

INDEPENDENT AUDITOR'S REPORT

To the Shareholders, the Board of Directors and the Management of the National Electrical Grid of Kyrgyzstan Open Joint Stock Company:

Qualified opinion

We have audited the financial statements of the National Electrical Grid of Kyrgyzstan Open Joint Stock Company (the "Company"), which comprise of the statement of financial position as at December 31, 2022, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the "Basis for qualified opinion" paragraph the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022, its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (the "IFRS").

Basis for qualified opinion

Deferred tax liabilities

As at December 31, 2022 and 2021 the Company recognized a deferred tax liabilities. We were unable to obtain sufficient and appropriate audit evidence regarding certain assumptions used by the Company in its taxable income projections. Consequently, we were unable to determine whether adjustments to these amounts are needed.

Trade accounts receivable

We were unable to obtain sufficient appropriate audit evidence regarding the completeness, accuracy and valuation of trade accounts receivable balances as at December 31, 2022. It was not practicable to perform alternative audit procedures sufficient to satisfy ourselves as to trade accounts receivable balances as at December 31, 2022 that materially affects the determination of financial position and the results of operations for the year ended December 31, 2022.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kyrgyz Republic, 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 qualified opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Presentation of financial statements

National Electrical Grid of Kyrgyzstan OJSC in accordance with the order of the Cabinet of Ministers of the Kyrgyz Republic # 51-P dated February 8, 2022, according with the order of the Ministry of Energy of the Kyrgyz Republic # 01-13/23 dated February 18, 2022 joined Severelectro OJSC, Vostokelectro OJSC, Jalalabatelectro OJSC, Oshelectro OJSC from August 1, 2022. IFRS does not apply to business combinations involving entities or businesses under common control, therefore Management used its judgment and other standards to develop accounting policies that are relevant and reliable, in accordance with IAS 8.10-12:

- For the purposes of presentation of these financial statements, comparative amounts are restated as if the combination had taken place at the beginning of the earliest comparative period presented. Thus, the financial statements for 2021 include the statements of NEGK OJSC and all distribution companies.
- Under a pooling of interests-type method, the merging entity accounts for the combination of the assets and liabilities of the acquirees at book value rather than fair value. Uniform accounting policies are applied for each class of property, plant and equipment in the financial statements. It is impractical to apply the cost measurement retrospectively to determine the cumulative depreciated cost of the revalued assets for distribution companies. Since property, plant and equipment at NEGK OJSC are measured in accordance with the IAS 16 cost model, and all property, plant and equipment in the combined financial statements should be measured on the same basis to achieve uniformity, therefore a similar approach was applied to the property, plant and equipment of distribution companies. In accordance with IAS 8:23-27, management applies the cost approach prospectively, starting from the earliest practicable date, which is the beginning of the comparative period.

Impairment of property, plant and equipment

The issue of testing property, plant and equipment for impairment was one of the most significant for our audit, because property, plant and equipment represent a significant portion of the Company's total assets at the reporting date, and also because the process of management's assessment of the recoverable amount of property, plant and equipment is complex, largely subjective and is based on assumptions, in particular, on the forecast of established tariffs for the transmission of electricity, the costs of construction and repairs of existing and under construction facilities, which depend on the expected future market or economic conditions in the Kyrgyz Republic.

We evaluated the assumptions and methodologies used, particularly those related to projected revenues from electricity sales, long-term growth rates and discount rates. We studied the draft amendments to the Resolution of the Cabinet of Ministers of the Kyrgyz Republic "On Approval of the medium term electricity tariff policy of the Kyrgyz Republic for 2021-2025" dated September 30, 2021, No. 192, under which annual indexation of tariffs by the inflation rate is planned. We compared observable model parameters, such as discount rates, with available external sources of information. We also analyzed the sensitivity of the model to changes in key valuation parameters and the Company's disclosures of those assumptions on which the impairment test results are most sensitive.

Recognition of income and receivables in the form of penalties for late payments for electricity provision services

The Company recognises penalties for late payment of electricity on off-balance sheet accounts. Revenues and receivables are recognised by the Company on a cash basis when cash is paid since the probability of receiving these funds is low. We have analyzed the trends of these receivables and, based on our procedures, have determined that the likelihood of receipts is low.

Potential liabilities for accrual of penalties

The agreement between the Company and Electric Power Plants OJSC allows charging penalties for late payments for supplied electricity.

The Company does not recognize penalties in favour of Electric Power Plants OJSC for late payments of supplied electricity as liabilities or provisions. We have discussed this issue with the Management of the Parent company - National Energy Holding Company OJSC and their position is that it is unlikely that the Company will pay fines for late payments in favour of Electric Power Plants OJSC.

Accounting for loans received

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the financial statements, which indicates that the Company has accumulated deficit as at December 31, 2022 and 2021. The increase in tariffs to cover operating expenses is subject to control by the Government of the Kyrgyz Republic. Currently, revenues from the transmission and sale of electricity are not always sufficient to cover operating costs. These financial statements do not include any adjustments that might result from the outcome of these uncertainties. These circumstances do not lead to modification of the auditor's opinion.

National Electrical Grid of Kyrgyzstan OJSC is included in the register of strategic organizations of the Kyrgyz Republic. In accordance with the Law "On the special status of the Toktogul hydroelectric power plants and the national high voltage transmission line" dated December 28, 2001 # 7 the Company's property is protected by the state and the state-owned shares cannot be sold, pledged, exchanged for the payment of the Kyrgyz Republic external debt, transferred to the trust management to anyone, the Company's property is not subject to any type of alienation, including indirect. The energy system of the Kyrgyz Republic is in the process of reform. As of the date of these financial statements the Kyrgyz Republic government is considering draft amendments to the regulation of the Cabinet of Ministers of the Kyrgyz Republic #192 dated September 30, 2021 "On approval of the medium term electricity tariff policy of the Kyrgyz Republic for the period 2021-2025" whereby from May 1, 2023 tariffs will be increased and further indexed annually by the level of inflation. Such reforms may cause material changes to the financial statements which cannot be estimated reliably.

Other matter

The financial statements of National Electric Grid of Kyrgyzstan OJSC for the year ended December 31, 2021, which did not include the financial statements of Severelectro OJSC, Vostokelectro OJSC, Jalalabatelectro OJSC and Oshelectro OJSC were audited by another auditor who expressed a qualified opinion on the financial statements dated March 26, 2022.

This report has been prepared for the management, shareholders of the Company, the Ministry of Energy of the Kyrgyz Republic (the "Ministry of Energy"), the Asian Development Bank (the "ADB") and the World Bank. To the fullest extent, permitted by the Law, our audit work has been undertaken so that we might report those matters that we are required to report in an Auditor's Report in accordance with ISA and IFRS and for no other purpose. We do not, in providing this opinion, accept or assume responsibility for any other purposes or to any other person to whose knowledge this report may come to.

Responsibilities of the Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, compliance with the requirements of the legislation of the Kyrgyz Republic, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

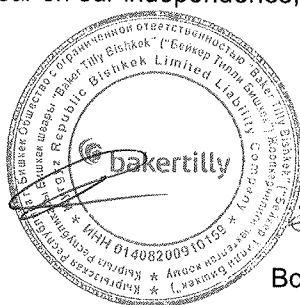
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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



Kubat Alymkulov

Certified accountant, FCCA
Certificate of auditor of the Kyrgyz Republic
No. A 0069 dated October 19, 2009
Audit Partner,
Director, Baker Tilly Bishkek LLC



Bolot Oskonbaev

Certified accountant, ACCA
Certificate of auditor of the Kyrgyz Republic
No. AD 0033 dated December 23, 2021
Audit Director

Baker Tilly Bishkek LLC, License Series A No. 0049 dated July 1, 2011 issued by the State Committee on Review and Regulation of the financial market of the Kyrgyz Republic

March 27, 2023
Bishkek, the Kyrgyz Republic

NATIONAL ELECTRICAL GRID OF KYRGYZSTAN OJSC

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2022

(in thousands of Kyrgyz soms)


	Notes	December 31, 2022	December 31, 2021*
ASSETS:			
NON-CURRENT ASSETS:			
Property, plant, equipment and intangible assets	5	62,953,664	56,325,024
Advances paid, long-term part	6	-	1,203,764
Investments		19,075	19,075
Other assets, long term part		3,168	3,904
		<u>62,975,907</u>	<u>57,551,767</u>
CURRENT ASSETS:			
Inventories	7	1,710,702	1,240,819
Trade and other accounts receivable	8	1,553,143	1,216,514
Advances paid, short-term part	6	154,216	274,612
Taxes paid in advance	9	138,715	29,713
Restricted cash	10	8,777	2,372,770
Cash and cash equivalents	10	518,203	1,052,496
Other assets, short term part		16,137	3,360
		<u>4,099,893</u>	<u>6,190,284</u>
TOTAL ASSETS		<u><u>67,075,800</u></u>	<u><u>63,742,051</u></u>


NATIONAL ELECTRICAL GRID OF KYRGYZSTAN OJSC

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2022 (CONTINUED) (in thousands of Kyrgyz soms)

	Notes	December 31, 2022	December 31, 2021*
EQUITY AND LIABILITIES:			
EQUITY:			
Share capital	11	2,587,418	2,587,418
Repurchased shares		(10,092)	-
Reserve capital		243,466	243,466
Accumulated deficit		(2,377,560)	(1,391,522)
TOTAL EQUITY		443,232	1,439,362
NON-CURRENT LIABILITIES:			
Borrowings, long-term part	12	54,032,950	54,837,110
Deferred income, long-term part	13	1,242,107	970,006
Liabilities under contracts with suppliers	14	220,145	226,781
Deferred tax liabilities	30	693,794	693,794
Trade accounts payable, long-term part	16	165,828	-
Employee defined benefit obligations	15	164,704	211,341
		56,519,528	56,939,032
CURRENT LIABILITIES:			
Borrowings, short-term part	12	5,682,767	2,168,321
Trade accounts payable, short-term part	16	2,331,418	1,446,496
Advances received	17	256,194	232,406
Taxes payable	18	713,589	636,870
Employee benefit obligations	20	876,591	700,495
Other liabilities	19	252,481	179,069
		10,113,040	5,363,657
TOTAL LIABILITIES		66,632,568	62,302,689
TOTAL EQUITY AND LIABILITIES		67,075,800	63,742,051

On behalf of the Management of the Company:


Rysbekov A. D.
General Director
 March 27, 2023
 Bishkek, the Kyrgyz Republic


Batyrbekova N. K.
Chief Accountant
 March 27, 2023
 Bishkek, the Kyrgyz Republic

The notes on pages 13-56 form an integral part of the financial statements. The independent auditor's report is on pages 3-6.

* - Separate financial statements of National Electrical Grid of Kyrgyzstan OJSC, Severelectro OJSC, Vostokelectro OJSC, Jalalabatelectro OJSC, and Oshelectro OJSC as at December 31, 2021 were audited, while consolidated financial statements of National Electrical Grid of Kyrgyzstan OJSC and distribution companies as at December 31, 2021 were not audited.

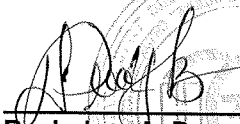
NATIONAL ELECTRICAL GRID OF KYRGYZSTAN OJSC


STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2022

(in thousands of Kyrgyz soms)

	Notes	For the year ended December 31, 2022	For the year ended December 31, 2021*
Revenue	21	19,826,373	17,398,183
Cost of sales	22	(15,459,134)	(13,898,166)
GROSS PROFIT		4,367,239	3,500,017
Selling expenses	23	(2,135,799)	(1,830,284)
General and administrative expenses	24	(1,008,338)	(871,992)
Net loss on foreign exchange operations	25	(238,428)	(957,721)
Financial gain	26	42,775	51,947
Finance cost	27	(3,042,196)	(2,644,535)
Other operating income	28	449,374	276,229
Other operating expenses	28	(66,011)	(43,485)
Other non-operating (expenses) / income, net	29	(189,610)	93,185
LOSS BEFORE INCOME TAX		(1,820,994)	(2,426,639)
Income tax	30	-	(41,990)
NET LOSS FOR THE YEAR		(1,820,994)	(2,468,629)
Other comprehensive income / (loss)		59,665	(1,319)
TOTAL COMPREHENSIVE LOSS		(1,761,329)	(2,469,948)

On behalf of the Management of the Company:


Rysbekov A. D.
General Director
 March 27, 2023
 Bishkek, the Kyrgyz Republic


Batyrbekova N. K.
Chief Accountant
 March 27, 2023
 Bishkek, the Kyrgyz Republic

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NATIONAL ELECTRICAL GRID OF KYRGYZSTAN OJSC


STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Kyrgyz soms)

	Note	Share capital	Reserve capital	Repurchased shares	Retained earnings	Total equity
as at December 31, 2020*	11	<u>2,587,418</u>	<u>243,466</u>	<u>-</u>	<u>448,074</u>	<u>3,278,958</u>
Loss for the year		-	-	-	(2,468,629)	(2,468,629)
Dividends declared	11	-	-	-	(10,306)	(10,306)
Recognition of fair value of borrowings	12	-	-	-	640,658	640,658
Revaluation of employee defined benefit obligation		-	-	-	(1,319)	(1,319)
as at December 31, 2021*		<u>2,587,418</u>	<u>243,466</u>	<u>-</u>	<u>(1,391,522)</u>	<u>1,439,362</u>
Loss for the year		-	-	-	(1,820,994)	(1,820,994)
Dividends declared	11	-	-	-	(62,103)	(62,103)
Recognition of fair value of borrowings	12	-	-	-	847,175	847,175
Repurchased shares		-	-	(10,092)	-	(10,092)
Revaluation of employee defined benefit obligation		-	-	-	59,665	59,665
Adjustments of previous years		-	-	-	(9,781)	(9,781)
as at December 31, 2022	11	<u>2,587,418</u>	<u>243,466</u>	<u>(10,092)</u>	<u>(2,377,560)</u>	<u>443,232</u>

On behalf of the Management of the Company:


Rysbekov A. D.
General Director

March 27, 2023
Bishkek, the Kyrgyz Republic


Batyrbekova N. K.
Chief Accountant

March 27, 2023
Bishkek, the Kyrgyz Republic

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NATIONAL ELECTRICAL GRID OF KYRGYZSTAN OJSC

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Kyrgyz soms)

	Notes	For the year ended December 31, 2022	For the year ended December 31, 2021*
CASH FLOWS FROM OPERATING ACTIVITIES:			
Proceeds from sale of services		16,397,961	18,668,389
Other proceeds		676,298	166,194
Interest received		-	51,367
Payments to suppliers for goods and services		(2,767,749)	(8,630,050)
Payments of payroll and related taxes		(5,106,025)	(4,211,399)
Other payments		(3,340,789)	(2,560,938)
Cash flows from operating activities		5,859,696	3,483,563
Interest paid		(621,973)	(568,401)
Income tax paid		(169,426)	(128,047)
Net cash inflow from operating activities:		5,068,297	2,787,115
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets		(6,449,113)	(3,747,880)
Proceeds from sale of fixed assets		241	-
Interest and dividends received		493	507
Repayment of deposit		8,000	-
Net cash flows used from investing activities		(6,440,379)	(3,747,373)

NATIONAL ELECTRICAL GRID OF KYRGYZSTAN OJSC

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2022 (CONTINUED)

(in thousands of Kyrgyz soms)

	Notes	For the year ended December 31, 2022	For the year ended December 31, 2021*
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		3,350,212	2,048,557
Repurchase of shares		(636)	-
Dividends paid		(26,399)	(25,545)
Net cash inflow from financing activities		3,323,177	2,023,012
Effect of foreign exchange differences on cash and cash equivalents		(72,982)	26,594
Effect of changes in expected credit losses on cash and cash equivalents		-	86
NET INCREASE OF CASH AND CASH EQUIVALENTS		1,878,113	1,089,434
Cash and cash equivalents, at the beginning of the year	10	1,052,496	936,051
Changes in restricted cash		(2,412,406)	(972,989)
Cash and cash equivalents, at the end of the year	10	518,203	1,052,496

For the year ended December 31, 2022, purchases of property, plant and equipment included receipts of spare parts of CASA-1000 project to the amount of 3,105,658 thousand soms. In Note 5 such receipts are disclosed as transferred from Inventories.

On behalf of the Management of the Company:


Rysbekov A. D.
General Director

March 27, 2023
Bishkek, the Kyrgyz Republic


Batyrbekova N. K.
Chief Accountant

March 27, 2023
Bishkek, the Kyrgyz Republic

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NATIONAL ELECTRICAL GRID OF KYRGYZSTAN OJSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

(in thousands of Kyrgyz soms, unless otherwise stated)

1. BACKGROUND

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

The Company was initially registered in the Ministry of Justice of the Kyrgyz Republic on December 25, 2001, certificate No. 16742-3301-OAO and re-registered on August 5, 2022.

National Electrical Grid of Kyrgyzstan OJSC in accordance with the order of the Cabinet of Ministers of the Kyrgyz Republic #51-P dated February 8, 2022, according with the order of the Ministry of Energy of the Kyrgyz Republic # 01-13/23 dated February 18, 2022, joined Severelectro OJSC, Vostokelectro OJSC, Jalalabatelectro OJSC, Oshelectro OJSC from August 1, 2022.

The Company is a legal entity, registered in accordance with the law of the Kyrgyz Republic and is responsible for the following activities:

- transmission of electric power, according to license No. 341 dated September 7, 2022;
- distribution of electric power, according to license No. 342 dated September 7, 2022;
- sale of electric power, according to license No. 343 dated September 7, 2022;
- export of electric power, according to license No. 344 dated September 7, 2022;
- import of electric power, according to license No. 344 dated September 7, 2022;

The Company consists of 9 branches and head office located in Bishkek, conducting administrative and coordinative control on operational and maintenance field activities of the branches. The Company includes the following branches: Chui, Issyk-Kul, Naryn, Talas, Osh, Batken, Jalal-Abad, Bishkek high-voltage electrical grid plants, and the Training Center.

As at December 31, 2022 and 2021 the structure of shareholders is presented as follows:

Name	December 31, 2022 and 2021	
	Amount, KGS	Share
National Energy Holding Company OJSC	2,082,489	80.49%
Social Fund of the Kyrgyz Republic	340,545	13.16%
Individuals	107,386	4.15%
Other legal entities	56,998	2.20%
	<u>2,587,418</u>	<u>100%</u>

Total number of the Company's employees as at December 31, 2022 and 2021 equaled to 10,436 and 10,498 workers, respectively.

Registered address: 326, Zhibek Zholu av., Bishkek, 720070, the Kyrgyz Republic.

The financial statements were approved by the Management of the Company on March 27, 2023.

2. PRESENTATION OF FINANCIAL STATEMENTS

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (the "IFRS") issued by the International Accounting Standards Board (the "IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee.

Use of estimates and assumptions

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Due to the inherent uncertainty in making those estimates, actual results reported in future periods could differ from such estimates. The key sources of estimation of uncertainty in these financial statements are presented in Note 4.

Functional and reporting currencies

Items included in the Company's financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances related to the Company (the "functional currency"). Functional and reporting currency of the presentation of these financial statements is Kyrgyz som (the "som").

These financial statements are presented in thousands of soms, unless otherwise indicated. These financial statements have been prepared under the historical cost convention.

Going concern

These financial statements have been prepared on the assumption that the Company will continue as a going concern. The increase in tariffs to cover operating costs is subject to control by the Government of the Kyrgyz Republic. Currently, revenues from the transmission and sale of electricity are not always sufficient to cover operating costs. These financial statements do not include any adjustments that might result from the outcome of these uncertainties.

As at December 31, 2022 and 2021, accumulated loss is equaled to 2,377,560 thousand soms and 1,391,522 thousand soms, respectively. The Company is included in the list of strategic organizations of the Kyrgyz Republic. The whole energy system of the Kyrgyz Republic is experiencing significant restructuring and reform. Such reforms may cause material changes to the financial statements which cannot be estimated reliably.

The Company actively participates in the implementation of the CASA-1000 project with the support of the World Bank Group, the Islamic Development Bank, European Investment Bank, as well as several other international donor organizations. The purpose of the Project is to create conditions for sustainable electricity trade conditions between Tajikistan and the Kyrgyz Republic in Central Asia and Afghanistan and Pakistan in South Asia, as a result of which the Company expects a significant increase in revenues from the transmission of electrical energy from export.

According to Article 5 of the Law of the Kyrgyz Republic *On the Special Status of the Cascade of Toktogul Hydroelectric Power Plants and the National High-Voltage Transmission Line*, one of the principles of the state policy towards the Company is state incentives, which the management believes will enable the Company to continue its operations in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue and expense recognition

The Company's revenues from sales of goods and providing services are accounted for on the accrual basis in accordance with IFRS 15 "Revenue from contracts with customers", which represents a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer.

Revenue is recognized when it is probable that the economic benefit associated with the transaction will flow to the Company and the amount can be reliably measured.

Expenses are accounted for at the time the actual flow of the related goods or services occur, regardless of when cash or their equivalent are paid, and are reported in the financial statements in the period to which they relate.

Cash and cash equivalents

Cash and cash equivalents include petty cash, cash in transit and cash at banks.

Property, plant, equipment and intangible assets

Property, plant, equipment and intangible assets acquired after foundation of the Company, are carried at revalued cost less accumulated depreciation and any accumulated impairment loss. Property, plant and equipment constructed by the Company itself include cost of materials, direct labor costs and related part of overhead production expenses. When property, plant and equipment include significant components with different useful lives, these components are accounted separately.

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction less impairment losses. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation.

Capitalized cost includes major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures are reflected in the statement of profit or loss and other comprehensive income within operating expenses as incurred unless they meet the requirements for capitalization.

Depreciation is computed under the straight-line method and reflected in the statement of profit or loss and other comprehensive income. Depreciation is charged from the moment of assets acquisition or, related to assets constructed by the Company itself, from the moment of completion of construction works and putting into operations.

Useful lives for depreciation are as follows:

Buildings and constructions;	5-100 years
Equipment	2-59 years
Office equipment;	3-10 years
Furniture and fixtures;	3-15 years
Vehicles;	5-50 years
Intangible assets (software);	5-10 years
Other	5-10 years

The costs of maintenance, repairs, and replacement of minor items of property are charged to maintenance expense. Upon disposal, the cost and related accumulated depreciation are eliminated from the financial statements. Any resulting gains or losses are included in the statement of profit or loss and other comprehensive income.

Impairment of property, plant, equipment and intangible assets

On each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is impossible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land, buildings, or equipment, carried at a revalued amount, in which case the impairment loss is treated as a decrease in the related revaluation reserve.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are accounted for at the lower of cost and net realizable value. Cost for fuel is determined using the weighted-average method, for the rest inventories using the FIFO method.

Recognition and valuation of financial instruments

Financial assets and financial liabilities are recognized on the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. The Company reflects purchasing and sale of financial assets and liabilities, which have regular nature at the date of settlements.

Financial assets and liabilities are initially recognized at fair value. The acquisition cost of financial assets and liabilities that are not financial assets and liabilities at fair value through profit or loss, is adjusted for transaction costs, directly related to the acquisition of a financial asset or financial liability origination. The principles of subsequent valuation of financial assets and liabilities are disclosed in appropriate accounting policies set out below.

The Company classifies financial assets in the following main categories:

- Financial asset measured at amortized cost;
- Financial asset measured at fair value through other comprehensive income (FVOCI);
- Financial asset measured at fair value through profit or loss (FVTPL).

Debt instruments

The classification and subsequent accounting of debt instruments depend on:

- Business model of the Company used to manage financial assets;
- Characteristics of the financial asset and the contractual cash flows.

Gains or losses on debt instruments measured at fair value through profit or loss are recognized in the statement of profit or loss as part of the "Net Trade Income".

Equity instruments

The Company holds the equity instruments of its subsidiaries over which it has control. In preparing financial statements the Company accounts for investments in subsidiaries at historical cost. The Company applies uniform accounting treatment for each of its investments in subsidiaries at historical cost.

Reclassification

The Company reclassifies financial assets if and only if the business model objective for its financial assets changes so its previous model assessment would no longer apply. If reclassification is performed, it must be done prospectively from the reclassification date which is defined as the first day of the first reporting period following the change in business model. The Company does not restate any previously recognised gains, losses or interest.

Derecognition of financial assets

The recognition of a financial asset (or, if applicable, part of a financial asset or part of a group of similar financial assets) ceases when:

- the rights to receive cash flows from the asset have ceased;
- the Company transferred its rights to receive cash flows from the asset or reserved the right to receive cash flows from the asset, but became obliged to pay these cash flows without significant delay to a third party under the 'transfer' agreement; and

- the Company either (a) transferred almost all the risks and rewards related to the asset, or (b) did not transfer and did not retain almost all the risks and rewards related to the asset, but transferred a control over the asset.

Classification and subsequent accounting of financial liabilities

The Company classifies all financial liabilities as subsequently measured at amortized cost.

Offset of assets and liabilities

The Company's financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Derecognition of financial liabilities

A financial obligation (or part of it) is considered extinguished when the debtor:

(a) either fulfils this obligation (or part of it) by paying off the lender, generally in cash, other financial assets, goods or services,

(b) is either legally relieved of primary liability for that obligation (or part of it), as a result of the performance of the legal procedure or as a result of the creditor's decision.

Derecognition of financial liabilities occurs also in the case of significant changes in cash flows, i.e. if the present value of cash flows in accordance with the new conditions, including the payment of commission after deduction of commission received, discounted at the original effective interest rate, differs by at least 10% of the discounted present value of the remaining cash flows of the original financial liability.

Impairment of financial assets

The application of IFRS 9 has not radically changed the accounting treatment used by the Company in respect of impairment losses on financial assets. The IAS 39 method based on incurred losses has been replaced by the projected expected credit losses (ECL) model.

IFRS 9 requires the Company to reflect estimated reserves and expected debt and financial assets not measured at fair value through profit or loss.

The Company uses a simplified approach to the impairment of trade account receivables, due from banks, which do not contain significant financing component. The simplified approach does not require tracking of changes in credit risk and expected credit losses can be modeled for the expected life of the financial asset.

Borrowing costs

Borrowing costs are recognized in the statement of profit or loss and other comprehensive income in the period in which they are incurred. Any discounts or premiums associated with borrowings are recorded to income based on the effective interest rate method.

Borrowings – All borrowings are initially recorded at the fair value of the proceeds received, net of direct issue costs. Subsequent to initial recognition all borrowings are measured at amortized cost, which is calculated by taking into account any discount or premium on settlement.

Borrowing costs – Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in the period in which they are incurred.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated to Kyrgyz som at the market rates prevailing at December 31, 2022 and 2021. Transactions denominated in foreign currencies are reported at the rates of exchange prevailing at the date of the transaction. Any gains or losses arising from a change in exchange rates subsequent to the date of the transaction are included as an exchange gain or loss in the statement of profit or loss and other comprehensive income.

According to the National Bank of the Kyrgyz Republic as at December 31, 2022 and 2021 the official rates of the main foreign currencies to the Kyrgyz som were as follows:

	December 31, 2022	December 31, 2021
Kyrgyz som / US Dollar	85.6800	84.7586
Kyrgyz som / Euro	91.4377	95.7857
Kyrgyz som / Russian ruble	1.1763	1.1409
Kyrgyz som / Kazakhstani tenge	0.1852	0.1964
Kyrgyz som / Special drawing rights	114.0271	118.6705

Taxation

Income tax expense represents the sum of current taxes payable and deferred taxes. The Company calculates current tax based on tax accounting and prepared in accordance with the tax regulations of the Kyrgyz Republic which may differ from International Financial Reporting Standards. The corporate income tax rate for the years ended December 31, 2022 and 2021 in the Kyrgyz Republic was 10%.

The Company is subject to certain permanent tax differences due to the certain expenditures are not deductible for taxation purposes as well as the possibility of non-taxable income.

Deferred tax reflects the net tax effects of temporary differences between the accounting value of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2022 and 2021 relate mostly to different methods of income and expense recognition as well as to accounting value of certain assets.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences, when the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized. Deferred tax is reflected in the statement of profit or loss and other comprehensive income, except when they connected with items, which are directly related to equity, and in this case deferred tax is also reflected within equity.

The Company conducts netting of deferred tax assets and liabilities and reflects summary difference in the financial statements, if:

- The Company has a legally enforceable right for netting current tax assets against current tax liabilities; and
- Deferred tax assets and deferred tax liabilities relate to corporate taxes levied by the same taxation authority from the same taxable entity.

In addition to income tax there are requirements on accrual and payments of various taxes applicable to the Company's activities in the Kyrgyz Republic where the Company performs its activities.

Borrowings

Borrowings are initially recognized at fair value. Subsequently received amounts are reflected at amortized cost and difference between the carrying and the redemption value is recognized in the statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest method within interest expense.

Contingencies

Contingent liabilities are not recognized in these financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Share capital

Share capital is recognized at initial cost.

Dividends are recorded as a reduction in the period in which they are declared. Dividends declared after the balance sheet date is treated as an event after the balance sheet date under IAS 10 "Events after the Reporting Period" and information about it is disclosed accordingly.

Pension liabilities

In accordance with the laws of the Kyrgyz Republic the Company withholds the amount of pension contributions from employee's salaries and transfers them to the State pension fund. The existing pension system provides for the calculation of current payments by the employer as a percentage of current gross salary payments. Such expenses are recognized in the period, which includes appropriately payment for employees. At retirement, all pension payments are implemented by above mentioned pension fund.

The Company has additional pension arrangements and defined benefit plan separate from the State pension system of the Kyrgyz Republic. The Company has no other benefits provided to employees upon retirement, or other significant compensated benefits requiring accrual.

Employee defined benefit obligation

The Company voluntarily offers its employees long-term post-retirement benefits in accordance with the collective agreement between Company and employees, the Company's regulations, and other documents, including those determined by the legislation of the Kyrgyz Republic, which, in particular, stipulate payments related to retirement, provision of material assistance in the event of death of employees and their relatives, etc. Eligibility for receipt of benefit is usually granted depending on the period remaining to retirement and availability of minimum length of service.

The estimated costs of lump-sum benefits are accrued over the course of an employee's employment using the methodology that is used to calculate post-employment defined benefit plans. For a post-employment defined benefit plan, the difference between the fair value of the pension assets (if any) and the present value of the pension liabilities is recognized as an asset or liability in the statement of financial position. Actuarial gains and losses arising during the year are recognized through other comprehensive income. For this purpose, actuarial gains and losses include both the effect of changes in actuarial assumptions and the effect of past experience on differences between actuarial assumptions and actual data.

Revaluation results are not reclassified to profit or loss in subsequent periods.

Other changes in net surplus or deficit are recognized in the statement of comprehensive income, including the cost of current services and impact of any reduction of staff or dismissal.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that the Company will be required to settle the obligation, and a reliable estimate of the obligation can be made.

Application of new and revised International financial reporting standards

The Company has adopted the following new or revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee (the "IFRIC") which became effective for the Company's financial statement for the year ended December 31, 2022:

- The amendment COVID-19-Related Rent Concessions beyond June 30, 2021 (Amendment to IFRS 16) provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.;
- The amendment to IAS 37 Provisions, contingent liabilities and contingent assets onerous contracts" - cost of fulfilling a contract. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).;
- The amendment to Reference to the Conceptual Framework (Amendments to IFRS 3). The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.
- The amendment to IAS 41 removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.
- Annual Improvements to IFRS Standards 2018-2020: The amendment to IAS 16 Property, plant and equipment - proceeds before intended use. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.
- Annual Improvements to IFRS Standards 2018-2020: The amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.

- Annual Improvements to IFRS Standards 2018-2020: The amendment to IFRS 9 Financial instruments – clarifies which fees an entity includes when it applies the 10 per cent test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
- Annual Improvements to IFRS Standards 2018-2020: The amendment to IFRS 16 Leases - removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

The adoption of the new or revised standards did not have significant effect on the financial position or performance of the Company in the financial statements.

New and revised IFRSs in issue but not yet effective

A number of new Standards and Interpretations has been issued and not yet adopted as at December 31, 2022 and had not been applied in preparation of these financial statements. Following Standards and Interpretations are relevant to operations of the Bank. The Bank intends to adopt these Standards and Interpretations from their effective dates. The Bank has not analyzed potential effect of adoption of these standards on its financial statements.

At the date of authorization of this financial information, the following new standards and interpretations were in issue, but not mandatorily yet effective, and which the Bank has not early adopted:

- IFRS 17 Insurance contracts requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. Applicable to annual reporting periods beginning on or after January 1, 2023.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2. Annual reporting periods beginning on or after January 1, 2023.
- The amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors replace the definition of changes in accounting estimates with the definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. Annual reporting periods beginning on or after January 1, 2023.
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes) clarifies that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. Annual reporting periods beginning on or after January 1, 2023.
- The amendments to initial Application of IFRS 17 Leases and IFRS 9 Financial Instruments — Comparative Information (Amendment to IFRS 17) permit entities that first apply IFRS 17 and IFRS 9 at the same time to present comparative information about a financial asset as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset before. Annual reporting periods beginning on or after January 1, 2023.
- Classification of Liabilities as Current or Non-Current (Amendments IAS 1 Presentation of Financial Statements) aims to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. Applicable to annual reporting periods beginning on or after January 1, 2024.

- Non-current Liabilities with Covenants (Amendments IAS 1 Presentation of Financial Statements) clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Applicable to annual reporting periods beginning on or after January 1, 2024.
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16 Leases) clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. Applicable to annual reporting periods beginning on or after January 1, 2024.
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures—Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

The Company intends to adopt these new standards and amendments, if applicable, when they become effective.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 3, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are recognized in the period in which the assessment is reviewed if the change affects only that period or the period of change and future periods if the change affects both current and in the future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimates and assumptions

The key assumptions about the future and other key sources of estimation of uncertainty at the reporting date, which may cause significant adjustments of the carrying value of assets and liabilities during the next financial year, are discussed below. Assumptions and estimates are based on the Company's source data, which it had at the time of preparation of the financial statements.

However, current circumstances and assumptions regarding the future are subject to change due to market changes or circumstances beyond the control of the Company. Such changes are reflected in the assumptions as they occur.

Useful economic lives of property, plant, equipment and intangible assets

The Company estimates the useful lives of fixed assets at each reporting date. The estimation of the useful lives of fixed assets depends on factors such as economical use, repair and customer service programs, technological progress and other business conditions. Management's assessment of the useful lives of fixed assets reflects the relevant information available to management as of the date of the financial statements.

Impairment of non-financial assets

Impairment occurs when the carrying amount of an asset or the cash-generating unit, exceeds its recoverable amount, which is the higher of fair value less costs to sell and value in use. The fair value less costs to sell is based on available information on commercial deals of sales of similar assets or observable market prices less incremental costs incurred in connection with the disposal of an asset. The calculation of value in use is based on a discounted cash flow model. Cash flows are taken from the budget for the next three years and do not include restructuring activity, in conducting of which the Company does not have obligations or significant investment in future, which will improve the asset tested for impairment of cash generating unit. The recoverable amount is most sensitive to the discount rate used in the discounted cash flow model and also to the expected cash inflows and the growth rate used for extrapolation. As at December 31, 2022 and 2021 the Company has tested for impairment of property, plant and equipment and as a result of the test, no impairment has been identified.

Allowance for doubtful accounts receivable

For estimation of allowance for expected credit losses on trade receivables the Company uses a matrix to calculate expected credit losses (ECL). Estimated allowance rates are based on the number of days of payment delay for groups of different customers with similar loss characteristics.

Initially the matrix of estimated allowance is based on the observed data on the occurrence of defaults in previous periods. The Company adjust matrix of past experience credit losses based for forward-looking information. At each reporting date observable data on the level of default in previous periods are updated and changes in forecast estimates are analyzed.

Assessment the relationship between historical observed default levels, forecasted economic conditions and the ECL is a significant estimate. The value of the ECL is sensitive to changes in circumstances and projected economic conditions. The Company's past experience of credit losses and forecast of economic conditions may also not be accurate for the actual default of the buyer in the future.

Allowance for advances paid, other assets and obsolete inventories

Determining the direction of allowance for advances paid, other assets and obsolete inventories requires management to make assumptions based on the best estimates of the Company's ability to realize these assets. As a result of the general changes in the economy or other similar circumstances after the reporting date, management may draw conclusions that may differ from the finding made in the preparation of these financial statements.

The fair value of financial instruments

In cases when the fair value of financial instruments recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques, including discounted cash flow model. As a source data for these models is used information from observable markets, but in those cases where this is not feasible, a certain proportion of judgment is required to determine fair value. The judgments include considerations of such data as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value of financial instruments recognized in financial statements.

Market rate of borrowings received

The Company uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of non-current borrowings. Borrowings in US dollars are discounted at a rate of 4.81%-8.04% (depending on terms), in Euros - 1.71-8.65%, in Swiss francs - 4.85%-7.82%, in Kuwaiti dinars - 6.38%-8.09%, in XDR - 6.38%-7.82% and in Kyrgyz soms – 9.4%-14.98% per annum as at December 31, 2022 which the Management of the Company has defined as the market rates on non-current borrowings.

Taxes

There is uncertainty about the interpretation of complex tax laws as well as the amounts and timing of future taxable profits. The long-term nature and complexity of the existing contractual relationship, the difference between actual results and the assumptions made, or future changes to such assumptions, may result in future adjustments to the amounts of income tax expense or economy already recorded.

The amount of possible tax liabilities may depend on the results of previous audits and different interpretations of tax legislation by the Company and the relevant tax authority. Such differences in interpretation may arise for large number of several issues.

In assessing tax risks management considers possible areas of non-compliance with tax laws that the Company cannot challenge or does not believe that it will be able to successfully appeal if additional taxes are accrued by the tax authorities. This definition requires significant judgments and may change as a result of changes in tax laws and regulations, the determination of expected results in pending tax proceedings and the results of compliance audits conducted by the tax authorities.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the tax loss can be offset. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized in the financial statements based on the likely timing and amount of future taxable profit, as well as the tax planning strategy.

Employee defined benefit obligations

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

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

5. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

Property, plant, equipment and intangible assets as at December 31, 2022 and 2021 are presented as follows:

Cost	Construction in progress	Equipment for installation	Buildings and construction	Equipment	Office equipment	Furniture and fixtures	Vehicles	Intangible assets	Other	Total
at December 31, 2020*	3,431,290	50,114	2,089,066	71,964,756	76,859	23,969	1,066,026	114,199	240,458	79,056,737
Additions	3,933,636	34,274	-	151,349	9,692	1,997	40,713	10,878	7,573	4,190,112
Transferred from/(to) inventories	463,749	40,854	18	(6,694)	-	-	47	-	-	497,974
Internal movement	(2,058,431)	(49,413)	63,878	2,023,304	3,280	3,750	2,518	275	10,839	-
Receipts under exchange and contracts with customers	4,373	-	-	7,783	-	-	-	-	-	12,156
Additions as a result of dismantlement activities	53,593	-	-	-	-	-	-	-	-	53,593
Disposal	(15,149)	(2,028)	(1,864)	(402,545)	(999)	(255)	(5,076)	-	(6,942)	(434,858)
at December 31, 2021*	5,813,061	73,801	2,151,098	73,737,953	88,832	29,461	1,104,228	125,352	251,928	83,375,714
Additions	3,837,109	108,341	448	158,829	1,364	204	114,745	-	13,744	4,234,784
Transferred from/(to) inventories	5,227,158	47,912	357	7,775	40	-	(1,061)	-	1,132	5,283,313
Internal movement	(1,315,730)	(110,787)	40,042	1,355,296	3,379	432	19,079	116	8,173	-
Disposal	(40,639)	(395)	(20,650)	(1,126,011)	(1,931)	(159)	(21,746)	(3,774)	(16,291)	(1,231,596)
at December 31, 2022	13,520,959	118,872	2,171,295	74,133,842	91,684	29,938	1,215,245	121,694	258,686	91,662,215

5. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

Property, plant, equipment and intangible assets as at December 31, 2022 and 2021 are presented as follows:

	Construction in progress	Equipment for installation	Buildings and construction	Equipment	Office equipment	Furniture and fixtures	Vehicles	Intangible assets	Other	Total
at December 31, 2020*	-	-	590,353	23,050,060	41,403	14,884	569,196	55,691	172,748	24,494,335
Charge	-	-	-	-	-	-	-	-	-	-
Internal movement	-	-	62,512	2,619,892	7,436	2,142	77,989	11,849	19,715	2,801,535
Disposal	-	-	(1,008)	(231,376)	(930)	(212)	(4,822)	-	(6,832)	(245,180)
at December 31, 2021*	-	-	651,857	25,438,550	47,935	16,814	642,363	67,540	185,631	27,050,690
Charge	-	-	64,101	2,586,012	5,593	2,099	84,664	12,906	21,870	2,777,245
Internal movement	-	-	(295)	224	-	15	78	-	(22)	-
Disposal	-	-	(19,837)	(1,063,354)	(1,862)	(155)	(15,862)	(3,762)	(14,552)	(1,119,384)
at December 31, 2022	-	-	695,826	26,961,432	51,666	18,773	711,243	76,684	192,927	28,708,551
Net book value										
at December 31, 2021*	5,813,061	73,801	1,499,241	48,299,403	40,897	12,647	461,865	57,812	66,297	56,325,024
at December 31, 2022	13,520,959	118,872	1,475,469	47,172,410	40,018	11,165	504,002	45,010	65,759	62,953,664

As of December 31, 2022 and 2021, construction in progress consisted of equipment and materials under the CASA-1000 electricity transmission project from Central Asia to South Asia in the amount of 11,257,598 thousand soms and 3,320,963 thousand soms, respectively.

The CASA-1000 project is the largest energy project, which involves the construction of a 500 kV overhead line 450 km long from the 500 kV Datka substation to the Kyrgyz-Tajik border. The project will connect the energy systems of Kyrgyzstan and Tajikistan with Afghanistan and Pakistan to further organize a unified electricity market.

The Company capitalized interest on loans to the cost of construction in progress. The amount of capitalized borrowing costs for the year ended December 31, 2022 and 2021 was 133,303 thousand soms and 101,063 thousand soms, respectively.

As at December 31, 2022 and 2021 the amount of fully depreciated property, plant, equipment and intangible assets amounted to 5,241,133 thousand soms and 3,628,143 thousand soms, respectively.

In accordance with the pledge agreement dated September 27, 2005 under the loan agreement No.119-04 dated February 5, 2004, which was drawn up in accordance with the Government Resolution No. 333-p dated June 5, 1998, the Company pledged equipment in the amount of 1,971 units, the estimated value of which at the date of conclusion of the agreement was 105,208 thousand soms.

In accordance with the pledge agreement dated December 12, 2006 and March 28, 2007 under the loan agreement No.16-2-5/4 dated August 9, 2016, the Company pledged equipment in the amount of 8,113 units, the estimated value of which is 815,437 thousand soms.

In accordance with the pledge agreement dated September 29, 2011, under the loan agreement No.19-05/28 and the supplementary agreement No.19-05/26 dated April 30, 2015, the Company pledged equipment in the amount of 720 units, the estimated value of which is 38,312 thousand soms.

In accordance with the pledge agreement dated March 30, 2017, under the loan agreement No.16-2/67 dated October 31, 2011, the Company pledged equipment in the amount of 11,541 units, the estimated value of which is 3,867,915 thousand soms.

In accordance with the pledge agreement dated December 30, 2011 under loan agreement No. 19-05/25 dated March 5, 2011 concluded in accordance with Government Decree No. 54-p dated March 4, 2011, the Company provided 3,657 units of equipment as collateral with an estimated value of 355,683 thousand soms at the date of the loan agreement. In accordance with the pledge agreement dated July 12, 2016 under additional loan agreement No. 19-05/25 dated May 22, 2015, the Company provided 814 units of equipment as collateral with an estimated value of 137,485 thousand soms at the date of the loan agreement.

According to the pledge agreement dated December 2, 2005, prepared in connection with the signing of loan agreement No. 122-04 dated February 5, 2004 the Company pledged the following equipment:

- 264 units of power equipment of the Toktogul District Electric Network with an estimated cost of 7,813 thousand soms.

- Substations in the amount of 38 units with an estimated cost of 32,442 thousand soms.

In accordance with the agreement of pledge dated June 20, 2005, under the loan agreement #121-04 dated February 5, 2004, the Company pledged its fixed assets with an estimated value of 19,617 thousand soms as of the date of the agreement.

6. ADVANCES PAID

Long-term of advances paid as at December 31, 2022 and 2021 is presented as follows:

	December 31, 2022	December 31, 2021*
Advances paid, long-term part		
Advances paid for capital construction	-	1,262,228
Less: allowance for impairment	-	(58,464)
	-	1,203,764

As at December 31, 2021 advances in the amount of 1,194,449 thousand soms paid by NEGK OJSC for non-current assets included advances made to suppliers for construction of 500 kV AC overhead line with a length of 455.6 km from 500 kV Datka substation to Kyrgyz-Tajik border, as part of the electricity transmission project from Central Asia to South Asia "CASA-1000". As at December 31, 2021 a significant part of the advances were paid to Mitas Energy and Metal Construction INC, which is the main contractor for the construction of the CASA-1000 project.

	December 31, 2022	December 31, 2021*
Advances paid, short-term part		
Advances paid for goods and services	199,459	132,405
Advances paid for inventories	12,281	-
Advances paid for electricity	2,663	132,499
Other	460	23,272
Less: allowance for impairment	(60,647)	(13,564)
	154,216	274,612

Most significant counterparties for advances paid of the Company consisted of the following organizations:

	December 31, 2022	December 31, 2021*
China National Heavy Machinery Co. Ltd	105,680	46,931
Pinggao Group Co. Ltd	27,532	-
Gazprom Neft Azia LLC	5,930	15,742
Partner Neft LLC	3,094	-

Movement in allowance for impairment on advances paid for the years ended December 31, 2022 and 2021 is presented as follows:

	For the year ended December 31, 2022	For the year ended December 31, 2021*
at January 1	72,028	72,028
Recovery	(11,381)	-
at December 31	60,647	72,028

7. INVENTORIES

Inventories as at December 31, 2022 and 2021 are presented as follows:

	December 31, 2022	December 31, 2021*
Materials	1,522,784	1,061,230
Spare parts	146,308	155,590
Low valuable items	104,394	96,929
Construction materials	43,178	42,840
Fuel	14,088	14,384
Supplies and others	8,870	7,553
	<u> </u>	<u> </u>
Allowance for obsolete inventories	(128,920)	(137,707)
	<u> </u>	<u> </u>
	<u>1,710,702</u>	<u>1,240,819</u>

Movement in allowance for obsolete inventories for the years ended December 31, 2022 and 2021 is presented as follows:

	For the year ended December 31, 2022	For the year ended December 31, 2021*
at January 1	<u>137,707</u>	<u>114,815</u>
Accrual	-	25,462
Write-off	(169)	(2,570)
Recovery	<u>(8,618)</u>	<u>-</u>
	<u> </u>	<u> </u>
at December 31	<u>128,920</u>	<u>137,707</u>

8. TRADE AND OTHER ACCOUNTS RECEIVABLE

Trade and other accounts receivable as at December 31, 2022 and 2021 are presented as follows:

	December 31, 2022	December 31, 2021*
Accounts receivable for electricity	2,522,504	1,759,487
Accounts receivable for rent	29,062	4,200
Accounts receivable for goods and services	19,537	18,295
Other receivables	<u>4,741</u>	<u>16,041</u>
	<u> </u>	<u> </u>
Less: allowance for expected credit losses	<u>(1,022,701)</u>	<u>(581,509)</u>
	<u>1,553,143</u>	<u>1,216,514</u>

Movement in allowance for the years ended December 31, 2022 and 2021 is presented as follows:

	For the year ended December 31, 2022	For the year ended December 31, 2021*
at January 1	<u>581,509</u>	<u>723,855</u>
Accrual	530,083	(139,634)
Write-off	<u>(88,891)</u>	<u>(2,712)</u>
	<u> </u>	<u> </u>
at December 31	<u>1,022,701</u>	<u>581,509</u>

Most significant debtors of the Company consisted of the following organizations:

	December 31, 2022	December 31, 2021*
Kumtor Operating Company CJSC	842,893	100,990
Municipal Enterprise Teplosnabjenie	169,439	193,804
Naryn interdistrict production association of heat supply Branch of the State Enterprise Kyrgyzteploenergo	45,119	45,364
DSHL.KZ LLP	16,736	18,675
Electrosila LLC	11,942	8,138

9. TAXES PAID IN ADVANCE

Taxes paid in advance as at December 31, 2022 and 2021 were presented as follows:

	December 31, 2022	December 31, 2021*
Income tax paid in advance	94,869	-
VAT receivable	29,091	11,303
Personal income tax	12,886	464
Property tax	690	440
Sales tax	-	106
Other	1,179	17,400
	<u>138,715</u>	<u>29,713</u>

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2022 and 2021 are presented as follows:

	December 31, 2022	December 31, 2021*
Cash in transit	215,023	85,796
Cash in bank account	174,461	817,583
Deposits	85,680	134,759
Cash on hand	43,039	23,369
	<u>518,203</u>	<u>1,052,496</u>
Less: allowance for expected credit losses	-	(9,011)
	<u>518,203</u>	<u>1,052,496</u>

Restricted cash as at December 31, 2022 and 2021 are presented as follows:

	December 31, 2022	December 31, 2021*
Restricted cash	<u>8,777</u>	<u>2,372,770</u>
	<u>8,777</u>	<u>2,372,770</u>

As of December 31, 2022 and 2021, restricted cash represents tranches received under the loan agreement between the Government of the Kyrgyz Republic and the European Investment Bank for the CASA-1000 project. These funds are used to pay for supplies from Mitas Energy and Metal Construction Company. The cash is expected to be used within 12 months after the reporting date.

Movement in allowance for the years ended December 31, 2022 and 2021 is presented as follows:

	For the year ended December 31, 2022	For the year ended December 31, 2021*
at January 1	9,011	9,097
Recovery	(9,011)	(86)
at December 31	-	9,011

11. SHARE CAPITAL

Share capital

As at December 31, 2022 and 2021, the registered share capital of the National Electrical Grid of Kyrgyzstan OJSC was 2,587,418 thousand soms and consists of 1,563,483,315 ordinary shares with par value of 1.6549 soms each.

As at December 31, 2022 and 2021 the structure of participants is presented as follows:

	December 31, 2022 and 2021	
	Paid-in capital	% total of capital
National Energy Holding Company OJSC	2,082,489	80.49%
Social Fund of the Kyrgyz Republic	340,545	13.16%
Individuals	107,386	4.15%
Other legal entities	56,998	2.20%
	<u>2,587,418</u>	<u>100%</u>

Dividends

Dividends payable are limited by the maximum amount of retained earnings determined in accordance with the requirements of the legislation of the Kyrgyz Republic.

In 2022 and 2021 the Company declared dividends of 62,103 thousand soms and 10,306 thousand soms, respectively.

In 2022 and 2021, the Bank paid dividends in the amount of 26,399 thousand soms and 25,545 thousand soms, respectively.

12. BORROWINGS

Borrowings as at December 31, 2022 and 2021 are presented as follows:

	Nominal % rate	Effective % rate	December 31, 2022	December 31, 2021*
Borrowings denominated in US dollars	0%-4%	4.81%-9.52%	69,026,714	66,725,832
Borrowings denominated in Euro	1%-5%	1.25%-8.83%	6,076,250	6,091,566
Borrowings denominated in Special drawing right	0%-6%	6.00%-8.83%	1,439,003	1,666,396
Borrowings denominated in Swiss francs	0%-7%	4.85%-7.82%	668,661	681,657
Borrowings denominated in Kuwaiti dinars	0%	6.38%-8.09%	76,579	76,640
Borrowings denominated in Kyrgyz soms	0%-21%	6.38%-6.38%	14,733	84,491
			<u>14,733</u>	<u>84,491</u>
Unamortized portion of discount on borrowings			(17,586,223)	(18,321,151)
			<u>59,715,717</u>	<u>57,005,431</u>

Movement of unamortized portion of discount on borrowings as at December 31, 2022 and 2021 is presented as follows:

	For the year ended December 31, 2022	For the year ended December 31, 2021*
at January 1	18,321,152	18,586,541
Discount recognition	847,175	640,658
Discount amortization	(1,729,623)	(1,271,916)
Foreign exchange difference	147,519	365,868
at December 31	<u>17,586,223</u>	<u>18,321,151</u>

The total balance of loans received by the Company was provided by the Government of the Kyrgyz Republic represented by the Ministry of Finance of the Kyrgyz Republic for the construction, reconstruction and modernization of power grids and related components. The Government of the Kyrgyz Republic received funds provided to the Company from international financial donors such as the Asian Development Bank, the European Investment Bank, the Export-Import Bank of China, the Islamic Development Bank, the Swiss Confederation, the Kuwait Fund for Arab Development, the Export-Import Bank of Turkey, the International Development Association and the Northern Development Fund.

Since loans has a below-market interest rate, the amortized cost of the loans was determined by discounting future cash flows at the market interest rate determined as of the date of receiving the loans. Accordingly, for the year ended December 31, 2022 and 2021 interest expenses on borrowings amounted to 2,958,173 thousand som and 2,584,914 thousand som, respectively.

As at December 31, 2022 and 2021 the nominal value of these loans amounted to 77,301,940 thousand som and 75,326,582 thousand som, respectively. As at December 31, 2022 and 2021 the Company did not have any fixed assets pledged as collateral for loans received.

According to the loan agreement # 19-05/75 dated December 31, 2015, signed between the Ministry of finance of the Kyrgyz Republic and the Company, the Company has to maintain liquidity ratio not less than one. As at December 31, 2022 the liquidity ratio was below the requirements of the established financial covenants. The Company received a waiver from the Ministry of Finance of the Kyrgyz Republic stating that there is no basis for early collection in 2023.

13. DEFERRED INCOME

Deferred income as at December 31, 2022 and 2021 consisted of long-term and short-term portion, which are presented as follows:

	December 31, 2022	December 31, 2021*
Deferred income, long-term part		
at January 1	970,006	890,390
Grants received during the year	348,082	149,841
Transferred to short-term part	(75,981)	(70,225)
at December 31	1,242,107	970,006
Deferred income, short-term part		
at January 1	5,343	3,696
Transferred from long-term part	75,981	70,225
Amortized during the year	(81,324)	(68,578)
at December 31	-	5,343

During 2022 and 2021 the Company received property, plant and equipment from Ayil Okmotu, legal and private entities on a periodic basis. The largest counterparties are: Community Development and Investment Agency, Hangzhou Sunrise Technology Co. Ltd, Central Asia Tin Company LLC, Global Energy LLC. The initial cost of property, plant and equipment received on a granted basis for the years ended December 31, 2022 and 2021 was 348,082 thousand soms and 149,841 thousand soms, respectively.

14. LIABILITIES UNDER CONTRACTS WITH SUPPLIERS

Liabilities under contracts with suppliers as at December 31, 2022 and 2021 are presented as follows:

	December 31, 2022	December 31, 2021*
Customer contract obligations	138,866	145,502
Warranties	81,279	81,279
	220,145	226,781

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

15. EMPLOYEE DEFINED BENEFIT OBLIGATIONS

Employee defined benefit obligations as at December 31, 2022 and 2021 are presented as follows:

	December 31, 2022	December 31, 2021*
At January 1	236,791	221,079
Current service cost	11,611	44,647
Revaluation of defined benefit obligation	(61,375)	(1,472)
Payments	(25,022)	(13,478)
Adjustments	(6,743)	(33,491)
Actuarial gain	-	1,233
Interest expenses	20,370	18,273
At December 31	175,632	236,791
	December 31, 2022	December 31, 2021*
Long-term portion	164,704	211,341
Current portion	10,928	25,450
	175,632	236,791

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

	December 31, 2022	December 31, 2021*
Discount rate	13.02%	10.04%
Average salary increase	6.38%	4.06%
Mortality rate	9.03%	8.95%
Employee turnover rate	6.36%	5.27%

16. TRADE ACCOUNTS PAYABLE

Trade accounts payable, long-term part as at December 31, 2022 and 2021 are presented as follows:

	December 31, 2022	December 31, 2021*
Accounts payable for electricity	321,919	-
Unamortized portion of discount on trade accounts payable	(156,091)	-
	165,828	-

Trade accounts payable, short-term part as at December 31, 2022 and 2021 are presented as follows:

	December 31, 2022	December 31, 2021*
Accounts payable for fixed assets and capital construction	1,517,850	279,480
Accounts payable for goods and services	414,237	666,479
Accounts payable for transportation of electricity	215,252	113,519
Accounts payable for inventories	144,259	-
Accounts payable for electricity	-	622,011
Fines and fees	-	3,987
Other accounts payable	39,820	6,758
	<u>39,820</u>	<u>6,758</u>
Unamortized portion of discount on trade accounts payable	-	(245,738)
	<u>2,331,418</u>	<u>1,446,496</u>

Movement in unamortized portion of discount for the years ended December 31, 2022 and 2021 is presented as follows:

	For the year ended December 31, 2022	For the year ended December 31, 2021*
At January 1	<u>245,738</u>	<u>284,496</u>
Recovery	<u>(89,647)</u>	<u>(38,758)</u>
At December 31	<u>156,091</u>	<u>245,738</u>

Most significant creditors of the Company consisted of the following organizations:

	December 31, 2022	December 31, 2021*
Mitas Energy and Metal Construction Inc	1,192,168	902,110
ZTE representative office in the Kyrgyz Republic	247,683	245,037
Electric Power Plants OJSC	167,639	87,142
Kentavskii transformatornyi zavod OJSC	95,512	-
Bishkekский Transformatornyi Zavod LLC	71,293	-
MAV Trade Plus LLC	61,012	11,720

17. ADVANCES RECEIVED

Advances received as at December 31, 2022 and 2021 are presented as follows:

	December 31, 2022	December 31, 2021*
Advances received for electricity	234,700	220,580
Advances received for goods and services	16,903	-
Advances received for connections	165	4,570
Other advances received	<u>4,426</u>	<u>7,256</u>
	<u>256,194</u>	<u>232,406</u>

18. TAXES PAYABLE

Taxes payable as at December 31, 2022 and 2021 are presented as follows:

	December 31, 2022	December 31, 2021*
Social fund liabilities	541,166	415,753
VAT payable	93,434	103,263
Personal income tax payable	73,800	39,246
Fines and penalties	4,232	2,304
Income tax payable	-	75,901
Other taxes	957	403
	<u>713,589</u>	<u>636,870</u>

19. OTHER LIABILITIES

Other liabilities as at December 31, 2022 and 2021 are presented as follows:

	December 31, 2022	December 31, 2021*
Other financial liabilities		
Guaranteeing tender procurement	74,698	72,344
Guarantee from the agents	61,422	40,426
Dividends payable	54,747	26,557
Trade union dues	6,288	786
Liabilities to National Energy Holding Company OJSC	1,507	5,205
Fines and fees	408	122
One-time allowance as a result of an accident	-	6,871
Accounts payable to agents	-	686
Other liabilities	7,338	20,729
	<u>206,408</u>	<u>173,726</u>
Other non-financial liabilities		
Liabilities to the budget	46,073	-
Deferred income, short-term part	-	5,343
	<u>46,073</u>	<u>5,343</u>
	<u>252,481</u>	<u>179,069</u>

20. EMPLOYEE BENEFIT OBLIGATION

Employee benefit obligation as at December 31, 2022 and 2021 are presented as follows:

	December 31, 2022	December 31, 2021*
Employee benefits including:	876,591	700,482
Accrued salary	448,840	304,022
Provision for unused vacation and bonuses	416,823	371,023
Defined benefit obligations, short-term part (Note 15)	10,928	25,450
	<u>876,591</u>	<u>700,495</u>

Movement in provision for unused vacation and bonuses for the years ended December 31, 2022 and 2021 is presented as follows:

	For the year ended December 31, 2022	For the year ended December 31, 2021*
at January 1	371,023	318,324
Accrual	297,801	314,413
Paid	(252,001)	(261,714)
at December 31	416,823	371,023

21. REVENUE

Revenue for the years ended December 31, 2022 and 2021 is presented as follows:

	For the year ended December 31, 2022	For the year ended December 31, 2021*
Revenue from sale of electricity	19,686,719	17,197,203
Revenue from the transmission of export electricity	133,968	120,174
Other	5,686	80,806
	19,826,373	17,398,183

22. COST OF SALES

Cost of sales for the years ended December 31, 2022 and 2021 are presented as follows:

	For the year ended December 31, 2022	For the year ended December 31, 2021*
Cost of sales of purchased electricity	7,742,138	6,688,996
Payroll and related taxes	3,270,549	2,554,235
Depreciation of fixed assets and amortization of intangible assets	2,551,756	2,569,069
Materials	664,147	483,034
Non-recoverable VAT related to the purchase of electricity	503,944	704,092
Provision for unused vacation and bonuses	210,786	135,074
Normative losses	131,613	367,379
Fuel and lubricants	111,586	115,230
Business trips	70,893	58,448
Coordination services	33,311	33,727
Services expenses	32,863	6,208
Transit of electricity	16,477	15,409
Expenses on actuarial provision	5,097	14,107
Unplanned electricity flow expenses	5,081	6,821
Frequency control services	2,796	1,590
Other	106,097	144,747
	15,459,134	13,898,166

23. SELLING EXPENSES

Selling expenses for the years ended December 31, 2022 and 2021 are presented as follows:

	For the year ended December 31, 2022	For the year ended December 31, 2021*
Payroll and related taxes	1,732,028	1,383,076
Depreciation of fixed assets and amortization of intangible assets	195,049	190,095
Services expenses	66,152	75,370
Provision for unused vacation and bonuses	62,999	82,740
Materials	34,345	47,236
Fuel and lubricants	30,067	32,649
Business trips	7,572	6,493
Electricity costs for household needs	5,940	3,928
Income on actuarial provision	(248)	(4,402)
Other	1,895	13,099
	<u>2,135,799</u>	<u>1,830,284</u>

24. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended December 31, 2022 and 2021 are presented as follows:

	For the year ended December 31, 2022	For the year ended December 31, 2021*
Payroll and related taxes	559,155	539,479
Taxes other than income tax	109,383	14,231
Fines, penalty to the State Budget	63,185	74,327
Financial aid	38,426	59,387
Expenses on repayment of the main obligation to the shareholder	36,346	32,602
Services expenses	31,800	21,458
Depreciation of fixed assets and amortization of intangible assets	27,774	24,520
Provision for unused vacation and bonuses	23,589	14,636
Business trip	20,932	16,562
Materials	11,009	12,235
Voucher expenses	10,713	12,673
Bank services	10,103	4,551
Fuel and lubricants	8,581	6,332
Utilities	5,764	3,000
Representative expenses	4,961	3,943
Communication expenses	3,920	6,840
Trade union expenses	2,907	1,677
Stationery	2,317	1,688
Fixed assets maintenance	1,641	3,304
Trainings	1,047	405
Electricity expenses for own use	458	812
Expenses on actuarial provision	(682)	2,531
Other	35,009	14,799
	<u>1,008,338</u>	<u>871,992</u>

25. NET LOSS ON FOREIGN EXCHANGE OPERATIONS

Net loss on foreign exchange operations for the years ended December 31, 2022 and 2021 consisted of the following:

	For the year ended December 31, 2022	For the year ended December 31, 2021*
Foreign exchange difference, net	238,232	957,250
Dealing operations, net	196	471
	<u>238,428</u>	<u>957,721</u>

26. FINANCIAL GAIN

Financial gain for the years ended December 31, 2022 and 2021 are presented as follows:

	For the year ended December 31, 2022	For the year ended December 31, 2021*
Interest income	42,282	27,396
Dividends	493	507
Other	-	24,044
	<u>42,775</u>	<u>51,947</u>

Interest income consists of interest accrued on balances of cash on settlement accounts in the following banks: Keremet Bank OJSC, Bakai Bank OJSC, Aiyl Bank OJSC, Optima Bank OJSC, RSK Bank OJSC.

27. FINANCE COST

Finance cost for the years ended December 31, 2022 and 2021 are presented as follows:

	For the year ended December 31, 2022	For the year ended December 31, 2021*
Unwinding of discount and modification effect on borrowings	1,729,623	1,271,916
Interest expenses	1,228,550	1,312,998
Unwinding of discount on trade accounts payable	89,647	38,758
Interest expenses on actuarial provision	20,370	18,273
Adjustment of fines	(25,994)	-
Other	-	2,590
	<u>3,042,196</u>	<u>2,644,535</u>

28. OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses for the years ended December 31, 2022 and 2021 is presented as follows:

	For the year ended December 31, 2022	For the year ended December 31, 2021*
Rent	147,510	68,173
Services provided	142,710	49,896
Fines and penalties	78,368	62,386
Revenue from sale of inventories	25,677	17,216
Issuance of technical documents	16,302	14,333
Connection and disconnection of customers	8,432	3,792
Other	30,375	60,433
	<u>449,374</u>	<u>276,229</u>
	For the year ended December 31, 2022	For the year ended December 31, 2021*
Cost of inventory	26,235	10,990
Cost of social services	19,019	12,443
Payroll and related taxes	14,020	11,520
Provision for unused vacation and bonuses	427	-
Other	6,310	8,532
	<u>66,011</u>	<u>43,485</u>
	<u>383,363</u>	<u>232,744</u>

29. OTHER NON-OPERATING (EXPENSES) / INCOME, NET

Other non-operating income and expenses for the years ended December 31, 2022 and 2021 is presented as follows:

	For the year ended December 31, 2022	For the year ended December 31, 2021*
Other non-operating income:		
Grants received	369,949	75,091
Revenue from dismantlement activities	83,556	65,938
Amortization of deferred income	81,324	68,578
Revenues from exchange transactions and contracts with customers	8,124	29,331
Income from sale of inventories	6,332	24,778
Fines and penalties	5,483	6,191
Gain from write-off of trade accounts payable	2,973	267
VAT provision write off	-	80,915
Rent	-	17,783
Other	5,301	1,360
	<u>563,042</u>	<u>370,232</u>

Income from grants received represent grants received from the World Bank for preparation of the project CASA-1000 and from the Kuwait Fund for Arab Development for the construction of the 220 kV Tamga-Karakol high voltage line.

	For the year ended December 31, 2022	For the year ended December 31, 2021*
Other non-operating expenses:		
Accrual / (recovery) of allowance for expected credit losses on trade and other accounts receivable	530,083	(139,634)
Loss on disposal of fixed assets	71,178	184,369
Expenses on grants received	67,457	65,870
Excessive losses	41,487	36,444
Legal fees	11,544	-
Fines and penalties	10,342	-
Reimbursement of vouchers	3,828	5,765
Accrual of employee benefit liability	2,426	76,170
Representative expenses	1,731	-
Depreciation of property, plant and equipment	2,666	493
(Recovery) / accrual of allowance for obsolete inventories	(8,618)	25,462
Expenses on actuarial provision	(1,009)	7,484
Recovery of allowance for expected credit losses for cash	(9,011)	(86)
Other	28,548	14,710
	<u>752,652</u>	<u>277,047</u>
	<u>(189,610)</u>	<u>93,185</u>

30. INCOME TAX

The Company 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 Kyrgyz Republic, which may differ from IFRS. For the years ended December 31, 2022 and 2021 income tax rate for legal entities on the territory of the Kyrgyz Republic was equal to 10%.

The Company 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 at December 31, 2022 and 2021 relate mostly to different methods of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets and liabilities.

	For the year ended December 31, 2022	For the year ended December 31, 2021*
Current income tax expense	-	116,500
Deferred tax benefit	-	(74,510)
Income tax expense	<u>-</u>	<u>41,990</u>

The relation between tax expenses and accounting profit for the years ended December 31, 2022 and 2021 was as follows:

	For the year ended December 31, 2022	For the year ended December 31, 2021*
Loss before income tax	(1,820,994)	(2,426,639)
Tax at the statutory tax rate of 10%	(182,099)	(242,664)
Tax effect of permanent differences	182,099	284,654
Income tax expense	-	41,990

Effect from temporary differences as at December 31, 2022 and 2021 comprise:

	December 31, 2022	December 31, 2021*
Deferred income tax assets:		
Tax loss carry forward	12,319,594	12,737,000
Allowance for expected credit losses on trade and other accounts receivable	1,022,701	581,509
Employee defined benefit obligations	175,632	230,441
Provision for unused vacation and bonuses	416,823	392,819
Allowance for obsolete inventories	128,920	65,239
Allowance for impairment losses on other assets	11,744	11,744
Allowance for impairment losses on advances paid	60,647	60,647
Allowance for expected credit losses for cash and cash equivalents	-	9,011
Liabilities under contracts with suppliers	220,145	226,781
Total deferred income tax assets	14,356,206	14,315,191
Deferred income tax liabilities:		
Depreciation of property, plant and equipment and amortization of intangible assets	21,294,154	21,253,139
Total deferred income tax liabilities	21,294,154	21,253,139
Net deferred income tax liabilities	(6,937,948)	(6,937,948)
Deferred income tax liabilities at statutory tax rate (10%)	(693,794)	(693,794)

As at December 31, 2022 and 2021, the Company had significant tax losses that can be carried forward and used against future taxable income in the amount of 22,408,555 thousand soms and 18,429,842 thousand soms, respectively. The Company expects that the Company's operations will be loss-making for the foreseeable future and will not generate taxable income against which these losses can be offset. Accordingly, as at December 31, 2022 and 2021, a deferred tax asset in the form of tax loss carry forward was recognized only in the amount of 1,231,959 thousand soms and 1,273,700 thousand soms in respect of tax losses, respectively.

Temporary differences between tax accounting and current financial statement as well as tax losses lead to deferred tax liabilities as at December 31, 2022 as a result of the following:

	December 31, 2021*	Recognized in the statement of profit and loss	Recognized in capital	December 31, 2022
Temporary differences				
Tax loss carry forward	1,273,700	(41,741)	-	1,231,959
Allowance for expected credit losses on trade and other accounts receivable	58,151	44,119	-	102,270
Employee defined benefit obligations	23,044	(5,481)	-	17,563
Provision of unused vacation and bonuses	39,282	2,400	-	41,682
Allowance for obsolete inventories	6,524	6,368	-	12,892
Allowance for impairment losses on other assets	1,174	-	-	1,174
Allowance for impairment losses on advances paid	6,065	-	-	6,065
Allowance for expected credit losses for cash and cash equivalents	901	(901)	-	-
Liabilities under contracts with suppliers	22,678	(663)	-	22,015
Depreciation of property, plant and equipment and amortization of intangible assets	(2,125,313)	(4,101)	-	(2,129,414)
	(693,794)	-	-	(693,794)
	December 31, 2020*	Recognized in the statement of profit and loss	Recognized in capital	December 31, 2021*
Temporary differences				
Tax loss carry forward	1,201,678	72,022	-	1,273,700
Allowance for expected credit losses on trade and other accounts receivable	72,386	(14,235)	-	58,151
Employee defined benefit obligations	21,612	4,224	(2,792)	23,044
Provision of unused vacation and bonuses	59,543	(20,261)	-	39,282
Allowance for obsolete inventories	4,670	1,854	-	6,524
Allowance for impairment losses on other assets	203	971	-	1,174
Allowance for impairment losses on advances paid	5,898	167	-	6,065
Allowance for expected credit losses for cash and cash equivalents	910	(9)	-	901
Liabilities under contracts with suppliers	15,304	7,374	-	22,678
Depreciation of property, plant and equipment and amortization of intangible assets	(2,147,716)	22,403	-	(2,125,313)
	(765,512)	74,510	(2,792)	(693,794)

31. CONTINGENT LIABILITIES

Capital expenditure commitments

As at December 31, 2022 and 2021 the Company had no capital expenditure commitments.

Taxation

The Kyrgyz Republic currently has a number of laws related to various taxes imposed by both republican and local governmental authorities. Legislation related to taxes has not been in force for significant period of time, in contrast to more developed market economies and therefore implementing regulations are often vague. Accordingly, few precedents with regard to issues have been established and there are various opinions regarding legal interpretation. The tax authorities are enabled by law to impose significant penalties and interest charges for late and incorrect filling of tax declarations and/or tax payments. These factors result in more significant tax risks in Kyrgyz Republic compared to other countries with more developed tax system.

Management believes that it has adequately accrued provisions for tax liabilities in the accompanying financial statements. However, the risk remains that relevant authorities could take another position with regard to tax issues and the effect could be significant as described above.

Operating environment

Emerging market of the Kyrgyz Republic is subject to more risks than developed markets, including economic, political and social, and legal and legislative risks. As the experience from the past shows, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in countries and the countries' economy in general.

Laws and regulations affecting businesses in the Kyrgyz Republic continue to change rapidly. Tax, currency and customs legislation within the country are subject to varying interpretations, and other legal and fiscal difficulties leading to the challenges faced by the Company. The future economic direction of the Kyrgyz Republic is largely dependent on economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments

The new Tax Code of the Kyrgyz Republic was adopted on January 18, 2022 and became effective on January 1, 2022. The following changes in tax legislation could affect the definition of the Company's income tax liability:

- interest expenses are deductible to the extent actually paid;
- net losses from revaluation of foreign currency are not deductible;
- the procedure for calculating tax-deductible depreciation has changed;
- bad debts are not deductible from total annual income.

In addition, the obligations of the tax agent with respect to the payment of works and services of foreign organizations that do not have a permanent establishment in the Kyrgyz Republic have been expanded. If the territory of the Kyrgyz Republic is recognized as the place of delivery of such works/services, the Bank has an obligation to withhold/pay VAT on the tax agent at the rate of 12 percent.

Insurance

The insurance market in the Kyrgyz Republic is in a developing state and many forms of insurance protection common in other countries are not yet generally available in the Kyrgyz Republic. Nevertheless, the Company has insurance coverage for current operations, insurance of employees against occupational accidents, industrial injuries and industrial diseases, as well as civil liability to third parties at the level of generally accepted principles in the energy industry. Management believes that as at December 31, 2022 and 2021, the Company's insurance program is in compliance with the major provisions of the Company's business rules.

Litigation and claims

The Company continues to be involved in litigation from time to time, none of which has a material effect on the Company's operations, individually or in the aggregate. Management believes that liabilities arising from legal proceedings do not have a significant effect on the financial position or the results of financial activities in the future of the Company.

Tariffs

Tariffs are usually based on the cost of services without taking into account the established rate of return. At the same time, the level of tariffs is significantly affected by social and political factors.

Tariffs for electricity for consumers are set by the Department for Regulation of the Fuel and Energy Complex under the Ministry of Energy of the Kyrgyz Republic. According to the Resolution No.146 of the State Agency for Regulation of Fuel and Energy Complex under the Government of the Kyrgyz Republic dated October 15, 2021, new tariffs come into effect

	Measurement unit	Tariffs in soms
Population, including:		
consumption of up to 700 kWh/month (except for highland and remote hard-to-reach areas)	som/kW per hour	0.77
consumption of over 700 kWh/month (except for highland and remote hard-to-reach areas)	som/kW per hour	2.16
consumption of highland and remote hard-to-reach areas	som/kW per hour	0.77
Pump stations	som/kW per hour	1.095
Electric transport	som/kW per hour	1.68
Children's institutions of residential type, social in-patient clinic for the disabled and/or elderly citizens	som/kW per hour	1.68
Religious organizations	som/kW per hour	1.68
Budget consumers	som/kW per hour	2.52
Agricultural	som/kW per hour	2.52
Industrial	som/kW per hour	2.52
Other consumers	som/kW per hour	2.52
Mining subjects (crypto currency)	som/kW per hour	2.52
Raising factor		2.0
Gold mining enterprises (gold mining plants)	som/kW per hour	2.52
Raising factor		2.0
Casthouse and steel melting shop	som/kW per hour	2.52
Raising factor		1.5
Enterprises for the production of alcoholic beverages	som/kW per hour	2.52
Raising factor		2.0
Cement plants	som/kW per hour	2.52
Raising factor		1.3

According to the medium term electricity tariff policy of the Kyrgyz Republic for 2021-2025, approved by the Cabinet of Ministers of the Kyrgyz Republic on September 30, 2021 # 192 from May 1, 2023 new tariffs will take into effect.

	Measurement unit	Tariffs in soms
Population, including:		
consumption of up to 700 kWh/month (except for highland and remote hard-to-reach areas)	som/kW per hour	1.00
consumption of over 700 kWh/month (except for highland and remote hard-to-reach areas)	som/kW per hour	2.16
consumption of highland and remote hard-to-reach areas	som/kW per hour	1.00
Low-income families receiving a monthly allowance for needy citizens (families) with children under 16 years old - "uy bulege kemek", if the consumption of up to 1000 kWh/month	som/kW per hour	0.50
Low-income families receiving a monthly allowance for needy citizens (families) with children under 16 years old - "uy bulege kemek", if the consumption of over to 1000 kWh/month	som/kW per hour	2.16
Population using electricity without restrictions on consumption and capacity (with a raising factor 2.0)	som/kW per hour	5.04
Pump stations	som/kW per hour	1.247
Electric transport	som/kW per hour	1.914
Public and private electric vehicle charging stations with capacity of up to 23 kW	som/kW per hour	2.87
Public and private electric vehicle charging stations that use electricity without restrictions on consumption or capacity (with a raising factor 2.0)	som/kW per hour	5.04
Children's institutions of residential type, social in-patient clinic for the disabled and/or elderly citizens	som/kW per hour	1.914
Religious organizations	som/kW per hour	1.914
Budget consumers	som/kW per hour	3.40
Agricultural	som/kW per hour	2.87
Industrial	som/kW per hour	2.87
Other consumers	som/kW per hour	2.87
Mining subjects (crypto currency) (with a raising factor 2.0)	som/kW per hour	5.04
Gold mining enterprises (gold mining plants) (with a raising factor 2.0)	som/kW per hour	5.04
Casthouse and steel melting shop (with a raising factor 2.0)	som/kW per hour	5.04
Enterprises for the production of alcoholic beverages (with a raising factor 2.0)	som/kW per hour	5.04
Cement plants (with a raising factor 2.0)	som/kW per hour	3.28

32. TRANSACTIONS WITH RELATED PARTIES

The Company as a government-related entity applies the exemption from the requirements of IAS 24 "Related Party Disclosures" in relation to related party transactions and outstanding balances, including commitments, since it is state-related organization. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

In the statement of financial position as of December 31, 2022 and 2021 the following amounts were represented which arose due to transactions with related parties:

	December 31, 2022		December 31, 2021*	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Trade and other accounts receivable	1,752	1,553,143	-	1,216,514
Trade accounts payable	(402,022)	(2,497,246)	(876,930)	(1,446,496)
Advances paid	5,398	154,216	132,499	1,478,376
Other liabilities	(31,308)	(144,986)	-	(133,300)

In the statement of profit or loss and other comprehensive income for the years ended December 31, 2022 and 2021 the following amounts were represented which arose due to transactions with related parties:

	For the year ended December 31, 2022		For the year ended December 31, 2021*	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Revenue	49,873	19,826,373	84,714	17,398,183
Selling expenses	(8,749,040)	(15,459,134)	(7,205,447)	(13,898,166)
Cost of sales	(1,258)	(2,135,799)	(2,885)	(1,830,284)
Other operating income	2,681	449,374	956	276,229
Other non-operating (expenses) / income, net	-	(189,610)	(46,381)	93,185
General and administrative expenses				
- compensations to Management	(11,977)	(1,008,338)	(12,919)	(871,992)
- other	(36,346)	(1,008,338)	(44,535)	(871,992)

Nature of related parties is presented as follows:

ASSETS:	Counterparty	Nature of related parties
Trade and other accounts receivable	Electric Power Plants OJSC	Under control of Parent company
LIABILITIES:		
Trade accounts payable	Electric Power Plants OJSC NEHC OJSC Chakan HPP OJSC KESC OJSC	Under control of Parent company Parent company Under control of Parent company Under control of Parent company
Other liabilities	NEHC OJSC	Parent company
PROFIT AND LOSS:		
Revenue	Electric Power Plants OJSC	Under control of Parent company
Cost of sales	Electric Power Plants OJSC Chakan HPP OJSC KESC OJSC	Under control of Parent company Under control of Parent company Under control of Parent company
Selling expenses	Electric Power Plants OJSC	Under control of Parent company
Other operating income	KESC OJSC Electric Power Plants OJSC NEHC OJSC	Under control of Parent company Under control of Parent company Parent company
Other non-operating (expenses) / income, net	NEHC OJSC Electric Power Plants OJSC KESC OJSC	Parent company Under control of Parent company Under control of Parent company
General and administrative expenses		
- compensations to Management	Management of the Company	Management of the Company
- other	NEHC OJSC	Parent company

33. RISK MANAGEMENT

Capital risk management - The Company manages its capital to ensure that the Company will be able to continue as a going concern.

	December 31, 2022	December 31, 2021*
Financial assets		
Cash and cash equivalents	518,203	1,052,496
Restricted cash	8,777	2,372,770
Trade and other accounts receivable	1,553,143	1,216,514
Investments	19,075	19,075
Other assets	19,305	7,264
Total financial assets	2,118,503	4,668,119
Financial liabilities		
Borrowings	59,715,717	57,005,431
Trade accounts payable	2,497,246	1,446,496
Employee defined benefit obligations	164,704	211,341
Employee benefit obligations	876,591	700,495
Other liabilities	206,408	173,726
Total financial liabilities	63,460,666	59,537,489

Management of risk is fundamental in the Company's business. The main risks inherent to the Company's operations are those related to:

- Credit risk;
- Operational risk;
- Geographical concentration
- Liquidity risk;
- Currency risk.

The Company recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Company has established a risk management framework, whose main purpose is to protect the Company from risks and allow it to achieve its planned objectives. These principles are used by the Company to manage the following risks:

Credit risk

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

Operational risk

The Company is exposed to operational risk, which is a risk of loss arising from any system failures or interruptions of internal processes, systems, human error or the influence of external negative factors. The Company's risk management policy is designed to identify and analyze risks and set appropriate risk limits and controls.

Geographical concentration

Risk management department exercise control over the risk associated with changes in the norms of the legislation and assesses its impact on the Company. This approach allows the Company to minimize potential losses from the investment climate in the Kyrgyz Republic.

The geographical concentration of assets and liabilities is set out below:

	Kyrgyz Republic	OECD countries	Other	December 31, 2022
Financial assets:				
Cash and cash equivalents	518,203	-	-	518,203
Restricted cash	8,777	-	-	8,777
Trade and other accounts receivable	1,538,157	331	14,655	1,553,143
Investments	13,541	-	5,534	19,075
Other assets	19,305	-	-	19,305
	<u>2,097,983</u>	<u>331</u>	<u>20,189</u>	<u>2,118,503</u>
Financial liabilities				
Borrowings	59,715,717	-	-	59,715,717
Trade accounts payable	1,153,906	974,677	368,663	2,497,246
Employee defined benefit obligations	164,704	-	-	164,704
Employee benefit obligations	876,591	-	-	876,591
Other liabilities	200,371	1,113	4,924	206,408
	<u>62,111,289</u>	<u>975,790</u>	<u>373,587</u>	<u>63,460,666</u>
Net position	<u>(60,013,306)</u>	<u>(975,459)</u>	<u>(353,398)</u>	<u>(61,342,163)</u>
	Kyrgyz Republic	OECD countries	Other	December 31, 2021*
Financial assets:				
Cash and cash equivalents	1,052,496	-	-	1,052,496
Restricted cash	2,372,770	-	-	2,372,770
Trade and other accounts receivable	1,204,798	11,716	-	1,216,514
Investments	13,541	-	5,534	19,075
Other assets	7,264	-	-	7,264
	<u>4,650,869</u>	<u>11,716</u>	<u>5,534</u>	<u>4,668,119</u>
Financial liabilities				
Borrowings	57,005,431	-	-	57,005,431
Trade accounts payable	1,055,428	54,221	336,847	1,446,496
Employee defined benefit obligations	211,341	-	-	211,341
Employee benefit obligations	700,495	-	-	700,495
Other liabilities	173,726	-	-	173,726
	<u>59,146,421</u>	<u>54,221</u>	<u>336,847</u>	<u>59,537,489</u>
Net position	<u>(54,495,552)</u>	<u>(42,505)</u>	<u>(331,313)</u>	<u>(54,869,370)</u>

Liquidity risk

Liquidity risk is the risk that the Company will not be able to settle all liabilities as they are due. The Company's liquidity position is monitored and managed. The Company has in place a detailed cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

Management presumes growth of the Company's revenue and profit in the nearest future as a result of further sales increases and increases of tariffs. In addition, the shareholders of the Company provide financial and technical support to the Company to repay its liabilities for the acquisition of fixed assets.

The following table presents an analysis of balance sheet interest rate risk and liquidity risk:

	Weigh. aver. rate	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	More than five years	Undefined	December 31, 2022
Financial assets								
Cash and cash equivalents	0.73%	518,203	-	-	-	-	-	518,203
Restricted cash		-	-	8,777	-	-	-	8,777
Trade and other accounts receivable		463,312	912,089	177,742	-	-	-	1,553,143
Investments		-	-	-	-	-	19,075	19,075
Other assets		3,952	-	12,185	3,168	-	-	19,305
		<u>985,467</u>	<u>912,089</u>	<u>198,704</u>	<u>3,168</u>	<u>-</u>	<u>19,075</u>	<u>2,118,503</u>
Financial liabilities								
Borrowings	1.48%	483,062	818,577	4,381,128	22,161,672	49,457,501	-	77,301,940
Trade accounts payable	0.79%	241,929	394,385	1,695,104	-	165,828	-	2,497,246
Employee defined benefit obligations	13.02%	-	-	-	164,704	-	-	164,704
Employee benefit obligations		448,840	-	427,751	-	-	-	876,591
Other liabilities		13,658	4,841	187,909	-	-	-	206,408
		<u>1,187,489</u>	<u>1,217,803</u>	<u>6,691,892</u>	<u>22,326,376</u>	<u>49,623,329</u>	<u>-</u>	<u>81,046,889</u>
Net position		<u>(202,022)</u>	<u>(305,714)</u>	<u>(6,493,188)</u>	<u>(22,323,208)</u>	<u>(49,623,329)</u>	<u>19,075</u>	<u>(78,928,386)</u>

Periods of maturity of assets and liabilities and the ability to replace interest liabilities in acceptable costs (at the time of redemption) are the most important conditions in determining the liquidity of the Company and its sensitivity to fluctuations in interest rates and exchange rates.

	Weigh. aver. rate	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	More than five years	Undefined	December 31, 2021*
Financial assets								
Cash and cash equivalents	2.46%	1,052,496	-	-	-	-	-	1,052,496
Restricted cash		-	-	2,372,770	-	-	-	2,372,770
Trade and other accounts receivable		634,424	535,244	32,852	10,608	3,386	-	1,216,514
Investments		-	-	-	-	-	19,075	19,075
Other assets		3,360	-	-	3,904	-	-	7,264
		<u>1,690,280</u>	<u>535,244</u>	<u>2,405,622</u>	<u>14,512</u>	<u>3,386</u>	<u>19,075</u>	<u>4,668,119</u>
Financial liabilities								
Borrowings	2.88%	296,255	382,243	1,497,448	21,316,532	51,834,104	-	75,326,582
Trade accounts payable	3.56%	386,547	480,576	240,582	338,152	639	-	1,446,496
Employee defined benefit obligations	10.04%	-	-	-	145,443	65,898	-	211,341
Employee benefit obligations		304,022	-	396,473	-	-	-	700,495
Other liabilities		57,922	44,107	71,397	300	-	-	173,726
		<u>1,044,746</u>	<u>906,926</u>	<u>2,205,900</u>	<u>21,800,427</u>	<u>51,900,641</u>	<u>-</u>	<u>77,858,640</u>
Net position		<u>645,534</u>	<u>(371,682)</u>	<u>199,722</u>	<u>(21,785,915)</u>	<u>(51,897,255)</u>	<u>19,075</u>	<u>(73,190,521)</u>

Interest rate risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Company. The Company does not use any derivatives to manage interest rate risk exposure.

Undiscounted liabilities analysis

The table below presents distribution of Company's liabilities as at December 31, 2022 and 2021 for contractual undiscounted cash outflows:

	Weigh. aver. rate	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	More than five years	December 31, 2022
Borrowings	1.48%	134,288	981,036	5,339,908	26,125,657	52,650,328	85,231,217
Trade accounts payable	0.79%	241,929	394,385	1,695,104	-	321,921	2,653,339
Employee defined benefit obligations	13.02%	-	-	-	303,725	-	303,725
Employee benefit obligations		448,840	-	427,751	-	-	876,591
Other liabilities		13,658	4,841	187,909	-	-	206,408
		<u>838,715</u>	<u>1,380,262</u>	<u>7,650,672</u>	<u>26,429,382</u>	<u>52,972,249</u>	<u>89,271,280</u>
	Weigh. aver. rate	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	More than five years	December 31, 2021*
Borrowings	2.88%	305,203	530,986	2,246,165	26,213,564	59,147,738	88,443,656
Trade accounts payable	3.56%	386,547	480,576	240,582	583,945	639	1,692,289
Employee defined benefit obligations	10.04%	-	-	-	340,986	-	340,986
Employee benefit obligations		304,022	-	396,473	-	-	700,495
Other liabilities		57,922	44,107	71,397	300	-	173,726
		<u>1,053,694</u>	<u>1,055,669</u>	<u>2,954,617</u>	<u>27,138,795</u>	<u>59,148,377</u>	<u>91,351,152</u>

Currency risk

Currency risk is the risk that the financial results of the Company will be adversely impacted by changes in exchange rates to which the Company is exposed. The Company does not use any derivatives to manage foreign currency risk exposure, at the same time the management of the Company is trying to mitigate such risk by managing monetary assets and liabilities in foreign currency at the same (more or less stable) level.

Information about the level of foreign currency exchange rate risk of the Company is presented as follows:

	KGS	USD	EUR	Others	December 31, 2022
Financial assets					
Cash and cash equivalents	427,396	90,684	-	123	518,203
Restricted cash	-	8,777	-	-	8,777
Trade and other accounts receivable	1,538,157	4,944	-	10,042	1,553,143
Investments	13,541	-	-	5,534	19,075
Other assets	19,305	-	-	-	19,305
	<u>1,998,399</u>	<u>104,405</u>	<u>-</u>	<u>15,699</u>	<u>2,118,503</u>
Financial liabilities					
Borrowings	3,351	52,493,990	5,815,631	1,402,745	59,715,717
Trade accounts payable	1,272,885	1,205,211	18,839	311	2,497,246
Employee defined benefit obligations	164,704	-	-	-	164,704
Employee benefit obligations	876,591	-	-	-	876,591
Other liabilities	206,408	-	-	-	206,408
	<u>2,523,939</u>	<u>53,699,201</u>	<u>5,834,470</u>	<u>1,403,056</u>	<u>63,460,666</u>
Net position	<u>(525,540)</u>	<u>(53,594,796)</u>	<u>(5,834,470)</u>	<u>(1,387,357)</u>	<u>(61,342,163)</u>
	KGS	USD	EUR	Others	December 31, 2021*
Financial assets					
Cash and cash equivalents	795,940	252,851	-	3,705	1,052,496
Restricted cash	-	2,372,770	-	-	2,372,770
Trade accounts receivable	1,204,798	10,602	-	1,114	1,216,514
Investments	13,541	-	-	5,534	19,075
Other assets	7,264	-	-	-	7,264
	<u>2,021,543</u>	<u>2,636,223</u>	<u>-</u>	<u>10,353</u>	<u>4,668,119</u>
Financial liabilities					
Borrowings	68,706	49,682,135	5,727,714	1,526,876	57,005,431
Trade accounts payable	1,147,404	281,458	-	17,634	1,446,496
Employee defined benefit obligations	211,341	-	-	-	211,341
Employee benefit obligations	700,495	-	-	-	700,495
Other liabilities	139,105	-	25,069	9,552	173,726
	<u>2,267,051</u>	<u>49,963,593</u>	<u>5,752,783</u>	<u>1,554,062</u>	<u>59,537,489</u>
Net position	<u>(245,508)</u>	<u>(47,327,370)</u>	<u>(5,752,783)</u>	<u>(1,543,709)</u>	<u>(54,869,370)</u>

Currency risk sensitivity

The following table presents a sensitivity analysis of the Company to 1% and 5% increase and decrease of US dollar to Kyrgyz som in 2022 and 2021. Based on the current economic environment in the Kyrgyz Republic, the management of the Company believes that 1% and 5% increase or reduction of Kyrgyz som to US dollar is a realistic change. 1% and 5% are a levels of sensitivity, which are used by the Company when reporting foreign currency risk internally to key management personnel of the Company and are an estimate by the management of possible changes in exchange rates. Sensitivity analysis applies only to outstanding foreign currency balances available at the end of the period for conversion of which actual end-of-the-period exchange rate changed by 1% and 5% is used.

Impact on net income based on the nominal value of the asset as at December 31, 2022 and 2021 is represented below:

	December 31, 2022		December 31, 2021*	
	Official exchange rate, +1%	Official exchange rate, -1%	Official exchange rate, +1%	Official exchange rate, -1%
Effect on profit and loss	(535,948)	535,948	(473,274)	473,274

	December 31, 2022		December 31, 2021*	
	Official exchange rate, +5%	Official exchange rate, -5%	Official exchange rate, +5%	Official exchange rate, -5%
Effect on profit and loss	(2,679,740)	2,679,740	(2,366,369)	2,366,369

Limitations of sensitivity analysis

The above tables demonstrate the effect of changes based on the main clause while other assumptions remain unchanged. In fact, there is a connection between the assumptions and other factors. It should also be noted that the sensitivity has nonlinear character so should not be interpolated or extrapolated from these results.

Accounting classification and fair values

The following table shows the carrying amounts and fair values of financial assets and liabilities as at December 31, 2022:

	Valued at amortized cost	Valued at fair value through profit and loss	Valued at fair value through OCI	Total carrying amount	Fair value
Cash and cash equivalents	518,203	-	-	518,203	518,203
Restricted cash	8,777	-	-	8,777	8,777
Trade and other accounts receivable	1,553,143	-	-	1,553,143	1,553,143
Investments	-	-	19,075	19,075	19,075
Other assets	19,305	-	-	19,305	19,305
	<u>2,099,428</u>	<u>-</u>	<u>19,075</u>	<u>2,118,503</u>	<u>2,118,503</u>
Borrowings	59,715,717	-	-	59,715,717	59,715,717
Trade accounts payable	2,497,246	-	-	2,497,246	2,497,246
Employee defined benefit obligations	164,704	-	-	164,704	164,704
Employee benefit obligations	876,591	-	-	876,591	876,591
Other liabilities	206,408	-	-	206,408	206,408
	<u>63,460,666</u>	<u>-</u>	<u>-</u>	<u>63,460,666</u>	<u>63,460,666</u>

The following table shows the carrying amounts and fair values of financial assets and liabilities as at December 31, 2021:

	Valued at amortized cost	Valued at fair value through profit and loss	Valued at fair value through OCI	Total carrying amount	Fair value
Cash and cash equivalents	1,052,496	-	-	1,052,496	1,052,496
Restricted cash	2,372,770	-	-	2,372,770	2,372,770
Trade and other accounts receivable	1,216,514	-	-	1,216,514	1,216,514
Investments	-	-	19,075	19,075	19,075
Other assets	7,264	-	-	7,264	7,264
	<u>4,649,044</u>	<u>-</u>	<u>19,075</u>	<u>4,668,119</u>	<u>4,668,119</u>
Borrowings	57,005,431	-	-	57,005,431	57,005,431
Trade accounts payable	1,446,496	-	-	1,446,496	1,446,496
Employee defined benefit obligations	211,341	-	-	211,341	211,341
Employee benefit obligations	700,495	-	-	700,495	700,495
Other liabilities	173,726	-	-	173,726	173,726
	<u>59,537,489</u>	<u>-</u>	<u>-</u>	<u>59,537,489</u>	<u>59,537,489</u>

Levels in the fair value hierarchy for financial instruments

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable, willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Company could realize in a market exchange from the sale of its full holdings of a particular instrument.

The carrying amount of cash is approximately equal to its fair value due to the short-term maturity of such financial instruments.

IFRS 13 defines fair value as the amount that would be received in a sale of an asset or paid to transfer a liability in the ordinary course of business in the principal (or most advantageous) market at the date of the valuation in the current market conditions. As no markets exist for most of the Company's financial instruments, judgment is necessary in arriving at fair value, given the current economic environment and the specific risks attributable to the instrument.

As at December 31, 2022 and 2021, the following methods and assumptions have been used by the Company in estimating the fair value of financial instruments for which it has been practicable to determine this value:

Cash and cash equivalents - the present value of cash and cash equivalents corresponds to the fair value.

Trade and other accounts receivable - the present value approximates the fair value of these financial instruments as the allowance for doubtful debts is a reasonable estimate of the discount required to reflect the credit risk.

Trade and other accounts payable and other payables and accrued expenses - the present value approximates the fair value of these financial instruments due to the short-term nature of the instrument.

Long-term liabilities - the present value approximates fair value because the rate of return on long-term liabilities approximates the market rate, with reference to finance leases with similar credit risk and maturity at the reporting date.

Fair value is primarily determined using quoted market prices or standard pricing models based on available market inputs, where appropriate, and represents expected gross future cash inflows/outflows. The Company classifies fair value of financial instruments into a three-level hierarchy based on the degree of source and observability of inputs that are used to measure the fair value of a financial asset or liability as follows:

- Level 1 Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company could access at the valuation date.
- Level 2 Level 2 inputs are inputs that are not quoted prices included in Level 1 and that are observable for the asset or liability, either directly or indirectly.
- Level 3 Level 3 inputs are non-observable inputs for an asset or liability.

Level 1 initial data primarily include financial assets and financial liabilities traded at the exchange, while Level 2 classification primarily includes financial assets and financial liabilities whose fair value is determined primarily by reference to currency quotations and readily observable quotes. Level 3 classification primarily includes financial assets and financial liabilities whose fair value arises primarily from models that use appropriate market assessments, quality and credit differentials. In environments where the Company is unable to confirm fair value using observable market inputs (Level 3 fair value), it is possible that another valuation model may result in significantly different fair value estimates.

It is the Company's policy that transactions related to trading in financial instruments are formalised as part of general netting agreements or other fixed-term agreements to offset balances due to or from counterparties in the event of insolvency or bankruptcy.

The following tables show the fair values of financial assets and financial liabilities as of December 31, 2022 and 2021. Other assets and liabilities that are measured at fair value on a regular basis are cash and cash equivalents. No fair value estimates have been made on a regular basis.

	Level 1	Level 2	Level 3	December 31, 2022
Cash and cash equivalents	518,203	-	-	518,203
Restricted cash	8,777	-	-	8,777
Trade and other accounts receivable	-	-	1,553,143	1,553,143
Investments	13,540	-	5,535	19,075
Other assets	-	-	19,305	19,305
	<u>540,520</u>	<u>-</u>	<u>1,577,983</u>	<u>2,118,503</u>
Borrowings	-	59,715,717	-	59,715,717
Trade accounts payable	-	-	2,497,246	2,497,246
Employee defined benefit obligations	-	-	164,704	164,704
Employee benefit obligations	-	-	876,591	876,591
Other liabilities	-	-	206,408	206,408
	<u>-</u>	<u>59,715,717</u>	<u>3,744,949</u>	<u>63,460,666</u>

	Level 1	Level 2	Level 3	December 31, 2021*
Cash and cash equivalents	1,052,496	-	-	1,052,496
Restricted cash	2,372,770	-	-	2,372,770
Trade and other accounts receivable	-	-	1,216,514	1,216,514
Investments	13,540	-	5,535	19,075
Other assets	-	-	7,264	7,264
	<u>3,438,806</u>	<u>-</u>	<u>1,229,313</u>	<u>4,668,119</u>
Borrowings	-	57,005,431	-	57,005,431
Trade accounts payable	-	-	1,446,496	1,446,496
Employee defined benefit obligations	-	-	211,341	211,341
Employee benefit obligations	-	-	700,495	700,495
Other liabilities	-	-	173,726	173,726
	<u>-</u>	<u>57,005,431</u>	<u>2,532,058</u>	<u>59,537,489</u>

34. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Management of the Company and authorized for issue on March 27, 2023.

35. EVENTS AFTER REPORTING DATE

According to the minutes of the meeting of the Board of Directors No.15 dated March 24, 2023, Zhorojev K.A. became the new Deputy General Director for Economics and Finance.

The Company used another tranche of IDA CASA-1000 loan dated December 28, 2016 in the amount of 769,379 thousand soms. The Company also paid 371,791 thousand soms, including 206,925 thousand soms of the principal amount and 164,866 thousand soms of the accrued interests.

According to the medium term electricity tariff policy of the Kyrgyz Republic for 2021-2025, approved by Resolution of the Cabinet of Ministers of the Kyrgyz Republic from September 30, 2021 # 192 and the minutes of the meeting of the Chairman of the Cabinet of Ministers of the Kyrgyz Republic - Head of the Presidential Administration of the Kyrgyz Republic from January 1, 2023, the tariff for Kumtor Gold Company CJSC was set taking into account the increasing coefficient.

As at the date of issue of these financial statements no other significant events or transactions occurred, which should be disclosed in accordance with IAS 10 "Events after the reporting period".

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