukhara and is fully managed by the Municipal Operational Association on behalf of the Government of the Republic of Uzbekistan and represents social and economic importance for the Bukhara region. The ability of the Company to continue uninterrupted operations depends on the continued support of the Government of the Republic of Uzbekistan.

The main activity of the Company is the management of sewage water supply systems. The total number of employees as of 31 December 2017 was 930 people (2016: 933 people).

The legal address of the Company: Republic of Uzbekistan, Bukhara, 105001, Ibn Sino Street, 111.

The main activities of the Company are:

- Realization of the government's policy on the issue of 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 organization's order;
- In order to develop and approve an annual business plan and submit to the khokim region in accordance with the established procedure;
- The percentage of funds to be transferred to a savings account must be determined and approved in accordance with the procedure of the financial department of the regional khokimiyat;
- Creation of other enterprises through its subsidiaries for the direct provision of water supply in the cities of oblasts, oblast centers, the population of urban and rural settlements, communal housing enterprises, business settlement and state organizations.

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%.

1. Main activities of the Company (continued)

In accordance with the Agreement on Additional Financing of July 12, 2016 No. 5698-UZ and 5699-UZ between the International Development Association (hereinafter - IDA) and the Republic of Uzbekistan, the Project on the reconstruction of sewage treatment plants in the cities of Bukhara and Samarkand (hereinafter - Project). The objectives of this Project are: (a) to reduce the harmful effects of wastewater collection on the environment; (b) improving the efficiency and sustainability of sewage systems in the Bukhara RSUE "Suvokova" (hereinafter - BVK) and the Samarkand RSUE "Suvokova".

The total amount of funding for the project is estimated at USD 105 million. The project is funded by the IDA with a loan in the amount of 74,700,000 Special Drawing Rights (equivalent to USD 105.0 million), with an interest rate of 1.25% of the principal amount under standard conditions (IDA 5698-UZ) and 1.83% for solid conditions (IDA 5699-UZ). The maintenance fee in respect of the withdrawn and outstanding portion of the sub-loan is 0.75% per annum. The interest rate on obligations in the amount of 0.5% per annum should be paid on the unused loan amounts. The principal amount of the loan must be repaid every six months for 25 years, including 5 years of the grace period, starting from the date of approval by the Board of Directors of the World Bank. It is planned that the project will last until 2019.

The Ministry of Finance of the Republic of Uzbekistan is responsible for repaying the loan on behalf of the Republic of Uzbekistan in accordance with the Loan Agreement of July 12, 2016 No. IDA 5698-UZ and IDA 5699-UZ between IDA and the Republic of Uzbekistan. However, there are sub-credit agreements between the Ministry of Finance of the Republic of Uzbekistan and Bukhara RSUE and Samarkand RSUE on the acceptance of obligations specified in the Credit Agreement.

The project includes the following parts (components):

Part A: Institutional Strengthening and Capacity Building

1. Institutional strengthening and capacity building of BVK and local communities through, inter alia: (a) provision of staff training in utility management with an emphases on improving general management, water and wastewater systems operation, and consumer orientation; (b) design and implementation of public awareness raising campaigns and customer satisfaction surveys; and (c) improvement of internal control and accountability systems; (d) enhancement of the accounting establishment of BVK; and (e) establishment of a pilot SCADA.
2. Institutional strengthening and capacity building of SVK and local communities through, inter alia: (a) provision of staff training in utility management with an emphases on improving general management, water and wastewater systems operation, and consumer orientation; (b) design and implementation of public awareness raising campaigns and customer satisfaction surveys; and (c) improvement of internal control and accountability systems; (d) enhancement of the accounting establishment of SVK; and (e) establishment of a pilot SCADA.
3. Institutional strengthening of the Recipient's water sector services through the provision of technical assistance to review, inter alia: (a) the strategy for the management and development of water sector services at the national level; (b) the technical standards applied in the supply of water sector services; and (c) the price-setting policies for said services.
4. Financing of feasibility studies for future priority (non-Project) investments in the water supply and sanitation sector of the Recipient.

Part B: Physical Investments

1. Rehabilitation of Bukhara Sewerage System, including, inter alia: (a) replacement of existing sewers; (b) rehabilitation of existing wastewater pumping stations and construction of an additional wastewater pumping station; (c) construction of new sewers; (d) completion of the rehabilitation of Bukhara Wastewater Treatment Plant; (e) provision of operational equipment; and (f) provision of technical assistance required therefor.

1. Main activities of the Company (Continued)

2. Rehabilitation of Samarkand Sewerage System, including inter alia: (a) replacement of existing sewers; (b) rehabilitation of existing wastewater pumping stations and construction of an additional wastewater pumping station; (c) construction of new sewers; (d) completion of the rehabilitation and upgrading of the Samarkand main wastewater treatment plant; (e) provision of operational equipment; and (f) provision of technical assistance required therefor; and (g) construction of a new wastewater treatment plant located in Farhad.

Part C: Project Management

Strengthening the PCU's and the respective PIU's Project management, monitoring and coordination capacity through the provision of goods and consultant services (including Project auditing services), Training, and Operating Costs.

Also, the Government of the Republic of Uzbekistan received permission from the International Development Association (IDA) to purchase a loan (loan agreement No. 5189-UZ dated July 18, 2013) to improve the drinking water supply in the Alat and Karakul districts of the Bukhara region. The project will finance the improvement of the coverage, quality and efficiency of communal water services in the Alat and Karakul districts of the Bukhara region.

The total amount of funding for the project is estimated at 139.02 million USD. The project is financed from various sources, including IDA loan in the amount of 53.20 million special drawing rights (equivalent to 82 million USD) with an interest rate of 0.75% per annum of the principal amount. The interest rate on obligations in the amount of 0.5% per annum should be paid on the unused loan amounts. The principal amount of the loan must be repaid every six months for 25 years, including a grace period of 5 years, starting from 2018. It is planned that the project will last until 2019. Another source of funding is the Government of the Republic of Uzbekistan, whose contribution is $ 53.9 million. It is planned that the project will last until 2019.

The Ministry of Finance of the Republic of Uzbekistan is responsible for repaying the loan on behalf of the Republic of Uzbekistan in accordance with the Loan Agreement of July 18, 2013 No. 5189-UZ between IDA and the Republic of Uzbekistan. However, there is an agreement on refinancing between the Ministry of Finance of the Republic of Uzbekistan and the Bukhara RSUE "Suvokova" (hereinafter - BVK) about accepting the obligations specified in the Loan Agreement.

Part A. Improvement of water supply infrastructure

Engineering-design and operational technical assistance services to support the Project Implementing Entity and the PCG and its Bukhara branch in the following tasks of Project implementation:

- review of the available feasibility study and preparation of optimized preliminary designs;
- preparation of detailed designs and bidding documents, construction supervision, and reporting;
- improvement of utility operation, maintenance and management, all through the provision of goods and consultants' services.

Rehabilitation and expansion of water production and bulk transmission systems through:

- the construction of a new expanded water treatment plant in Dvoinik, including the rehabilitation of the existing intake and pre-sedimentation ponds;
- the renewal and expansion of transmission systems including the 24 km trunk line from Dvoinik to Alat-town;
- the rehabilitation of the 13 km trunk line from Alat-town to Karakul-town; and

1. Main activities of the Company (Continued)

- the rehabilitation and expansion of the transmission pumping stations and related water tanks to upgrade the production and transmission capacity to about 49,800 m3 per day, all through the carrying out of works and the provision of goods and consultants' services.

Rehabilitation and expansion of urban and rural water networks through:

- the rehabilitation and expansion of existing water distribution systems in Alat-town and Karakul-town, including treated water tanks, treated water pumping stations, disinfection systems, distribution networks, installation of meters on about 7,200 existing household connections and installation of about 1,600 new household connections and meters;
- construction of new rural water transmission and distribution systems including pumping, storage, networks and metered connections in about 120 of the surrounding villages based on the optimized feasibility study and preliminary design cost estimates, all through the carrying out of works and the provision of goods and consultants' services.

Part B. Institutional strengthening and capacity-building

- Institutional strengthening and capacity building through the carrying out of institutional assessments of the capacity, organization and training needs of the Project Implementing Entity to improve its management and operational performance for a sustainable water supply service in the Alat and Karakul districts.
- Strengthening the capacity of utility management and operations staff by providing local and international training on management and technical operations, through the provision of consultants' services and Training.
- Strengthening the management and operational capacity of Project Implementing Entity through:
  - the establishment of modern procedures and systems, including hardware and software, for billing, collection, customer service, internal auditing, accounting and record keeping;
  - the provision of operations and maintenance equipment;
  - the provision of laboratory equipment and supplies, all through the provision of goods, consultants' services and Training.
- Developing a communications strategy and carrying out of public consultations and awareness campaign, consumer satisfaction and gender surveys, through the provision of consultants' services.

Part C. Feasibility studies for future investments

Preparation of a feasibility study of sewerage and on-site sanitation investment needs in the towns and districts of Alat and Karakul, to accompany increased water supply service, through the provision of consultants' services.

Part D - Project Management

Strengthening the capacity of the Project Coordination Unit at the level of the Project Implementing Entity, for Project management, monitoring and coordination, through the provision of goods, consultants' services, including financial and technical audits, and Training, and financing of Incremental Operating Costs.

2. The economic environment in which the Company operates

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.

According to the Decree of the President of the Republic of Uzbekistan No. UP-49474 dated February 7, 2017 "On the strategy for further development of the Republic of Uzbekistan", an Action Strategy for the priority areas of the Republic of Uzbekistan in 2017–2021 was approved, providing for the Action Strategy in five priority areas, one of which is the development and liberalization of the economy, including monetary and tax liberalization.

According to the decision of the Central Bank of the Republic of Uzbekistan, from June 28, 2017, the refinancing rate increased from 9% to 14% per annum.

According to the Decree of the President of the Republic of Uzbekistan No. PP-5177 dated September 2, 2017, "On Priority Measures to Liberalize Monetary Policy," the country's economy has generally accepted the devaluation of the national currency against foreign currencies. 1 US dollar was 8,100 UZS. The measures taken were free convertible national currency to foreign currencies, and restrictive measures on the use of foreign currency were simplified.

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 political system.

The state of the economy of the Republic of Uzbekistan is characterized by relatively average inflation rates. During 2017, inflation was less than 14.4 percent (in 2016: less than 5.7 percent).

In Uzbekistan, growth dynamics and macroeconomic stability are ensured. The GDP growth of Uzbekistan in 2017 amounted to 5.3 percent (in 2016: 7.8 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 Uzbek soum in relation to the US dollar and Euro, set by the Central Bank of Ukraine:

	USD	EUR
31 December 2017	8 120,07	9 624,72
31 December 2016	3 231,48	3 419,23

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"). Uzbek Sum 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 judgment

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 Company's 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.

4. Important assessments and professional judgment (continued)

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 support of the State. The management believes that the State will enable the Company to fulfil 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 Policies

5.1. Changes in International Financial Reporting Standards

Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Company

At the date of authorisation of these financial statements, several new, but not yet effective, Standards, amendments to existing Standards, and Interpretations have been published by the IASB. These Standards, amendments or Interpretations have not been adopted early by the Company.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations neither adopted nor listed below have not been disclosed as they are not expected to have a material impact on the Company's financial statements.

IFRS 9 'Financial Instruments'

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The key requirements of IFRS 9 applicable for the Company are:

5. Summary of Significant Accounting Policies (continued)

- **Classification and measurement of financial assets.** All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The Company will adopt the IFRS 9 from the effective date of January 1, 2018; apply it retrospectively and recognize the cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings as of January 1, 2018. The Organization is continuing to evaluate the impact of this guidance on our financial statements. The Organization is expecting that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses, and will be assessed as at the year ending 31 December 2018.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as 'IFRS 15') replace IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018.

IFRS 16 'Leases'

IFRS 16 will replace IAS 17 'Leases' and three related Interpretations. It completes the IASB's longrunning project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019.

5.2. Fair value measurement

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.

5. Summary of Significant Accounting Policies (continued)

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 lowest-level inputs that are significant for estimating the fair value as a whole) 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

5.5. Financial instruments - basic approaches to valuation

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.

5. Summary of Significant Accounting Policies (continued)

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 financial statements.

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. Property, plant and equipment

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 balance sheet date, management assesses property, plant and equipment for impairment. In case of depreciation of fixed assets, they are written off to the higher of the value received as a result of 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.

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 (years)
Buildings and constructions	50
Cars and equipment	8-12
Computers and office equipment	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. Summary of Significant Accounting Policies (continued)

5.7. Income taxes

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

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 the tax rates that are expected to apply during the period restoration of temporary differences or use carried forward for future tax loss periods at the tax rates, in full or in the principal moments adopted 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.

5.9. Inventories

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 and other 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 associated with 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 the group of financial assets with similar credit risk characteristics and is assessed in conjunction

5. Summary of Significant Accounting Policies (continued)

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 of 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 entering into possession of the debtor's property, less the costs 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.

Assets that cannot 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. Prepayment

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 prepayment amount for the acquisition of an asset is included in its carrying amount upon receipt

The company controls this asset and the Company will receive the likelihood that the future economic benefits associated with it.

5. Summary of Significant Accounting Policies (continued)

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.

5.16. Capitalization of borrowing costs

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

5. Summary of Significant Accounting Policies (continued)

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 and other 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.

5.19. Reserves for future expenses and payments

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.

5.20. Capital

Share 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 share 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 share capital is regulated by the legislation of the Republic of Uzbekistan.

5.21. Capital of restricted use

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.

5.22. Foreign currency revaluation

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 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 balance sheet, measured at actual costs.

5. Summary of Significant Accounting Policies (continued)

5.23. 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.

5.24. 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.

5.25. Contingent assets and liabilities

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.

5.26. Segment reporting

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 analysed 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.

5.27. 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.

5.28. 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, ie production and sale of additives and materials for the construction industry.

6. Property, plant and equipment

	Buildings and constructions	Machinery and equipment	Computers and office equipment	Other	Construction in-progress	Total
Gross carrying amount						
Balance 1 January 2017	3 811 288	70 586 246	858 260	14 227 400	66 795 280	156 288 474
Additions	103 320	-	10 375	43 446	86 050 869	86 207 810
Transfers	-	-	-	-	(123 188)	(123 188)
Disposals	(2 279)	(12 925)	(5 504)	(11 186)	-	(31 893)
Balance at 31 December 2017	**3 912 329**	**70 583 321**	**863 131**	**14 259 660**	**152 722 780**	**242 341 223**
Depreciation and impairment						
Depreciation	(4 190 645)	(832 118)	(45 800)	(695 041)	-	(5 864 603)
Disposals	2 004	12 924	5 504	11 186	-	31 617
Balance at 31 December 2017	**(4 188 641)**	**(919 194)**	**(40 296)**	**(684 855)**	**-**	**(5 832 986)**
Carrying amount 31 December 2017	**(276 312)**	**69 664 127**	**822 835**	**13 574 805**	**152 722 780**	**236 508 236**

The book value of the "Buildings and constructions" group represents the cost of the sewage treatment plant building and the sewage network system.

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

Incomplete construction is mainly the cost of reconstruction of sewage treatment plants and sewage systems.

6. Property, plant and equipment (continued)

	Buildings and constructions	Machinery and equipment	Computers and office equipment	Construction in-progress	Total
Gross carrying amount					
Balance 1 January 2016	1 896 332	79 580 970	837 281	46 775 854	129 090 437
Acquisition through combination					
Book value	923 994	48 740 464	423 541	21 888 615	71 976 614
Accumulated value	(44 751)	(2 201 202)	(20 513)	-	(2 266 466)
Receipts	-	2 828 467	-	-	2 828 467
Transfers	1 869 189	-	-	(1 869 189)	-
Disposals	(857)	(34 632)	(301)	-	(35 790)
Balance 31 December 2016	**4 644 107**	**128 914 067**	**1 240 008**	**66 795 280**	**201 593 462**
Depreciation and Impairment					
Balance 1 January 2016	(746 209)	(39 362 356)	(342 048)	-	(40 450 613)
Depreciation	(86 610)	(4 728 065)	(39 700)	-	(4 854 375)
Balance 31 December 2016	**(832 819)**	**(44 090 421)**	**(381 748)**	**-**	**(45 304 988)**
Carrying amount 31 December 2016	**3 811 288**	**84 823 646**	**858 260**	**66 795 280**	**156 288 474**

7. Investments in the Suvakava District

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. Deferred expenses

Deferred expenses include a one-time commission of one percent of the principal amount of the IBRD loan. These deferred expenses for the loan period of 20 years.

9. Inventories

	31 December 2017	31 December 2016
Spare parts	451 504	590 498
Water meters	12 163	287 861
Raw materials and materials	1 337 401	1 174 618
Stationery and fuel	327 539	176 795
Total inventory	**2 128 607**	**2 229 772**

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.

10. Trade receivables and other receivables

Below is information on other receivables:

	31 December 2017	31 December 2016
Financial assets		
Trade receivables	48 428 232	13 870 762
Less provision for impairment	(4 343 728)	(5 719 041)
Total financial assets	**44 084 504**	**8 151 721**
Non-financial assets		
Prepayment	519	8 758 304
Prepaid taxes	377 313	218 865
Other receivables	360 986	152 340
Less provision for impairment	(5 038)	(5 038)
Total non-financial assets	**733 780**	**9 124 471**
Total trade receivables and other receivables	**44 818 284**	**17 276 192**

The accounts receivable for the main business, with a maturity of less than three months, are not considered as overdue debts.

10. Trade receivables and other receivables (Continued)

As of the date of each report on the financial statements, the Company evaluates all objective factors in connection with which it is possible to consider the impairment of receivables. In the event that there is sufficient grounds to consider a receivable as impaired, the amount the allowance for impairment losses 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 there are no objective factors for the impairment of this receivable, irrespective of the materiality of the amount. The company relates this debt to the group of debts with the corresponding characteristics of the credit risk, and the fact of the 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 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Provision for impairment at 1 January	(5 724 079)	(1 696 105)
(Recovery) / provision for impairment during the year	1 375 313	(4 027 974)
Provision for impairment as at 31 December	**(4 348 766)**	**(5 724 079)**

Concentration of risk under accounts receivable from consumers is presented in the table below:

	31 December 2017		31 December 2016	
	Total	**%**	**Total**	**%**
Legal entities	37 762 551	86%	5 461 653	67%
Individuals	6 321 953	14%	2 690 068	33%
Total trade receivables	**44 084 504**	**100%**	**8 151 721**	**100%**

The following is an analysis of trade receivables for credit quality as of 31 December 2017:

	31 December 2017			31 December 2016		
	Legal entities	Individuals	Total	Legal entities	Individuals	Total
Neither past due nor impaired	-	-	-	-	-	-
Current accounts receivable	37 380 611	6 321 953	43 702 564	4 086 340	2 690 068	6 776 408
Current and non-impaired	**37 380 611**	**6 321 953**	**43 702 564**	**4 086 340**	**2 690 068**	**6 776 408**
With a delay of payment from 90 to 365 days	-	-	-	-	-	-
With a delay of payment more than 365 days	(381 940)	-	(381 940)	(1 375 313)	-	(1 375 313)
Total overdue and impaired	**(381 940)**	**-**	**(381 940)**	**(1 375 313)**	**-**	**(1 375 313)**
Provision for impairment	381 940	-	381 940	1 375 313	-	1 375 313
Total accounts receivable, net amount	**37 762 551**	**6 321 953**	**44 084 504**	**5 461 653**	**2 690 068**	**8 151 721**

11. Cash and cash equivalents

	31 December 2017	31 December 2016
Hamkor Bank - Current account in US dollars	-	-
Ipoteka Bank - Special accounts in UZS	967 625	1 177 605
Hamkor Bank - Special Account in UZS	49 302	-
Ipoteka Bank - Current account in UZS	45 286	67 054
National Bank - Special accounts in UZS	3 515	-
Corporate card	172	173
Total cash and cash equivalents	**1 065 900**	**1 244 832**

The special account in US dollars and Euros is a special account with the Joint-Stock Commercial Bank "Asaka" for accounting of funds received on IBRD and IDA loans. The company has a current account in the UZS in the AICB "Ipoteka-bank" and in the bank "Hamkorbank" and the block account for conversion into the JSCB "Asaka".

Joint-stock commercial bank "Hamkorbank" with participation of foreign capital, according to Moody's ratings, has a deposit rating in national currency with the "B2" rating, a deposit rating in foreign currency "B2", and a basic credit rating of the bank "b1". The outlook for all ratings is "Stable". According to the agency Standard & Poor's, the joint-stock commercial mortgage bank "Ipoteka-bank" has a "B + / B" rating with a "Stable" outlook. The assigned rating of IICB "Ipoteka-bank" is one of the highest among the ratings assigned to the commercial banks of Uzbekistan, which has a rating from the agency Standard & Poor's. The international rating agency Moody's has affirmed the ratings of the Joint Mortgage Bank AICB Ipoteka Bank for deposits in national currency and foreign currency at B2 level. All ratings of Ipoteka-bank have a forecast "Stable".

Joint-stock commercial bank "Asaka" according to the international rating agency "Fitch Ratings" has an international credit rating "Stable". Also, the international rating agency "Moody's" assigned the rating of the bank "Asaka" at the level of "Stable".

12. Chartered capital

	31 December 2017	31 December 2016
Charted capital	3 369 845	3 369 845
Total Chartered capital	**3 369 845**	**3 369 845**

The company was registered by Decree No. 589 of June 24, 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.

13. Restricted capital

Total restricted capital at January 1, 2016	**11 842 780**
State contribution	1 701 238
Total restricted capital at December 31, 2016	**13 544 018**
State contribution	25 731 515
Total restricted capital at December 31, 2017	**39 275 533**

14. Borrowings

	31 December 2017	31 December 2016
Long-term part:		
The loan from the "Asaka"	66 429 960	11 110 835
Aloan from the International Development Association (IDA)	32 677 084	17 206 464
Aloan from the International Bank for Reconstruction and Developmer	23 026 897	12 376 326
Loan from IDA (Reconstruction of sewage treatment plant)	335 708 500	102 183 022
Loan from the Asian Development Bank	130 180 848	51 807 043
Total	**588 023 289**	**194 683 690**
Short-term part:		
Current portion of long-term borrowings	25 516 939	21 731 268
Total	**25 516 939**	**21 731 268**
Total borrowings	**613 540 228**	**216 414 958**

In accordance with the Agreement on Additional Financing of July 12, 2016 No. 5698-UZ and 5699-UZ between the International Development Association (hereinafter - IDA) and the Republic of Uzbekistan, the Project on the reconstruction of wastewater treatment plants and sewer systems in the cities of Bukhara and Samarkand (hereinafter - Project). The objectives of this Project are: (a) to reduce the harmful effects of wastewater collection on the environment; (b) improving the efficiency and sustainability of sewage systems in the Bukhara RSUE "Suvokova" (hereinafter - BVK) and the Samarkand RSUE "Suvokova".

The total amount of funding for the project is estimated at USD 105 million. The project is funded by the IDA with a loan in the amount of 74,700,000 Special Drawing Rights (equivalent to USD 105.0 million), with an interest rate of 1.25% of the principal amount under standard conditions (IDA 5698-UZ) and 1.83% for solid conditions (IDA 5699-UZ). The maintenance fee in respect of the withdrawn and outstanding portion of the sub-loan is 0.75% per annum. The interest rate on obligations in the amount of 0.5% per annum should be paid on the unused loan amounts. The principal amount of the loan must be repaid every six months for 25 years, including 5 years of the grace period, starting from the date of approval by the Board of Directors of the World Bank.

The Government of the Republic of Uzbekistan also received permission from the International Development Association (IDA) to purchase a loan (loan agreement No. 5189-UZ of July 18, 2013) to improve the drinking water supply in the Alat and Karakul districts of the Bukhara region. The project will finance the improvement of the coverage, quality and efficiency of communal water services in the Alat and Karakul districts of the Bukhara region.

On October 4, 2002, the Company signed long-term sub-loan agreements No. 2002-21 and 2002-22 with Asaka Bank to finance a contract with a foreign supplier, OndeoDegremontS.A., For a total amount of 17,379 Euros. Both agreements were initially funded by Spanish financial institutions: (1) InstitutoDeCreditoOficial and (2) SocieteGenerale, which will finance the total contract amount in equal parts.

The interest rate of the loan (I) of InstitutoDeCreditoOficial is 0.8% per annum, including 0.5% per annum of the Asaka Bank. Interest is paid every six months from May 20, 2003 with a final maturity date of May 20, 2033; the principal amount is paid from November 20, 2012 with a final maturity date of May 20, 2033. The interest rate of the loan (II) of SocieteGenerale is 1.2% per annum plus EURIBOR, including 0.5% per

14. Borrowings (Continued)

annum of Asaka Bank. Interest is paid every six months, beginning on June 23, 2003, with a final maturity date of October 20, 2016; the principal amount is paid out every six months starting on June 23, 2005 with a final maturity date of October 20, 2016.

On 12 April 2002, the Company signed a long-term sub-loan agreement with the following International Financial Institutions (IFIs): (i) IDA-No. 3620-112 for an amount equivalent to US $ 9,080 and (ii) IBRD No. 4655-112 for US $ 9,090 and the Republic of Uzbekistan on the "Water Supply Project of Bukhara and Samarkand".
The interest rate on the IDA loan (I) is calculated at the six-month LIBOR rate plus 1.75% per annum. Interest is paid every six months, starting on July 1, 2004, with a final maturity date of July 1, 2022, and payment of the principal amount every six months from January 1, 2008 with a final maturity date of July 1, 2022. The interest rate on the loan (II) IBRD is calculated at a six-month LIBOR plus 1.75% per annum. Interest is paid every six months, beginning on April 1, 2003, with a final maturity date of April 1, 2022, and payment of the principal amount every six months, starting on October 1, 2007, with a final maturity date of April 1, 2022.

15. Trade payables and other payables

	31 December 2017	31 December 2016
Financial liabilities		
Accounts payable to suppliers and contractors	29 652 776	4 840 116
Total financial liabilities	**29 652 776**	**4 840 116**
Non-financial liabilities		
Taxes payable to the budget	1 999 570	1 595 688
Advances received	1 042 833	1 042 833
Salary	601 984	494 383
Total	**3 644 387**	**3 132 904**
Total liabilities	**33 297 163**	**7 973 020**

16. Revenues

	2017	2016
Drinking water	30 528 452	32 194 177
Sewerage	4 761 370	22 009
Total revenue	**35 289 822**	**32 216 186**

Tariffs for the supply of drinking water and collection of waste water are approved by the regional department of the Ministry of Finance of the Republic of Uzbekistan. As indicated in Note 1 of the Company, legislation allows for a gross margin of not more than 10%, which leads to a permanent net loss before the receipt of a Government Grant. However, in order to support the Company's activities and to implement capital expenditures, the Government provides contributions in kind and in cash.

During 2007, management installed water meters, which allowed the Company to measure the exact amount of water produced and supplied to the system. This information provides a reliable basis for calculating the water balance. Further, the management analyzes the loss of water resources, which are still significant. To analyze the causes of water losses, reliable estimates and judgments of management are needed. However, these circumstances indicate that there are significant inaccuracies that may lead to significant doubts about the completeness and reliability of billing for water consumption.

16. Revenues (continued)

By population, i.e. to individuals, the account is conducted 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 (ZhEK, shirkat, etc.). 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 that category 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. The data on billing for individuals' customers 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.

17. Cost of sales

The table below shows the cost of sales:

	2017	2016
Staff costs	10 154 904	10 509 587
Depreciation	5 803 824	4 762 251
Fuel and electricity	5 857 650	4 623 440
Cost of purchased water	2 854 587	2 638 477
Security Services	1 481 563	1 178 270
Repair and maintenance	1 018 540	428 336
Used materials and components	516 747	993 916
Other	263 836	75 332
Total cost of sales	**27 951 651**	**25 209 609**

The table below shows the cost of sales for drinking water:

	2017
Staff costs	8 480 388
Depreciation	4 781 688
Fuel and electricity	5 120 304
Cost of purchased water	2 854 587
Security Services	1 415 133
Repair and maintenance	924 751
Used materials and components	418 422
Other	236 460
Total cost of sales	**24 231 733**

17. Cost of sales (continued)

The table below shows the cost of sales for sewerage system:

	2017
Staff costs	1 674 516
Depreciation	1 022 136
Fuel and electricity	737 346
Security Services	66 430
Repair and maintenance	93 789
Used materials and components	98 325
Other	27 376
Total cost of sales	**3 719 918**

18. General and administrative expenses

The table below shows the items of general and administrative expenses:

	2017	2016
Staff costs	2 377 440	1 572 455
Depreciation	60 779	92 124
Write-off of low-value and short-wearing items	97 241	136 793
Repair costs	19 206	24 220
Expenses for fuel	85 071	31 711
Legal, audit services and insurance, services of outside organizations	394 859	1 203 595
Administrative expenses		29 492
Communications costs	15 422	17 063
Fare	-	-
The cost of maintaning PCG	480 274	2 060
Other	51 766	18 970
Total general and administrative expenses	**3 582 058**	**3 128 484**

18. Administrative and other operating expenses (continued)

The table below shows the items of other operating expenses:

	2017	2016
Taxes, except for profit	1 206 404	697 751
Staff costs	303 135	716 856
Bank commissions	346 069	257 991
State duty and legal costs	128 903	26 393
Repair and maintenance	12 104	15 687
Insurance	8 772	26 557
Protection of the environment	15 103	11 622
Financial aid	28 090	28 165
Expenses for fuel	6 989	4 625
Fines and penalties	81 657	17 779
For rent	5 536	14 854
Fare	8 761	53 333
Other	142 137	107 796
Total other operating expenses	**2 293 660**	**1 979 409**

19. Implementation costs

The table below shows the items of implementation costs:

	2017	2016
Staff costs	1 923 037	-
Repair and maintenance	85 010	-
Total sales expense	**2 008 047**	**-**

20. Government Grant

	2017	2016
Government grant	3 785 671	21 282 510
Total Government grant	**3 785 671**	**21 282 510**

21. Other operating income

The table below shows the items of other operating income:

	2017	2016
Income from services provided	153 919	149 529
Income from the sale of assets	65 421	-
Received fines and penalties	-	18 674
Income from sales of materials	-	68 450
Revenues from the rental of premises for operational lease	15 563	-
Revenues from compensation for previously recognized electricity costs	26 872	-
Other Revaluation Revenues	-	4 137 006
Other	30 470	29
Total other operating income	**292 245**	**4 373 688**

22. Financial expenses and incomes

The table below shows the items of financial expenses and revenues:

	2017	2016
Interest expenses on long-term borrowings	(5 038 207)	(1 388 816)
Loss from revaluation of foreign currency on financial activities:		
Long-term borrowings	(332 802 991)	(33 475 386)
Accounts payable on principal other activities		
accounts payable		
Financial expenses	**(337 841 198)**	**(34 864 202)**
Profit from revaluation of foreign currency on financial activities:		
Long-term borrowings	8 601	32 220
Financial income	**8 601**	**32 220**

23. Income Taxes

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 2017 and 2016 amounted to 7.5 percent of the taxable profit.

23. Income taxes (continued)

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

	2017	2016
Loss before tax	**(340 663 831)**	**(11 305 075)**
Estimated amount of compensation for income tax at a statutory rate of 7.5% (2015: 7.5%)	(25 549 787)	(847 881)
Non-deductible expenses	25 549 787	847 881
Income tax expense for the year	-	-

24. Contingent 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 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 2017 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.

24. Contingent liabilities (continued)

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 a loan commitment in respect of provided guarantees and guarantees, 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.

25. Related Party Transactions

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.

The company is a state enterprise with 100% state share in the authorized capital.

The company purchases goods and services from a large number of enterprises with state participation. Such purchases are individually small amounts and are usually carried out commercially. The transactions with the state also include settlements on taxes.

Management believes that transactions with related parties are carried out on terms equivalent to market conditions. Transactions with related parties are not secured and are not guaranteed by third parties.

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.

26. 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 analysed 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 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.

27. 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 cannot 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 notice ("liabilities payable on demand") is calculated as the amount payable on demand, discounted starting from the first date of the potential presentation of the demand for settlement 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.

28. Risk Management

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.

28. Risk Management (Continued)

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 2016 annual). The semi-annual change in the rate is only for strengthening foreign exchange.

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. According to the Decree of the President of the Republic of Uzbekistan "On Priority Measures to Liberalize Monetary Policy" No. 5177 dated September 2, 2017, in order to increase the efficiency of foreign exchange flows based on market principles, create a favourable investment and business climate to attract foreign investment, as well as boost stimulating the role of monetary policy in foreign trade, the rate of national currency in relation to foreign currencies is established on the interbank electronic trading of the currency exchange only based on supply and demand. Since September 5, 2017, the national currency of the UZS has been devalued, the rate of 1 (one) USD is equal to 8,100 UZS (before the devaluation of 4,210.35 UZS). Changes in the exchange rate adversely affected the financial statements of the bank, and led to the receipt of a substantial currency loss from the revaluation of currency items through the income statement.

The following table provides an analysis of the Company's currency risk as of 31 December 2017. The Company's financial assets and liabilities are shown in the table at face value in terms of major currencies.

	UZS	U.S. dollar USD 1 = 8,120.07 UZS	EURO EUR 1 = 9,624.72 UZS	Others	31 December 2017
Financial assets:					
Cash and cash equivalents	1 065 900	-	-	-	1 065 900
Long-term accounts receivable	-	-	-	-	-
Trade receivables	44 818 284	-	-	-	44 818 284
Total financial assets	**45 884 184**	**-**	**-**	**-**	**45 884 184**
Financial liabilities:					
Trade payables	33 297 163	-	-	-	33 297 163
Long-term loans and semi-deferred loans	-	558 296 650	29 726 639	-	588 023 289
Short-term loans and borrowings received	9 405 827	16 111 112	-	-	25 516 939
Other financial liabilities	-	1 701 867	-	-	1 701 867
Total financial liabilities	**42 702 991**	**576 109 629**	**29 726 639**	**-**	**648 539 259**
Open balance sheet	**3 181 194**	**(576 109 629)**	**(29 726 639)**	**-**	**(602 655 074)**

The following table provides an analysis of the Company's currency risk as of 31 December 2016. The Company's financial assets and liabilities are shown in the table at face value in terms of major currencies.

28. Risk Management (Continued)

	UZS	U.S. dollar USD 1 = 3,231.48 UZS	EURO EUR 1 = 3,419.23 UZS	Others	31 December 2016
Financial assets:					
Cash and cash equivalents	1 244 832	-	-	-	1 244 832
Long-term accounts receivable	-	-	-	-	-
Trade receivables	17 276 192	-	-	-	17 276 192
Total financial assets	**18 521 024**	-	-	-	**18 521 024**
Financial liabilities:					
Trade payables	7 973 020	-	-	-	7 973 020
Long-term loans and semi-deferred loans	-	164 957 051	29 726 639	-	194 683 690
Short-term loans and borrowings received	-	21 731 268	-	-	21 731 268
Other financial liabilities	-	1 701 867	-	-	1 701 867
Total financial liabilities	**7 973 020**	**188 390 186**	**29 726 639**	-	**226 089 845**
Open balance sheet	**10 548 004**	**(188 390 186)**	**(29 726 639)**	-	**(207 568 821)**

Analysis of sensitivity to foreign exchange risk

The following table provides an analysis of the sensitivity of the Company to 151% and 15% of the increase and decrease in the sum to the US dollar and euro as of 31 December 2017 and 2016, 181% and 11 % 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 the foreign currency amounts available at 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 effect as of 31 December 2017 and 2016, respectively.

	31 December, 2017		31 December, 2016	
	UZS/USD	UZS/USD	UZS/USD	UZS/USD
	+151%	**-151%**	**+15%**	**-15%**
Impact on net income and equity	(869 925 540)	869 925 540	(28 258 528)	28 258 528

	31 December, 2017		31 December, 2016	
	UZS/EUR	UZS/EUR	UZS/EUR	UZS/EUR
	+181%	**-181%**	**+11%**	**-11%**
Impact on net income and equity	(1 042 758 429)	1 042 758 429	(20 722 920)	20 722 920

28. Risk Management (Continued)

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.

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.

28. Risk Management (Continued)

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 12). 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.

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, with an indication of the terms that remain at the reporting date before the end of the terms of repayment of information secrecy provided by the terms of the contracts. Capital management

Capital Management

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.

The company controls capital based on the ratio of debt to capital. This indicator is calculated by dividing the net amount of the debt by the whole amount of capital under the management of the Company. Net debt is the total amount of debt recognized in the statement of financial position, net of cash and cash equivalents. The total amount of capital under management of the Company is the total amount of equity recorded in the statement of financial position.

29. Subsequent events

After 31 December 2017 - the reporting date until the approval of these financial statements, there are no adjusting events reflected in the stand-alone financial statements or events that are materially significant for disclosure in these stand-alone financial statements.