LLC Shurtan Gas Chemical Complex

Consolidated financial statements

for the year ended 31 December 2020
with the independent auditor's report

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Independent auditor's report

To the Shareholder and Management of "Shurtan Gas Chemical Complex" Limited Liability Company

Opinion

We have audited the consolidated financial statements of "Shurtan Gas Chemical Complex" Limited Liability Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Uzbekistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by another auditor who expressed a modified opinion on those consolidated financial statements on 20 September 2021 in respect of scope limitation as to the existence of inventory as at 31 December 2019, 2018 and 2017as the auditor did not observe the counting of the physical inventories.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Tashkent, Uzbekistan
19 April 2022

Audit organization „Ernst & Young LLC"

Audit Organization LLC Ernst & Young
Certificate authorizing audit practice No. AF-00816 dated 17 April 2019 registered with the Ministry of Finance of the Republic of Uzbekistan.

A. Azamov

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In millions of Uzbek soums	Note	2020	2019 (Restated)*	2018 (Restated)*
Assets				
Non-current assets				
Property, plant and equipment	15	2,781,064	1,668,109	864,438
Trade receivables	11	40,753	24,429	2,120
Advances for non-current assets	16	2,205,051	653,463	94,348
Deferred tax assets on corporate income tax	28	43,157	28,852	107,221
Long-term restricted cash	10	18,519	-	-
Other non-current financial assets		57 916	74 651	60,007
Total non-current assets		**5,146,460**	**2,449,504**	**1,145,253**
Current assets				
Cash and cash equivalents	9	24,447	27,755	67,128
Restricted cash	10	6,523	2,238	5,873
Trade receivables	11	250,059	236,620	100,961
Advances paid	13	81,765	86,956	48,263
Inventories	12	359,804	297,555	230,738
Income tax prepaid		9,194	-	-
Other current assets	14	95,608	41,590	-
Total current assets		**827,400**	**692,714**	**452,963**
Total assets		**5,973,860**	**3,142,218**	**1,598,216**
Liabilities and equity				
Equity				
Charter capital	20	359,158	359,158	359,158
Retained earnings		829,295	503,385	(141,053)
Total equity		**1,188,453**	**862,543**	**218,105**
Non-current liabilities				
Borrowings	18	820,390	26,266	34,112
Defined employee benefit obligations	19	72,427	47,477	19,424
Total non-current liabilities		**892,817**	**73,743**	**53,536**
Current liabilities				
Trade and other payables	17	105,794	354,680	618,982
Borrowings	18	3,374,991	1,414,497	48,540
Income tax payable		-	19,811	858
Defined employee benefit obligations	19	8,003	1,746	795
Financial guarantees	30	384,595	396,814	643,098
Other current liabilities		19,207	18,384	14,302
Total current liabilities		**3,892,590**	**2,205,932**	**1,326,575**
Total liabilities		**4,785,407**	**2,279,675**	**1,380,111**
Total liabilities and equity		**5,973,860**	**3,142,218**	**1,598,216**

* *Some amounts shown here do not correspond to the financial statements as at 31 December 2019 and 2018 and reflect adjustments made, see Note 5.*

Approved for issue and signed on 19 April 2022

General Director	*Sh.Ch. Aslanov*

Chief Accountant	*Sh. Umarov*

O'ZBEKNEFTGAZ AKSIYADORLIK JAMIYATI "SHURTAN GAZ KIMYO MAJMUASI" MAS'ULIYATI CHEKLANGAN JAMIYATI
UNG Shurtan GKM

The accounting policies and explanatory notes on pages 5-40 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In millions of Uzbek soums	Note	2020	2019 (Restated)*
Gas products and petrochemicals sales	21	2,420,368	1,968,107
Other operating income		30,415	59,343
Total revenues and other income		**2,450,783**	**2,027,450**
Changes in cost of finished goods inventories		16,551	12,935
Raw materials and consumables used	22	(1,147,200)	(670,696)
Services and utilities	23	(173,705)	(163,882)
Employee benefit expenses	24	(249,017)	(293,211)
Depreciation	15	(64,489)	(68,041)
Charity and donations		(47,137)	(48,130)
Taxes other than income tax	25	(37,239)	(29,778)
Net loss from impairment of financial assets		(26,942)	(29,567)
Net loss on disposal of subsidiaries	7	(4,793)	(49,755)
Other operating expenses	26	(61,390)	(51,317)
Total costs and expenses		**(1,795,361)**	**(1,391,442)**
Operating profit		**655,422**	**636,008**
Other income - financial guarantees		21,182	58,046
(Accrual) / reversal of provision for impairment of financial guarantees		(8,963)	188,238
Finance income	27	88,181	11,013
Other non-operating income		3,820	-
Foreign exchange (loss)/gain, net		(186,660)	6,931
Finance costs	27	(76,047)	(6,190)
Profit before income tax		**496,935**	**894,046**
Income tax expense	28	(153,831)	(216,264)
Net profit for the year		**343,104**	**677,782**
Comprehensive income:			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax)			
Actuarial losses on employee benefits	19	(17,194)	(23,203)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods (net of tax)		(17,194)	(23,203)
Total comprehensive income for the year (net of tax)		**325,910**	**654,579**

* *Some amounts shown here do not correspond to the financial statements as at 31 December 2019 and reflect adjustments made, see Note 5.*

Approved for issue and signed on 19 April 2022

General Director Sh.Ch. Aslanov

Chief Accountant Sh. Umarov

O'ZBEKNEFTGAZ AKSIYADORLIK JAMIYATI "SHURTAN GAZ KIMYO MAJMUASI" MAS'ULIYATI CHEKLANGAN JAMIYATI
UNG
Shurtan GKM

CONSOLIDATED STATEMENT OF CASH FLOWS

In millions of Uzbek soums	Note	2020	2019
Operating activities			
Profit before income tax		496,935	894,046
Adjustments for:			
Depreciation, depletion and amortization		64,489	68,041
Impairment of trade receivables	11	26,942	29,567
Changes in defined benefit obligations		2,673	-
Amortization of fair value of financial guarantees		(21,182)	(58,046)
Reversal/(charge) of provision for impairment of financial guarantees		8,963	(188,238)
Finance income	27	(88,181)	(11,013)
Finance costs	27	76,047	6,190
Foreign exchange loss/(gain), net		186,660	(6,931)
Loss less gains on disposal of subsidiaries		4,793	49,755
Cash flows from operating activities before working capital changes		**758,139**	**783,371**
Change in trade and other receivables		(73,593)	(133,995)
Change in inventories		(62,250)	(95,747)
Change in advances paid		5,190	(38,693)
Change in trade and other payables		(248,886)	(264,302)
Change in other assets and other liabilities		50,998	(33,199)
Cash flows from operating activities		**327,602**	**217,435**
Income taxes paid		(192,843)	(113,140)
Net cash flows from operating activities		**134,759**	**104,295**
Investing activities			
Purchase of property, plant and equipment	15, 16	(2,537,063)	(1,315,576)
Change in restricted cash		(22,804)	3,635
Dividends received		-	5,172
Loss less gains on disposal of subsidiaries		-	(1,090)
Net cash flows used in investing activities		**(2,559,867)**	**(1,307,859)**
Financing activities			
Proceeds from borrowings	18	2,521,073	1,241,562
Repayment of borrowings	18	(20,759)	(41,417)
Interest received			
Interest paid	18	(80,786)	(34,224)
Dividends paid		-	(10,141)
Net cash from financing activities		**2,419,528**	**1,161,621**
Effect of exchange rate changes on cash and cash equivalents		2,272	2,570
Net change in cash and cash equivalents		**(3,308)**	**(39,373)**
Cash and cash equivalents, beginning of the year	9	**27,755**	**67,128**
Cash and cash equivalents, end of the year	9	**24,447**	**27,755**

Approved for issue and signed on 19 April 2022

General Director Sh.Ch. Aslanov

Chief Accountant Sh. Umarov

The accounting policies and explanatory notes on pages 5-40 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In millions of Uzbek soums	Share capital	(Accumulated loss)/retained earnings	Total
Balance at 31 December 2019	**359,158**	**(124,878)**	**234,280**
Adjustments due to the correction of an error (net of tax)	-	(16,175)	**(16,175)**
Balance at 31 December 2019 (Restated)	**359,158**	**(141,053)**	**218,105**
Net profit for the year		677,782	**677,782**
Other comprehensive loss		(23,203)	**(23,203)**
Total comprehensive income for the year		**654,579**	**654,579**
Dividends paid		(10,141)	**(10,141)**
Balance at 31 December 2019	**359,158**	**503,385**	**862,543**
Net profit for the year	-	329,437	329,437
Other comprehensive loss	-	(17,194)	(17,194)
Total comprehensive income for the year	-	**325,910**	**325,910**
Dividends paid	-	-	-
Balance at 31 December 2020	**359,158**	**829,295**	**1,188,453**

Approved for issue and signed on 19 April 2022

General Director _______________ *Sh.Ch. Aslanov*

Chief Accountant _______________ *Sh. Umarov*

The accounting policies and explanatory notes on pages 5-40 form an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Limited Liability Company Shurtan Gas Chemical Complex ("LLC Shurtan Gas Chemical Complex" or the "Company") is a state oil and gas enterprise of the Republic of Uzbekistan. The Company and its subsidiary (collectively, the "Group") are principally engaged in refining gas and gas condensate, as well as production and sale of polyethylene.

The decision to build the complex was made in accordance with Decree No.395 *On Construction of Shurtan Gas Chemical Complex for Polyethylene Production* of the Cabinet of Ministers of the Republic of Uzbekistan dated 11 November 1996. The Company was registered and operates in the Republic of Uzbekistan. The Company is a limited liability company and was established in accordance with the legislation of the Republic of Uzbekistan.

As of 31 December 2020, the Group's immediate parent company was JSC Uzbekneftegaz. The Group's main controlling party is the Government of the Republic of Uzbekistan.

The Company is registered and conducts its business in Shurtan settlement, Kashkadarya Region, Republic of Uzbekistan.

The main products of the Group comprised the following:

- Polyethylene
- Liquefied gas
- Light condensate
- Granulated sulfur
- Purified natural gas
- Other polyethylene products

The consolidated financial statements of the Group include the following material operating companies that are directly or indirectly controlled by the Company:

Subsidiary	Principal activities	Country of incorporation	Equity interest, % 2020	Equity interest, % 2019
UE Qurilish-Montaj Va Ta'mirlash Boshqarmasi	Construction	Uzbekistan	100%	100%
LLC Polyethylene Quvurlar	Manufacture of polymer goods	Uzbekistan	-	93%
LLC Polipropilen Quvurlar	Manufacture of polymer goods	Uzbekistan	-	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, including all International Financial Reporting Standards ("IFRS") and Interpretations issued by the International Accounting Standards Board ("IASB") and effective in the reporting period, and are fully compliant therewith.

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements.

The Group's consolidated financial statements are presented in million of Uzbek soums ("UZS"), unless otherwise indicated.

The consolidated financial statements of 2020 were approved and authorized for issue by the Management of the Group on 19 April 2022.

Going concern considerations

These consolidated financial statements have been prepared on a going concern basis. When making a going concern assessment, management considered the Group's current financial position and analyzed relevant subsequent developments.

As of 31 December 2020, the Group's current liabilities exceeded its current assets by UZS 3,065,190 million. It should be noted that the negative liquidity is due to the Gazprombank's loan received to finance the expansion of the Group's production capacities. The Group's parent is the second borrower who provided the bank with a financial guarantee to secure the obligation. The Group's management expects that financial liabilities will be settled upon maturity and will not affect the continuity of operations. It should also be noted that LLC Shurtan Gas Chemical Complex is a strategically important facility for the domestic oil industry.

The following factors and circumstances support the management's conclusion about the appropriateness of the use of the going concern assumption:

- The Group has been profitable with sufficient profit margins and consistently generates positive cash flows from operating activities including the current and subsequent reporting periods.
- According to its cash flow forecasts, the Group expects to generate sufficient cash from operations in 2021–2022 as well as to attract new and restructure existing loans to settle current liabilities when they become due.
- Also, management believes that the Group will be compliant with the financial and non-financial covenants stipulated by the loan agreement within 12 months from the date of authorization of these consolidated financial statements or will be able to renegotiate their terms in advance so that the lenders will not request an accelerated repayment of the existing debts.
- The Group's shareholder have neither the intention nor the need to liquidate or significantly reduce the range of the activities of the Group.
- The Group has strategic importance for the Government of Uzbekistan which can positively influence Group's cash flows by regulating prices for gas sales to related parties.

Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities included in these consolidated financial statements are measured using the currency of the primary economic environment in which the entities operate ("the functional currency"). The consolidated financial statements are presented in Uzbek soums, which is the functional currency of the Company and its subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Basis of preparation (continued)

Foreign currencies (continued)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Exchange rates

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

The currency exchange rate of CBU as of 31 December 2020 was 10,476 UZS to 1 US dollar. This rate was used to translate monetary assets and liabilities denominated in United States dollars (“US dollar”, or “USD”) as of 31 December 2020 (31 December 2019: 9,508 UZS to 1 US dollar).

3. Significant accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as of 31 December 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group’s voting rights and potential voting rights.

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

The financial statements of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies. Profit or loss and each component of other comprehensive income are attributable to the equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interest having a deficit balance. When necessary, adjustments are made to the financial statements of the subsidiary to bring their accounting policies in line with the Group’s accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Significant accounting policies (continued)

Basis of consolidation (continued)

All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets, liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss, or, as in certain cases of under common control transactions, directly in equity. Any investment retained is recognized at fair value.

Current versus non-current classification

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

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 (twelve) months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 (twelve) months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 (twelve) months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 (twelve) months after the reporting period.

The Group classifies all other liabilities as non-current.

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

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVPL). The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group’s business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. In order for a debt financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are ‘solely payments of principal and interest (SPPI)’ on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Group’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Significant accounting policies (continued)

Subsequent measurement

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

- Financial assets at amortized cost (debt instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortized cost (debt instruments)

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

The Group's financial assets at amortized cost include trade and other receivables, loans due from related parties and bank deposits.

Financial assets at fair value through profit or loss

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in the consolidated statement of profit or loss.

Derecognition

A financial asset is primarily derecognized (removed from the consolidated statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Significant accounting policies (continued)

Financial assets (continued)

Impairment of financial assets

The Group recognizes an allowance for expected credit losses (ECL) for all debt instruments not held at fair value through profit or loss.

ECL are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECL are recognized in three stages. First stage relates to credit exposures for which there has not been a significant increase in credit risk since initial recognition and which are required to recognize ECL within the next 12-months (a 12-month ECL). The second stage relates to credit exposures for which there has been significant increase in credit risk since initial recognition. For those credit exposures, ECL should be recognized over the remaining life of the exposure (a lifetime ECL). Third stage represent losses for financial instruments that are already credit impaired (defaulted). For financial assets in stage three, entities will continue to recognize lifetime ECL.

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans borrowings and payables, or as derivatives financial instruments.

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

The Group's financial liabilities include trade and other payables, loans and borrowings, and employee benefit obligations.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Significant accounting policies (continued)

Financial liabilities (continued)

Gains or losses on liabilities held for trading are recognized in profit or loss.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Trade and other payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the EIR.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR. Gains and losses are recognized in the consolidated statement of profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense when incurred.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the expected credit losses allowance calculated under IFRS 9 and the amount initially recognized liability less cumulative amortization, if any.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting of financial instruments

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

Fair value of financial instruments

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

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Significant accounting policies (continued)

Cash and cash equivalents

Cash represents cash on hand, in the Group's bank accounts, in transit and interest-bearing deposits which can be effectively withdrawn at any time without prior notice or any penalties reducing the principal amount of the deposit. Cash equivalents are highly liquid, short-term investments that are readily convertible to known amounts of cash and have original maturities of three months or less from their date of purchase. Restricted cash is presented separately in the consolidated statement of financial position if its amount is significant.

Inventories

Inventories consisting primarily of natural gas, crude oil, gas products, petrochemicals and materials and supplies are measured at the lower of cost and net realizable value. Cost of product inventories is determined using the weighted average cost method. Materials and supplies inventories are carried at first-in, first-out (FIFO) method. Cost comprises direct purchase costs, cost of production, transportation and manufacturing expenses (based on normal operating capacity).

Property, plant and equipment

The initial cost of an asset purchased comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of decommissioning obligation, if any, and, for qualifying assets, borrowing costs. Non-recoverable value-added tax related to the acquisition of property, plant and equipment is capitalized by the Group. Non-recoverable value-added tax related with operational activities is charged to profit or loss.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss, if any, is recognized in the consolidated statement of profit or loss. An impairment loss recognized for an asset or cash generating unit in prior years is reversed if there are indicators that impairment loss may no longer exist or may have decreased.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. Gains and losses are recognized in profit or loss.

The cost of maintenance, repairs, and the replacement of minor items of property is charged to operating expenses. Renewals and betterments of assets are capitalized. Cost of replacing major parts or components of property, plant and equipment items are capitalized and the replaced part is written-off.

Depreciation, depletion and amortization

Property, plant and equipment are depreciated using the straight-line method over their estimated useful lives from the time they are ready for use.

Components of other property, plant and equipment and their respective estimated useful lives are as follows:

Property, plant and equipment	Useful life
Buildings and structures	12-33 years
Machinery and equipment	5-25 years
Other fixed assets	3-12 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Significant accounting policies (continued)

Depreciation, depletion and amortization (continued)

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life unless scrap value is significant. The assets' residual values are reviewed, and adjusted if appropriate, at each reporting date.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses of continuing operations are recognized in the consolidated statement of profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of accumulated depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income.

Capitalized interest

Interest expense on borrowed funds used for capital construction projects and the acquisition of property, plant and equipment is capitalized provided that the interest expense could have been avoided if the Group had not made capital investments. Interest is capitalized only during the period when construction activities are actually in progress and until the resulting properties are put into operation.

Capitalized borrowing costs include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Provisions for liabilities and charges

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

3. Significant accounting policies (continued)

Taxes collected from customers and remitted to governmental authorities

Refundable taxes (excise and value-added tax (“VAT”)) are deducted from revenues. Other taxes and duties are not deducted from revenues and are recognized as expenses in Taxes other than income tax in the consolidated statement of profit or loss.

Pension and other post-retirement benefits

The Group provides long-term employee benefits to employees before, on and after retirement, in accordance with the collective agreements between the Group’s entities and their employees. The collective agreement provides for certain one-off retirement payments, payments on holidays, pension supplements, financial aid for employees’ disability, anniversaries, funeral and other benefits. The entitlement to benefits is usually conditional on the employee remaining in service up to retirement age.

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans with defined payments upon the end of employment. Net interest expense relating to pensions and other post-retirement benefits, which is recognized in the consolidated statement of profit or loss, represents the net change in present value of plan obligations and the value of plan assets resulting from the passage of time, and is determined by applying the discount rate to the present value of the benefit obligation at the start of the year, and to the fair value of plan assets at the start of the year, taking into account expected changes in the obligation or plan assets during the year. Remeasurements of the defined benefit liability and asset, comprising actuarial gains and losses are recognized within other comprehensive income in the period in which they occur. Other movements are recognized in the current period, including current service cost, any past service cost and the effect of any curtailments or settlements. Past service costs, resulting from amendment to a plan are recognized immediately when the Group becomes committed to a change.

Revenue recognition

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Specifically, sales of gas and gas products and petrochemical products and other sales are usually recognized at the point in time when title passes. The entity recognizes revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

Sale of processed gas

The Group sells processed gas to the sole customer JSC Uztransgaz. Revenue is recognized when gas is delivered to the customer at the destination which is the point of the Group’s connection to the main pipeline maintained by the sole customer. Revenue is recognized based on the actual volume of delivered gas measured using meters installed in the points of connection to the pipelines maintained by the sole customer and supported by monthly reconciliation reports. Receivables are recognized upon gas delivery, since at that point the Group’s right to consideration is unconditional because only the passage of time is required before payment of that consideration is due. Invoices are issued on a monthly basis.

Sale of polyethylene and other gas products

Sales are recognized upon transfer of control of goods i.e. when goods are delivered to customers, the customer can freely dispose the goods and there are no outstanding obligations which could affect acceptance of goods by customers. The goods are deemed delivered when they have been delivered to the specific destination, risks of depreciation or loss have been transferred to the customer and the customer has accepted the goods in accordance with the contract, the acceptance period has expired or the Group has objective evidence that all acceptance criteria have been met. Receivables are recognized upon the gas delivery, as at that point the Group’s right to consideration is unconditional because only the passage of time is required before payment of that consideration is due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Significant accounting policies (continued)

Revenue recognition (continued)

Sale of construction services

The Group provides construction services under contracts with fixed consideration. If the Group transfers control over the services during the period and, respectively, satisfied the performance obligation withing the period, sales revenue is recognized within the period, when the services are rendered. Revenue is recognized based on the “expected costs plus margin” model. Both costs and margin are determined in accordance with the specific construction standards of the Republic of Uzbekistan, with the costs being dependent on the actual scope of provided services. Revenue is recognized in the amount which the Groups has the right to invoice. Invoices are issued monthly and consideration is payable upon such issue.

Interest income and costs

For all financial instruments measured at amortized cost and interest cost is interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income and interest expense is included in finance costs in the consolidated statement of profit or loss.

Contract liabilities

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

Expense recognition

Expenses are recognized as incurred and are reported in the consolidated financial statements in the period to which they relate on an accrual basis.

Gas processing plants maintenance costs

The Group recognizes the costs of overhauls and preventive maintenance performed with respect to gas processing assets as expenses when incurred.

Income taxes

Corporate income taxes have been provided for in the consolidated financial statements in accordance with the applicable legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognized on the profit or loss unless it relates to transactions that are recognized, in the same or a different period, in other comprehensive income or directly in equity. Deferred income tax assets and liabilities are recognized in the accompanying consolidated financial statements in the amount determined by the Group in accordance with IAS 12 *Income Taxes*.

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

3. Significant accounting policies (continued)

Income taxes (continued)

A deferred tax liability is recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- The initial recognition of goodwill;
- The initial recognition of an asset or liability in a transaction which:
  - Is not a business combination; and
  - Affects neither accounting profit, nor taxable profit;
- Investments in subsidiaries when the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

A prior period tax loss planned to be used to reduce the current or future amount of income tax is recognized as a deferred tax asset.

A deferred tax asset is recognized only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- Is not a business combination; and
- At the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

The Group recognizes deferred tax assets for all deductible temporary differences arising from investments in subsidiaries and associates, and interests in joint ventures, to the extent that the following two conditions are met:

- The temporary difference will reverse in the foreseeable future; and
- Taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date.

The Group reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

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

Deferred tax assets and liabilities are not discounted.

Accounting for contingencies

Certain conditions may exist as of the date of these consolidated financial statements which may further result in a loss to the Group, but which will only be resolved when one or more future events occur or fail to occur. The Group's management makes an assessment of such contingent liabilities which is based on assumptions and is a matter of opinion. In assessing loss contingencies relating to legal or tax proceedings that involve the Group or unasserted claims that may result in such proceedings, the Group, after consultation with legal or tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Group's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Significant accounting policies (continued)

Equity

Dividends

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

Other distributions to the Shareholder

Expenditures incurred by the Group based on the respective resolution of the Government or decision and instructions of Cabinet of Ministers or the President are accounted for as other distributions through equity. Such expenditures include costs associated with non-core activity of the Group (construction of social assets), acquisitions and transfer of investments.

Related parties

Related parties are defined in IAS 24 *Related Party Disclosures*.

Governmental economic and social policies affect the Group's financial position, results of operations and cash flows. The Government imposed an obligation on the Group to provide an uninterrupted supply of oil and gas to customers in Uzbekistan at government-controlled prices. Transactions with the state include taxes, which are detailed in *Note 8*.

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

It is the nature of transactions with related parties that they cannot be presumed to be carried out on an arm's length basis.

Subsequent events

The results of post-year-end events that provide evidence of conditions that existed at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Critical estimates and judgements

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities and assets, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Employee benefits

Employee-benefit obligations include post-employment benefits and other long-term benefits. Other long-term benefits include financial aid for employees' disability, anniversaries, funeral and other benefits. The cost of defined long-term employee benefits before, on and after retirement and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Critical estimates and judgements (continued)

Measurement of liabilities under guarantees issued

As of 31 December 2020, the Group issued a number of guarantees to its related parties (see *Note 30, Financial guarantee liabilities*). As of 31 December 2020, the Group recognized the financial liabilities in respect of the issued guarantees amounting to UZS 384,595 million (31 December 2019: UZS 396,814 million) as part of other current and non-current liabilities. ECL rate in the range of 1.9% - 2.43% was used to measure the book value of the financial guarantee liabilities as of 31 December 2020. The Group is using general approach in calculation of expected credit losses for government companies. Country rating with appropriate downgrade based on overdue bucket is assigned and was used to estimate probability of default. Loss given default estimates are based on the external statistics using weighted average of recovery rates specific to the country.

Taxation

In assessing tax risks, management considers to be probable obligations the known areas of tax positions which the Group would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, amendments to the taxation terms of the Group’s subsoil use contracts, the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities. Uncertainties related to taxation are disclosed in *Note 28.*

Taxable income is computed in accordance with the tax legislation enacted as of 1 January 2020. Deferred income tax is calculated on temporary differences for assets and liabilities at the expected rates that were enacted by tax authorities as of 31 December 2020.

Deferred tax assets are recognized for all allowances and unused tax losses to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies *(Note 28)*.

Value of net assets transferred and received from one organization to another, including during their reorganization and liquidation, in accordance with Government Decrees commonly is not subject to taxation for all types of taxes.

Fair value of financial instruments

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

Useful lives of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for prospectively as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Adjustment of comparative information

In preparing consolidated financial statements for the year ended 31 December 2020, the Group identified errors in the previous consolidated financial statements for the year ended 31 December 2019 and 31 December 2018. In the previous statements of financial position as at 31 December 2019 and 31 December 2018, the Group did not recognize defined benefit obligations as at 31 December 2019 and 31 December 2018, respectively, and therefore understated non-current and current portion of the defined benefit obligations, overstated retained earnings and understated deferred tax assets, and understated other comprehensive loss on remeasurement of defined benefit obligations and deferred corporate income tax benefit recognized in other comprehensive income.

To correct the errors, the Group revised a number of items in the comparative statement of financial position as of 31 December 2019 and 31 December 2018 and in the statement of comprehensive income for the year ended 31 December 2019. The correction of errors had no effect to the 2019 cash flow statement.

The effect of these adjustments on the consolidated financial statements as of 31 December 2019 is presented below.

Consolidated statement of financial position as of 31 December 2019

	Before adjustments	Adjustments	As adjusted
Assets			
Non-current assets			
Deferred tax assets on corporate income tax	19,007	9,845	28,852
Total non-current assets	**2,439,659**	**9,845**	**2,449,504**
Total assets	**3,132,373**	**9,845**	**3,142,218**
Equity and liabilities			
Equity			
Retained earnings	542,763,	(39,378)	503,385
Total equity	**901,921**	**(39,378)**	**862,543**
Non-current liabilities			
Provisions	-	47,477	47,477
Total non-current liabilities	**26,666**	**47,477**	**73,743**
Current liabilities			
Provisions	-	1,746	1,746
Total current liabilities	**2,204,186**	**49,223**	**2,205,932**
Total liabilities	**2,230,452**	**49,223**	**2,279,675**
Total equity and liabilities	**3,132,373**	**9,845**	**3,142,218**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Adjustment of comparative information (continued)

Consolidated statement of financial position as of 31 December 2018

	Before adjustments	Adjustments	As adjusted
Assets			
Non-current assets			
Deferred tax assets on corporate income tax	103,177	4,044	107,221
Total non-current assets	**1,141,209**	**4,044**	**1,145,253**
Total assets	**1,594,172**	**4,044**	**1,598,216**
Equity and liabilities			
Equity			
Retained loss	(124,878)	(16,175)	(141,053)
Total equity	**234,280**	**(16,175)**	**218,105**
Non-current liabilities			
Provisions	-	19,424	19,424
Total non-current liabilities	**34,112**	**19,424**	**53,536**
Current liabilities			
Provisions	-	795	795
Total current liabilities	**1,325,780**	**795**	**1,326,575**
Total liabilities	**1,359,892**	**20,219**	**1,380,111**
Total equity and liabilities	**1,594,172**	**4,044**	**1,598,216**

Consolidated statement of comprehensive income for the year ended 31 December 2019

In millions of Uzbek soums	Before adjustments	Adjustments	As adjusted
Other comprehensive loss:			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax)			
Actuarial losses on employee benefits	-	(23,203)	(23,203)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods (net of tax)	-	(23,203)	**(23,203)**
Total comprehensive income for the year (net of tax)	**677,782**	**(23,203)**	**654,579**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Adoption of new or revised standards and interpretations and new accounting pronouncements

New and amended standards and interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards and interpretations effective as of 1 January 2020.

The following amendments were applied for the first time in 2020:

Amendments to IFRS 3 Business Combinations

The amendments enhanced definition of a business set out by the standard and clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. The amendments are applicable prospectively. These amendments had no impact on the consolidated financial statements of the Group since the current practice is in line with these amendments.

Amendments to IFRS 7 Financial Instruments: Disclosures, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 9 Financial Instruments

The amendments provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

These amendments introduced new definition of material. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. Since the current practice is in line with these amendments, there is no impact on the consolidated financial statements.

Revised version of Conceptual Framework for Financial Reporting

In particular, the revised version introduced new definitions of assets and liabilities, as well as amended definitions of income and expenses. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IFRS 16 Leases in Regards of COVID-19-Related Rent Concessions

The amendments provide relief to lessees from assessment whether a COVID-19-related rent concession is a lease modification. The amendments did not have a material impact on the consolidated financial statements, as the Group has not received significant rent concessions related to pandemic.

Standards issued but not yet effective

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

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*. IFRS 17 establishes a single framework for the accounting for insurance contracts and contains requirements for related disclosures. The new standard replaces IFRS 4 *Insurance Contracts*. The standard is effective for annual periods beginning on or after 1 January 2023. The Group does not expect the standard to have a material impact on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Adoption of new or revised standards and interpretations and new accounting pronouncements (continued)

Standards issued but not yet effective (continued)

In January 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* named *Classification of Liabilities as Current or Non-current*. The amendments clarify requirements for classifying liabilities as current or non-current. The amendments are effective on or after 1 January 2023; earlier application is permitted. The Group does not expect the amendments to have a material impact on the consolidated financial statements, as the Group already applies criteria set by the amendments.

In May 2020, the IASB issued amendments to IFRS 3 *Business Combinations* named *Reference to the Conceptual Framework*. The amendments replace references to the *Conceptual Framework for Financial Reporting* with the current version issued in March 2018, without significantly changing the requirements of the standard. The amendments are effective on or after 1 January 2022; earlier application is permitted. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

In May 2020, the IASB issued amendments to IAS 16 *Property, Plant and Equipment* named *Property, Plant and Equipment: Proceeds Before Intended Use*. The amendments prohibit entities from deducting from the cost of an item of property, plant and equipment any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendments are effective on or after 1 January 2022 and should be applied retrospectively. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

In May 2020, the IASB issued amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* named *Onerous Contracts − Costs of Fulfilling a Contract*. The amendments specify which costs an entity needs to include when assessing whether a contract is onerous. The amendments are effective on or after 1 January 2022; earlier application is permitted. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

In August 2020, the IASB issued amendments to IFRS 7 *Financial Instruments: Disclosures*, IFRS 9 *Financial Instruments* as well as IFRS 4 *Insurance Contracts* and IFRS 16 *Leases* named *Interest Rate Benchmark Reform − Phase II*. The amendments provide certain temporary reliefs which address the financial reporting effects related to the transfer to the risk-free interest rate. The amendments are effective on or after 1 January 2021; earlier application is permitted. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

Additionally, a number of amendments, not yet effective, were issued during annual improvement process conducted by IASB. They include the amendments to IFRS 1 *Fist-time Adoption* named *First-time Adoption: Subsidiary as a First-time Adopter*, and the amendments to IFRS 9 *Financial Instruments* named *Fees in the ‘10 per cent’ Test for Derecognition of Financial Liabilities*. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

Amendments to IAS 1 *Presentation of Financial Statements* and IFRS *Practice Statement 2 Making Materiality Judgements*. The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS *Practice Statement 2* provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Separately, the Board has also issued amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events.

The amendments to IAS 1 and IAS 8 will be effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Discontinued operation and assets classified as held for distribution to the shareholder

Disposal of LLC Polyethylene Quvurlar and LLC Polipropilen Quvurlar (2020)

In accordance with the Decree of President of Republic of Uzbekistan No. 4388 dated 9 July 2019, it was decided to transfer 100% of share interest of LLC Polyethylene Quvurlar and LLC Polipropilen Quvurlar to State Asset Management Agency. Assets and liabilities of LLC Polyethylene Quvurlar and LLC Polipropilen Quvurlar were included in the consolidated financial statement of the Group as of 31 December 2019.

Transfer of 100% of shares of LLC Polyethylene Quvurlar and LLC Polipropilen Quvurlar took place in March 2020.

The main categories of assets and liabilities of LLC Polyethylene Quvurlar as of the date of disposal are presented below:

In millions of Uzbek soums	31 December 2019	Assets and liabilities at the date of disposal
Assets		
Property, plant and equipment	4,393	12,737
Trade receivables and loans receivable	5,870	5,868
Inventory	8,891	8,891
Other assets	3,739	3,741
Total assets	**22,893**	**31,237**
Liabilities		
Trade payables	3,220	3,220
Other liabilities	228	228
Total liabilities	**3,448**	**3,448**
Net assets	**19,445**	**27,789**

The main categories of assets and liabilities of LLC Polipropilen Quvurlar as of the date of disposal are presented below:

In millions of Uzbek soums	31 December 2019	Assets and liabilities at the date of disposal
Assets		
Property, plant and equipment	13,969	17,496
Trade receivables and loans receivable	1,782	1,777
Inventory	9,059	9,059
Other assets	1,485	1,490
Total assets	**26,295**	**29,822**
Liabilities		
Trade payables	422	422
Other liabilities	117	117
Total liabilities	**539**	**539**
Net assets	**25,756**	**29,283**

8. Related party transactions

For the purpose of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In 2020, the Group entered into transactions with shareholder and companies controlled by shareholder (including enterprises directly or indirectly controlled by the Uzbek Government), associates and joint ventures and key management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Related party transactions (continued)

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms as transactions between unrelated parties.

The disclosure of related party transactions is presented on an aggregate basis for shareholders and companies controlled by shareholders, joint ventures and associates. In addition, there may be additional disclosures of certain significant transactions (balances and turnovers) with certain related parties.

In the course of its ordinary business, the Group enters into transactions with other companies controlled by the Uzbek Government. Bank loans are recorded based on market interest rates. Taxes are accrued and paid in accordance with applicable tax law. The Group sells refined gas products to related parties in the ordinary course of business at prices close to average market prices. For gas sales to related parties selling prices are set by the Government (UZS 340 thousand for 1,000 cubic meters in 2020; UZS 208-340 thousand for 1,000 cubic meters in 2019).

As of 31 December 2020, the outstanding balances with related parties were as follows:

In millions of Uzbek soums	**Direct parent**	**Entities under control of Parent company**	**Government and entities under government control**
Trade receivables (current)	122,003	225	114,769
Allowance for expected credit losses on trade receivables	(3,824)	(225)	(4,551)
Cash and cash equivalents	-		16,814
Restricted cash	-		4,926
Advances paid (including for non-current assets)	-	-	-
Borrowings	942,923	-	-
Trade and other payables	-	-	-
Financial guarantees	355,833	-	-

As of 31 December 2019, the outstanding balances with related parties were as follows:

In millions of Uzbek soums	**Direct parent**	**Entities under control of Parent company**	**Government and entities under government control**
Trade receivables (current)	28,950	293	104,683
Allowance for expected credit losses on trade receivables	(773)	(293)	(2,795)
Cash and cash equivalents	-		8,744
Restricted cash	-	-	-
Advances paid (including for non-current assets)	25,105	98	-
Borrowings	-	-	-
Trade and other payables	263,807	3,230	-
Financial guarantees	383,393		8,166

The transactions with related parties for the year ended 31 December 2020 were as follows

In millions of Uzbek soums	**Direct parent**	**Entities under control of Parent company**	**Government and entities under government control**
Sales of gas and gas products	217,060	-	1,101,420
Purchase of raw materials and consumables	1,022,804	-	-
Charity and donations	-	-	42,736
Amortization of fair value of financial guarantees	19,873	-	556
(Accrual) / reversal of provision for impairment of financial guarantees	(8,963)	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Related party transactions (continued)

The transactions with related parties for the year ended 31 December 2019 were as follows

In millions of Uzbek soums	Direct parent	Entities under control of Parent company	Government and entities under government control
Sales of gas and gas products	-	-	644,531
Purchase of raw materials and consumables	418,889	201,266	-
Charity and donations	-	-	48,130
Amortization of fair value of financial guarantees	57,293	-	-
(Accrual) / reversal of provision for impairment of financial guarantees	(188 238)	-	-

* *In 2020 and 2019 all Group's transactions with JSC Uztransgaz were presented as transactions with entities under government control.*

Key management compensation

Key management personnel include members of the Board of Directors and members of the Management Board. Compensation of key management personnel (7 employees in 2020, 7 employees in 2019), including basic salary, bonuses and other payments, amounted to UZS 2,307 million and UZS 1,973 million in 2020 and 2019, respectively

9. Cash and cash equivalents

	At 31 December	
In millions of Uzbek soums	2020	2019
Current accounts with banks − US dollars	15,766	23,136
Current accounts with banks − UZS	6,181	3,680
Current accounts with banks - cash on special accounts	1,748	
Current accounts with banks - other currencies	651	687
Current accounts with banks − cash in transit	101	252
Total cash and cash equivalents	**24,447**	**27,755**

10. Restricted cash

At 31 December 2020 and 2019, restricted cash was mainly represented by accounts held by the Group as collateral for letters of credit in the amount of UZS 25,042 million and UZS 2,238 million, respectively.

11. Trade receivables

	At 31 December	
In millions of Uzbek soums	2020	2019
Long-term trade receivables	53,811	33,535
Less: allowance for expected credit losses	(13,058)	(9,106)
Total long-term trade receivables	**40,753**	**24,429**
Short-term trade receivables	305,693	269,264
Less: allowance for expected credit losses	(55,634)	(32,644)
Total short-term trade receivables	**250,059**	**236,620**
Total trade receivables	**290,812**	**261,049**

Trade receivables are mainly represented by receivables from sales of natural gas, and polyethylene products to customers of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Trade receivables (continued)

As of 31 December 2020 and 2019, trade receivables were non-interest bearing.

Movements in the provision for expected credit losses of trade receivables were as follows:

In millions of Uzbek soums	2020	2019
At 1 January	**(41,750)**	**(12,183)**
Charge for the year	(26,942)	(29,567)
At 31 December	**(68,692)**	**(41,750)**

The impaired receivables mainly relate to overdue debts (in excess of 90 days) for natural gas, and polyethylene products supplied.

Below is the information about credit risk exposure on the Group's trade receivables using a provision matrix:

		Days past due				
In millions of Uzbek soums	Not overdue	< 30 days	30-60 days	61-90 days	> 90 days	Total
31 December 2020						
ECL rate	5%	47%	85%	72%	100%	
Trade receivables	260,495	358	8,374	2,146	34,320	**305,693**
ECL	(25,556)	(167)	(7,101)	(1,548)	(34,320)	**(68,692)**
31 December 2019						
ECL rate	3%	40%	81%	66%	100%	
Trade receivables	240,944	261	5,435	1,451	21,174	**269,265**
ECL	(15,137)	(103)	(4,381)	(955)	(21,174)	**(41,750)**

12. Inventories

	At 31 December	
In millions of Uzbek soums	2020	2019
Materials and supplies (at cost)	116,014	143,580
Work-in-progress (at cost)	231,528	152,401
Finished goods (at cost)	47,517	30,852
Other	4,633	8,303
Allowance for inventories/ impairment of inventories	(39,888)	(37,581)
Total inventories	**359,804**	**297,555**

Work-in-progress inventories comprise mainly assets built by the Group for further transfer to LLC Uzbekistan GTL and buildings constructed by the Group for further sale to its employees.

13. Advances paid

	At 31 December	
In millions of Uzbek soums	2020	2019
Advances paid for goods and services	81,765	86,956
Total advances paid	**81,765**	**86,956**

Major part of prepayments was for purchase of raw materials and spare parts for production purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Other current assets

In millions of Uzbek soums	At 31 December 2020	2019
Other current non-financial assets		
Prepayments on other taxes	31,479	20,219
Other current financial assets		
Receivable from government organizations		
Other trade receivables	64,129	21,371
Total other current assets	**95,608**	**41,590**

In accordance with the Decree of President of Republic of Uzbekistan No. 4388 dated 9 July 2019, 100% of share interest of LLC Polyethylene Quvurlar and LLC Polipropilen Quvurlar was transferred to State Asset Management Agency on 31 March 2020. Amount receivable from government organizations represents due from State Asset Management Agency.

15. Property, plant and equipment

In millions of Uzbek soums	Buildings and structures	Machinery and equipment	Other	CIP	Total
Cost					
At 31 December 2018	**391,156**	**376,072**	**143,374**	**224,818**	**1,135,420**
Additions	-	15,818	16,209	909,906	941,933
Disposals	(365)	(564)	(306)	-	(1,235)
Disposal of subsidiaries	-	-	(79,285)	-	(79,285)
Transfers from CIP	11.410	-	-	(11.410)	-
At 31 December 2019	**402,201**	**391,326**	**79,992**	**1,123,314**	**1,996,833**
Additions	3,227	-	15,051	1,272,104	1,260,232
Disposals	(57,022)	(15,716)	(3,528)	-	(76,266)
Disposal of subsidiaries	-	-	(44,498)	-	(44,498)
Transfers from CIP	11,824	-	-	(11,824)	-
31 December 2020	**360,230**	**375,610**	**47,017**	**2,365,316**	**3,148,173**
Depreciation and impairment					
At 31 December 2018	**(48,239)**	**(181,549)**	**(41,194)**	**-**	**(270,982)**
Charge for the year	(17,334)	(44,360)	(6,347)	-	(68,041)
Disposals	42	139	283	-	464
Disposal of subsidiaries	-	-	9,835	-	9,835
At 31 December 2019	**(65,531)**	**(225,770)**	**(37,423)**	**-**	**(328,724)**
Charge for the year	(16,298)	(43,085)	(5,106)	-	(64,489)
Disposals	6,691	4,949	199	-	11,839
Disposal of subsidiaries	-	-	14,265	-	14,265
At 31 December 2020	**(75,138)**	**(263,906)**	**(28,065)**	**-**	**(367,109)**
Net book value					
At 31 December 2019	**336,670**	**165,556**	**42,569**	**1,123,314**	**1,668,109**
At 31 December 2020	**285,092**	**111,704**	**18,952**	**2,365,316**	**2,781,064**

In 2020, the Group capitalized borrowing costs in the amount of UZS 139,251 million.

The construction-in-progress balance mainly relates to the expansion of production capacities of LLC Shurtan Gas Chemical Complex in accordance with Decrees of the President of the Republic of Uzbekistan No.PP-2551 dated 20 June 2016 and No.PP-2965 dated 11 May 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Advances for non-current assets

Shurtan Gas Chemical Complex is in process of the construction of the capital project related to the expansion of the production of polyethylene, polypropylene and pyrolysis gasoline in Uzbekistan. As of 31 December 2020, advances for non-current assets given under this project amounted to UZS 2,205,051 million (31 December 2019: UZS 653,463 million).

17. Trade and other payables

	At 31 December	
In millions of Uzbek soums	**2020**	**2019**
Trade payables	56,511	309,228
Other non-financial payables		
Advances received	4,569	6,480
Other taxes payable	44,714	38,972
Total trade and other payables	**105,794**	**354,680**

Trade payables mainly represent payables for gas, raw materials, chemicals and utilities provided by vendors of the Group.

As of 31 December 2020, trade and other payables were not interest bearing.

18. Borrowings

As of 31 December 2020, borrowings of the Group were represented by the following facilities:

			Balance at 31 December 2020	
	Interest rate	**Maturity date**	**Non-current portion**	**Current portion**
JSC Gazprombank	6m EURIBOR + 4.95%	9 April 2022	815,338	2,465,176
JSC Uzbekneftegaz	0.0%	29 November 2021	-	896,389
JSCB Hamkorbank	8.5%	27 May 2022	4,965	12,018
JSC NBU	10%	27 September 2022	87	-
Other	-	-	-	1,408
Total borrowings			**820,390**	**3,374,991**

As of 31 December 2019, borrowings of the Group were represented by the following facilities:

			Balance at 31 December 2019	
	Interest rate	**Maturity date**	**Non-current portion**	**Current portion**
JSC Gazprombank	6m EURIBOR + 4.95%	9 April 2022	-	1,401,325
JSCB Hamkorbank	8.5%	27 May 2022	7,525	12,749
JSC NBU	10%	27 September 2022	79	423
Other	-	-	18,662	-
Total borrowings			**26,266**	**1,414,497**

Loans and borrowings from foreign banks are represented by the loan from Gazprombank (Russia) for the total amount of EUR 300 million to expand the production capacities of LLC Shurtan Gas Chemical Complex in accordance with Presidential Decrees No.PP-2551 dated 20 June 2016 and No.PP-2965 dated 11 May 2017. The loan was issued at 6m EURIBOR+4.95% p.a. The loan matures in 2022 and is secured by the financial guarantee of JSC Uzbekneftegaz.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. Borrowings (continued)

Loans from local banks are mainly represented by a number of general purpose loans from the National Bank of Uzbekistan and Hamkorbank for the purpose of expanding the production capacity of Shurtan Gas Chemical Complex in accordance with Presidential Decree No. PP-2551 dated June 20, 2016 for a total of 23,5 million dollars. The interest rates vary from 8.5% to 10%. These loans must be repaid by 2022.

The Group also received an interest-free loan from its parent JSC Uzbekneftegaz for the total amount of USD 90 million to expand the production capacities of LLC Shurtan Gas Chemical Complex in accordance with Presidential Decree No.PP-2551 dated 20 June 2016. The loan matures in 2022.

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

Fair values of current loans and borrowings correspond to their carrying amounts due to insignificant effect of discounting. The fair value is determined based on cash flows discounted using the rate effective as of the loan date and is classified into Level 3 of fair value hierarchy.

Changes in liabilities arising from financing activities:

In millions of Uzbek soums	**2020**	**2019**
At 1 January	**1,440,763**	**82,652**
Proceeds from borrowings	2,521,073	1,200,145
Finance costs, including capitalized to property, plant and equipment	100,370	51,547
Foreign exchange effect	281,255	145,993
Discount	(77,276)	-
Unwinding of discount	30,741	-
Repayment of borrowings	(20,759)	(34,224)
Interest paid	(80,786)	-
Discontinued operations	-	(5,349)
At 31 December	**4,195,381**	**1,440,763**

19. Defined employee benefit obligations

As of 31 December 2020

	Employee benefit		
In millions of Uzbek soums	**Post-employment benefits**	**Other long-term payments**	**Total**
Cost of service, including:			
Current cost of service	4,773	693	**5,465**
Net interest	6,539	504	**7,043**
Actuarial gains/(losses)	16,533	4,960	**21,493**
Net expense	**27,844**	**6,157**	**34,001**
Net defined benefit liabilities			
Current portion	6,160	1,843	**8,003**
Non-current portion	66,267	6,160	**72,427**
At 31 December 2020	**72,427**	**8,003**	**80,430**
Change in net value of obligations			
At 1 January 2020	**45,695**	**3,528**	**49,223**
Net expense	11,311	1,197	12,508
Actuarial (gain)/loss recognized in other comprehensive income	16,533	4,960	21,493
Contributions by employer	(1,112)	(1,682)	(2,794)
At 31 December 2020	**72,427**	**8,003**	**80,430**

19. Defined employee benefit obligations (continued)

As of 31 December 2019

In millions of Uzbek soums	Employee benefit Post-employment benefits	Employee benefit Other long-term payments	Total
Cost of service, including:			
Current cost of service	3,720	218	**3,938**
Net interest	2,667	124	**2,791**
Actuarial gains/(losses)	21,492	2,345	**23,837**
Net expense	**27,879**	**2,687**	**30,566**
Net defined benefit liabilities			
Current portion	1,383	363	**1,746**
Non-current portion	44,313	3,164	**47,477**
At 31 December 2019	**45,695**	**3,528**	**49,223**
Change in net value of obligations			
At 1 January 2019	**19,322**	**896**	**20,219**
Net expense	8,046	342	8,388
Actuarial (gain)/loss recognized in other comprehensive income	26,151	2,853	29,004
Contributions by employer	(8,046)	(342)	(8,388)
At 31 December 2019	**45,695**	**3,528**	**49,223**

Key actuarial assumptions

The principal assumptions used in determining defined benefit obligations for the Group’s defined benefit plan are shown below:

	2020	2019
Discount rate	13.03%	14.31%
Future salary increases	10.72%	10.40%
Growth of the minimum wage	14.70%	15.86%

20. Share capital

As of 31 December 2020, the Company’s share capital amounted to UZS 359,158 million (31 December 2019: UZS 359,158 million).

21. Gas, gas processing products and petrochemicals sales

In millions of Uzbek soums	2020	2019
Sales of gas and gas products	1,362,741	737,302
Sales of polyethylene products	1,011,858	1,141,901
Sales of other products	45,769	88,904
Total gas, gas processing products and petrochemicals sales	**2,420,368**	**1,968,107**
Geographic markets		
Uzbekistan	2,207,760	1,611,457
Other countries	212,608	356,650
Total oil, gas, petroleum products and petrochemicals sales	**2,420,368**	**1,968,107**

The Group recognized sales of gas, gas processing and polyethylene products at the point in time during the years 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. Raw materials and consumables used

In millions of Uzbek soums	2020	2019
Purchased gas	1,042,339	580,901
Materials and supplies	78,232	58,987
Other	26,629	30,808
Total raw materials and consumables used	**1,147,200**	**670,696**

23. Services and utilities

In millions of Uzbek soums	2020	2019
Repair and maintenance	109,930	97,210
Utilities	43,081	45,415
Transportation services	8,845	12,047
Professional services	437	549
Other	11,412	8,661
Total services and utilities	**173,705**	**163,882**

24. Employee benefit expenses

Employee benefit expenses comprise charges under the social tax in the amount of UZS 26,216 million (2019: UZS 55,353 million).

25. Taxes other than income tax

In millions of Uzbek soums	2020	2019
Excise tax	17,675	9,186
Tax on use of water supplies	8,302	4,899
Tax on property	6,130	4,866
Land tax	4,452	3,851
Value added tax	680	1,981
Excess profits tax	-	3,676
Other taxes	-	1,319
Total taxes other than income tax	**37,239**	**29,778**

26. Other operating expenses

In millions of Uzbek soums	2020	2019
Loss on disposals of property, plant and equipment	42,799	20,192
Duties and penalties	939	-
Other	17,652	31,125
Total other operating expenses	**61,390**	**51,317**

27. Finance income and finance costs

Finance income

Finance income mainly comprises of interest accrued on loans due from related parties (Note 18) and other finance income.

Finance costs

In millions of Uzbek soums	2020	2019
Unwinding of discount on borrowings	30,741	
Loss from initial recognition of main asset of Uzengineering	23,799	5,448
Loss from recognition of receivables from employees	14,051	–
Total interest expense	**68,591**	**5,448**
Provision: interest expense on employee benefit obligations (*Note 19*)	7,044	–
Other	412	742
Total finance costs	**76,047**	**6,190**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. Income tax

The major components of income tax expense for the years ended 31 December are:

In millions of Uzbek soums	2020	2019
Current tax charge	163,838	132,094
Deferred tax (benefit)/charge	(10,007)	84,170
Income tax expense reported in the consolidated statement of profit or loss	**153,831**	**216,264**

The Group measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Republic of Uzbekistan may differ from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2020 and 2019 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax-book bases' differences for certain assets.

A reconciliation of income tax expenses applicable to profit before income tax at the statutory income tax rate (20% in 2020, 20% in 2019) to income tax expenses was as follows for the years ended 31 December:

In millions of Uzbek soums	2020	2019
Profit before income tax	**496,935**	**894,046**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**99,387**	**178,809**
Non-deductible expenses / (non-taxable income), net	54,444	31,033
Other	-	6,422
Income tax expense	**153,831**	**216,264**

Deferred tax assets and liabilities as of 31 December 2020 and 2019 were calculated using the expected income tax rates of 20%. Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

In millions of Uzbek soums	31 December 2019	In the consolidated statement of profit or loss	In the consolidated statement of other comprehensive income	31 December 2020
Tax effect of deductible/(taxable) temporary differences				
Difference between the amount of property, plant and equipment in tax and financial accounting	**107,366**	(4,112)	–	**103,254**
Net losses on impairment of financial assets	**(8,350)**	(5,388)	–	**(13,738)**
Inventory write-off	**(7,516)**	(462)	–	**(7,978)**
Capitalized borrowing costs	**(63)**	9,306	–	**9,243**
Financial guarantees	**(79,363)**	2,444	–	**(76,919)**
Prepayments	**(18,899)**	(3,329)	–	**(22,228)**
Initial recognition of financial assets	**(6,739)**	(3,378)	–	**(10,117)**
Employee benefit liabilities	**(9,845)**	(1,942)	(4,299)	**(16,085)**
Other	**(5,443)**	(3,146)	–	**(8,589)**
Net deferred tax assets	**(28,852)**	**(10,007)**	**(4,298)**	**(43,157)**
Recognized deferred tax asset	(28,852)	(10,007)	(4,298)	(43,157)
Recognized deferred tax liability	–	–	–	–
Net deferred tax assets	**(28,852)**	**(10,007)**	**(4,298)**	**(43,157)**

28. Income tax (continued)

Deferred tax assets and liabilities as at 31 December 2019 and their movements for the respective years comprise the following items:

In millions of Uzbek soums	**31 December 2019**	**In the consolidated statement of profit or loss**	**In the consolidated statement of other comprehensive income**	**31 December 2020**
Tax effect of deductible/(taxable) temporary differences				
Difference between the amount of property, plant and equipment in tax and financial accounting	**40,888**	66,478	–	**107,366**
Net losses on impairment of financial assets	**(2,437)**	(5,913)	–	**(8,350)**
Inventory write-off	**(7,516)**	-	–	**(7.516)**
Capitalized borrowing costs	**-**	(63)	–	**(63)**
Financial guarantees	**(128,620)**	49,257	–	**(79,363)**
Prepayments	**-**	(18,899)	–	**(18,899)**
Initial recognition of financial assets	**-**	(6,739)	–	**(6,739)**
Employee benefit liabilities	**(4,044)**	-	(5,801)	**(9,845)**
Other	**(5,492)**	49	–	**(5,443)**
Net deferred tax assets	**(107,221)**	**84,170**	**(5,801)**	**(28,852)**
Recognized deferred tax asset	(107,221)	84,170	(5,801)	(28,852)
Recognized deferred tax liability	–	–	–	–
Net deferred tax assets	**(107,221)**	**84,170**	**(5,801)**	**(28,852)**

29. Financial risk management

The Group's principal financial instruments mainly consist of borrowings, cash and cash equivalents, loans due from related parties as well as accounts receivable and accounts payable. The Group is exposed to interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group further monitors the market risk and liquidity risk arising from all financial instruments.

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency, and securities, all of which are exposed to general and specific market movements. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing appropriate margin and collateral requirements.

The sensitivity analyses in the following sections relate to the position as of 31 December 2020 and 2019.

Foreign exchange risk

The Group's main financial instruments in foreign currencies include Cash and cash equivalents, trade receivables and payables denominated in US dollar, and borrowings denominated in US dollar and euro.

As a result of significant borrowings denominated in the US dollars and euro, and cash and cash equivalents, trade receivables and payables denominated in US dollars, the Group's consolidated statement of financial position can be affected significantly by movement in the US dollar / UZS and euro/UZS exchange rates. The Group also has transactional currency exposures. Such exposure arises from revenues in US dollars.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar and euro exchange rate, with all other variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities). The sensitivity of possible the changes in exchange rates for other currencies are not considered due to its insignificance to the consolidated financial results of Group's operations.

29. Financial risk management (continued)

Market risk (continued)

In millions of Uzbek soums	**Increase/ decrease in UZS to US dollar exchange rate**	**Effect on profit before tax**	**Increase/ decrease in UZS to euro exchange rate**	**Effect on profit before tax**
2020	3%	(21,774)	21%	(698,452)
	-20%	145,161	-21%	698,462
2019	20%	(59,543)	20%	(224,098)
	-20%	59,543	-20%	224,098

Interest rate risk

Loans and borrowings raised at variable interest rates expose the Group to interest rate risk arising from the possible movement of variable elements of the overall interest rate.

The Group analyzes its interest rate exposure, including by performing scenario analysis to measure the impact of an interest rate shift on annual income before income tax. According to sensitivity analysis, which is limited to variable rate borrowings and is conducted with all other variables held constant the impact of a potential increase or decrease in interest rates on the Group's profit before tax, as applied to the variable element of interest rates on borrowings is immaterial, since the Group does not have significant exposure to interest rate risk.

The analysis is prepared with the assumption that the amount of variable rate liability outstanding at the balance sheet date was outstanding for the whole year. The interest rate on variable rate borrowings will effectively change throughout the year in response to fluctuations in market interest rates. The impact measured through the sensitivity analysis does not take into account other potential changes in economic conditions that may accompany the relevant changes in market interest rates.

	Increase/ decrease in Libor	**Sensitivity of finance cost**	**Increase/ decrease in Euribor**	**Sensitivity of finance cost**
Financial liabilities				
2020	+1.00%	-	+0.20%	6,561
	-0.25%	-	-0.20%	(6,561)
2019	+0.35%	-	+0.15%	2,102
	-0.35%	-	-0.15%	(2,102)

Commodity price risk

The Group generates most of its revenue from the sale of commodities, primarily polyethylene and gas products. Historically, the prices of these products have been regulated by the Government of Uzbekistan, except for prices of oil refined and natural gas products for export sales, which are contract based with predominantly fixed prices. Starting from 2019 prices for certain oil and gas products in the Republic of Uzbekistan is being deregulated.

Credit risk

The Group controls its own exposure to credit risk. All external customers and their financial guarantors, including related parties, undergo a creditworthiness check (including sellers of goods and services who act on a prepayment basis).

The Group performs an ongoing assessment and monitoring of the financial position and the risk of default. In the event of a default by the parties on their respective obligations under the financial guarantee contracts, the Group's exposure to credit risk will be limited to the corresponding contract amounts.

29. Financial risk management (continued)

Market risk (continued)

In addition, as part of its cash management and credit risk function, the Group regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash and performs trade finance operations. The Group primarily has banking relationships with the reputable large financial institutions in the Republic of Uzbekistan. The Group's exposure to credit risk is limited to the carrying value of financial assets recognized on the consolidated balance sheet.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

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

31 December 2020	**<1 year**	**1 to 2 years**	**Total**
Borrowings	3,374,991	820,390	**4,195,381**
Trade payables	56,511	-	**56,511**
Financial guarantees	384,595	-	**384,595**
Other current liabilities	19,207	-	**19,207**
Other non-current liabilities	-	-	**-**
Total undiscounted financial liabilities	**3,835,304**	**820,390**	**4,655,694**

31 December 2019	**<1 year**	**1 to 2 years**	**Total**
Borrowings	1,414,497	26,266	**1,440,763**
Trade payables	309,292	–	**309,292**
Financial guarantees	396,814	-	**396,814**
Other current liabilities	18,384	–	**18,384**
Other non-current liabilities	–	-	**-**
Total undiscounted financial liabilities	**2,138,987**	**26,266**	**2,165,253**

Management believes that the Group has access to sufficient financing resources with domestic banks to meet the Group's regular cash payment obligations.

Capital management

The primary objective of the Group's capital management policy is to ensure a strong capital base to fund and sustain its business operations through prudent investment decisions and to maintain government, investor and creditor confidence.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. Financial risk management (continued)

Fair value of financial instruments

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the consolidated financial statements:

In millions of Uzbek soums	**31 December 2020** Carrying amounts	**Fair values**	**31 December 2019** Carrying amounts	**Fair values**
Cash and cash equivalents	24,447	24,447	27,755	27,755
Restricted cash	25,042	25,042	2,238	2,238
Trade receivables	250,059	250,059	236,620	236,620
Long-term trade receivables	40,716	40,716	24,429	24,429
Other current assets	18,623	18,623	21,371	21,371
Other non-current financial assets	40,797	40,797	57,532	57,532
Total financial assets	**399,684**	**399,684**	**369,945**	**369,945**
Trade and other payables	105,794	105,794	354,680	354,680
Borrowings	4,195,381	4,191,756	1,440,763	1,439,665
Financial guarantees	384,595	384,595	396,814	396,814
Other current liabilities	19,207	19,207	18,384	18,384
Total financial liabilities	**4,677,168**	**4,701,352**	**2,210,641**	**2,209,543**

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as of 31 December 2020:

In millions of Uzbek soums	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Assets for which fair values are disclosed				
Cash and cash equivalents	24,447	-	–	**24,447**
Restricted cash	25,042	-	–	**25,042**
Trade receivables	–	-	250,059	**250,059**
Long-term trade receivables			40,716	**40,716**
Other current assets	–	-	18,623	**18,623**
Other non-current assets	–	-	40,797	**40,797**
Liabilities for which fair values are disclosed				
Trade and other payables	–	-	105,794	**105,794**
Borrowings	–	3,280,514	914,867	**4,195,381**
Financial guarantees	-	-	384,595	**384,595**
Other current liabilities	–	-	19,207	**19,207**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. Financial risk management (continued)

Fair value of financial instruments (continued)

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as of 31 December 2019:

In millions of Uzbek soums	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Assets for which fair values are disclosed				
Cash and cash equivalents	27,755	–	–	**27,755**
Restricted cash	2,238	–	–	**2,238**
Trade receivables	–	–	236,620	**236,620**
Long-term trade receivables			24,429	**24,429**
Other current assets	–	–	21,371	**21,371**
Other non-current assets	–	–	57,532	**57,532**
Liabilities for which fair values are disclosed				
Trade and other payables	–	–	354,680	**354,680**
Borrowings	–	1,401,325	39,438	**1,440,763**
Financial guarantees	-	–	396,814	**396,814**
Other current liabilities	–	–	18,384	**18,384**

30. Commitments, contingencies and operating risks

Operating environment

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

Specifically, the President of the Republic of Uzbekistan issued Decree No. 4947 dated 7 February 2017 and confirmed Action Strategy on five priority areas of development of the Republic of Uzbekistan in 2017-2021. The government is carrying large-scale political and legal socio-economic reforms, state and regional programs in accordance with the Action Strategy for 2017-2021.

The Uzbekistan's economy has been impacted by government's currency reforms in 2017, which resulted in significant devaluation of Uzbek soum against major hard currencies by 92-94%, based on official exchange rates as established by the CBU of Uzbekistan.

For the first time, the Republic of Uzbekistan obtained international credit rating in 2019. International Rating Agency Standard & Poor's Global Ratings has confirmed the long-term and short-term sovereign credit ratings of the Republic of Uzbekistan on obligations in national and foreign currencies "BB-/B".

The Group's management is monitoring economic developments in the current environment and taking precautionary measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future.

30. Commitments, contingencies and operating risks (continued)

COVID-19

The existence of the coronavirus, COVID-19, was confirmed in early 2020 and has spread around the world, causing disruptions to businesses and economic activity. Governments in affected countries, including Uzbekistan, imposed travel bans, quarantines and other emergency public safety measures. Those measures, though temporary in nature, may continue and increase depending on developments in the virus' outbreak. The ultimate severity of the COVID-19 outbreak is uncertain at this time, and therefore the Group cannot reasonably estimate the impact it may have on future operations. There is a significant uncertainty in relation to the extent and period over which these developments will continue, but they could have a significant impact the on the Group's financial position, future cashflows and results of operations.

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Taxation

Uzbekistan currently has a number of laws related to various taxes imposed by both state and regional governmental authorities. Implementing regulations are often unclear or non-existent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations (like the State Tax Committee and its various inspectorates) thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency controls matters) are subject to review and investigation by a number of authorities that are empowered by law to impose extremely severe fines, penalties and interest charges.

These facts create tax risks in Uzbekistan substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that the relevant authorities could take differing positions with regard interpretive issues.

As of 31 December 2020 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs position will be sustained.

Capital commitments

As of 31 December 2020, the Group had capital commitments of UZS 12,195,000 million (31 December 2019: UZS 12,206,000 million) mainly related to the project on expansion of the Shurtan Gas Chemical Complex *(Note 15)*.

"**Program for increasing hydrocarbon production 2017-2021"**

In accordance with Presidential Decrees of the Republic of Uzbekistan the Group participates in "Program for increasing hydrocarbon production 2017-2021", under which the Group carries certain obligations and commitments.

The Management of the Group considers the commitments under the program are being fulfilled appropriately and any deviations related to volumes and deadlines, set in the program, will not lead to material negative consequences, which need to be recognized or disclosed in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. Commitments, contingencies and operating risks (continued)

Financial guarantees

As of 31 December 2020, the Group issued a number of guarantees to its related parties, including JSC Uzbekneftegaz, amounting to UZS 2,719,401 million (31 December 2019: UZS 3,027,287 million). Should JSC Uzbekneftegaz default on their guaranteed obligations, the Group may receive claims and become liable for the respective amount. All financial guarantee agreements are concluded on the condition that the is no compensation to the Company. Most financial liabilities of JSC Uzbekneftegaz guaranteed by the Company are payable on demand or within 12 months.

31. Subsequent events

Gas products market deregulation

In accordance with the Presidential Decree No. 5031 dated 17 March 2021, starting from 15 June 2021, the sale of gas condensate and liquefied gas on the domestic market is carried out exclusively through stock exchange auctions.

Financial guarantees

On 9 March 2021, JSC Uzbekneftegaz and Gazprombank concluded a loan agreement to finance the program to increase hydrocarbon production in 2017-2021 for the total amount of UZS 3,754,000 million, in which the Group acted as a guarantor. The potential exposure under the guarantee is UZS 3,754,000 million.

The conflict between the Russian Federation and Ukraine

In February 2022, the conflict between the Russian Federation and Ukraine led to imposition of multiple sanctions against the former by most western countries. The sanctions are intended to exert negative impact on the Russian economy.

Since February 2022, there has been a significant growth in volatility on equity and currency markets and the Uzbek soum has significantly depreciated against the US dollar and the euro due to increased geopolitical tensions.

The Group regards these developments as non-adjusting events after the reporting period as the quantitative effects of these events cannot be reliably measured at this point in time.

The Company's management is currently assessing the possible impact of the changing micro- and macroeconomic environment on the Company's financial position and performance.