Consolidated financial statements

JSC "Uzbekneftegaz"

For the year ended 31 December 2017

with independent auditor's report

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Independent auditor's report

To the Shareholders and Management of Joint-Stock Company "Uzbekneftegaz"

Qualified opinion

We have audited the consolidated financial statements of JSC "Uzbekneftegaz" and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for qualified opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for qualified opinion

We were appointed as auditors of the Group in 2018 and thus did not observe the counting of the physical inventories as at 1 January and 31 December 2016. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at 1 January and 31 December 2016. Since opening inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the profit (loss) for 2016 and 2017 reported in the consolidated statement of profit or loss and the net cash flows from operating activities reported in the consolidated statement of cash flows.

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 consolidated financial statements* section of our report. We are independent of the Group in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Uzbekistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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Responsibilities of management and the Supervisory Board for the consolidated financial statements

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

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

The Supervisory Board are responsible for overseeing the Group's financial reporting process.

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Supervisory Board 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.

Audit Company „Ernst & Young"

O'ZBEKISTON RESPUBLIKASI TOSHKENT SHAHAR MAS'ULIYATI CHEKLANGAN JAMIYAT SHAKLIDAGI AUDITORLIK TASHKILOTI ERNST & YOUNG

Republic of Uzbekistan, Tashkent
Mustaqillik Prospect, 75, Inconel Business Center

5 June 2020

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In billions of Uzbek soums	Note	As at 31 December 2017	As at 31 December 2016	As at 1 January 2016
Assets				
Current assets				
Cash and cash equivalents	8	2,721	1,271	266
Restricted cash	9	1,235	550	1,157
Trade receivables	10	6,950	4,203	4,228
Advances paid		1,842	397	568
Inventories	11	2,968	1,974	1,829
Income tax prepaid		461	28	25
Other current assets		409	347	689
Total current assets		**16,586**	**8,770**	**8,762**
Non-current assets				
Property, plant and equipment	13	50,685	43,176	43,680
Exploration and evaluation assets	14	325	399	474
Intangible assets		18	21	17
Investments in joint ventures and associates	15	8,403	2,831	1,976
Other non-current financial assets		160	114	179
Loans due from related parties	12	3,404	1,345	1,114
Other non-current assets		493	223	477
Total non-current assets		**63,488**	**48,109**	**47,917**
Total assets		**80,074**	**56,879**	**56,679**
Liabilities and shareholders' equity				
Current liabilities				
Trade and other payables	16	22,697	9,348	11,334
Borrowings	17	3,879	2,518	1,611
Income tax payables		226	100	156
Provisions	18	26	27	24
Deferred income from government grants	19	2,026	500	413
Other current liabilities		1,415	785	1,079
Total current liabilities		**30,269**	**13,278**	**14,617**
Non-current liabilities				
Borrowings	17	16,972	4,713	3,591
Provisions	18	1,822	1,466	1,683
Deferred income tax liabilities	29	3,892	2,061	2,211
Other non-current liabilities		1,096	666	126
Total non-current liabilities		**23,782**	**8,906**	**7,611**
Shareholders' equity				
Share capital	20	14,415	4,225	1,000
Retained (loss)/earnings		(5,554)	14,755	17,766
Currency translation reserve		7,687	442	-
Other funds and reserves		598	225	-
Attributable to equity holders of the parent company		**17,146**	**19,647**	**18,766**
Non-controlling interest	20	8,877	15,048	15,685
Total shareholders' equity		**26,023**	**34,695**	**34,451**
Total liabilities and shareholders' equity		**80,074**	**56,879**	**56,679**

Chairman of the Executive Board – Chief Executive Officer

M. R. Abdullaev

Deputy Chairman of the Executive Board - Chief Financial Officer

U. M. Ashurov

Chief accountant

I. A. Obidov

The accounting policies and explanatory notes on pages 6 through 52 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

In billions of Uzbek soums	Note	For the years ended 31 December 2017	2016
Oil, gas, petroleum products and petrochemicals sales	21	16,665	14,193
Government grant income	19	1,077	555
Equity share in profits of associates and joint ventures	15	931	521
Construction services and other revenues		209	1,430
Other operating income		791	544
Total revenues and other income		**19,673**	**17,243**
Cost of purchased oil, gas, petroleum product and other materials	22	(5,149)	(3,022)
Production expenses	23	(3,900)	(3,990)
Taxes other than income tax	24	(2,982)	(2,510)
Depreciation, depletion and amortization	13	(3,279)	(3,233)
Impairment of trade receivables	10	(1,039)	(516)
General and administrative expenses	25	(914)	(763)
Transportation and selling expenses	26	(919)	(806)
Exploration and evaluation expenses		(657)	(555)
Loss on disposal of property, plant and equipment, net		(360)	(214)
Other operating expenses		(804)	(628)
Total costs and expenses		**(20,003)**	**(16,237)**
Operating (loss)/profit		**(330)**	**1,006**
Finance income	27	331	81
Other non-operating income		310	302
Foreign exchange loss, net		(15,244)	(1,158)
Finance costs	28	(933)	(631)
Loss before income tax		**(15,866)**	**(400)**
Income tax expense	29	(881)	(470)
Net loss for the year		**(16,747)**	**(870)**
Net (loss)/profit for the year attributable to:			
Equity holders of the parent company		(10,304)	1
Non-controlling interests	20	(6,443)	(871)
Net loss for the year		**(16,747)**	**(870)**

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CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

In billions of Uzbek soums	Note	For the years ended 31 December 2017	2016
Net loss for the year		**(16,747)**	**(870)**
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of JV with different functional currency, net of tax		7,324	442
Income/(loss) from changes in fair value of financial assets available-for-sale, net of tax		44	(37)
Total other comprehensive income to be reclassified to profit or loss in subsequent periods		**7,368**	**405**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Actuarial gain on benefit plans of the Group, net of tax	18	326	456
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods		**326**	**456**
Total comprehensive loss for the year, net of tax		**(9,053)**	**(9)**
Total comprehensive (loss)/income attributable to:			
Equity holders of the parent company		(2,779)	661
Non-controlling interests		(6,274)	(670)
Total comprehensive loss for the year, net of tax		**(9,053)**	**(9)**

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CONSOLIDATED STATEMENT OF CASH FLOWS

In billions of Uzbek soums	Note	For the years ended 31 December 2017	2016
Cash flows from operating activities			
Loss before income tax		**(15,866)**	**(400)**
Adjustments for:			
Depreciation, depletion and amortization	13	3,279	3,233
Unsuccessful exploration and evaluation expenditures	14	467	364
Impairment of trade receivables	10	1,154	519
Change in provisions	18	81	479
Loss on disposal of property, plant and equipment		360	214
Finance income	27	(331)	(81)
Finance costs	28	933	631
Foreign exchange rate differences		13,928	857
Equity share in profits of associates and joint ventures	15	(931)	(521)
Other		478	467
Operating cash flows before working capital changes		**3,552**	**5,762**
Increase in trade and other receivables		(2,177)	(273)
Increase in inventories		(994)	(145)
Increase/(decrease) in trade and other payables		5,134	(2,252)
Change in other current assets and liabilities		(937)	(668)
Cash generated from operations		**4,578**	**2,424**
Income taxes paid		(725)	(805)
Interest received		100	58
Dividends received from associates and joint ventures	15	149	29
Net cash flows from operating activities		**4,102**	**1,706**
Cash flows from investing activities			
Purchase of property, plant and equipment		(7,255)	(2,656)
Acquisitions of subsidiary (net of cash acquired), additional share in joint operations, additional contribution in associates and joint ventures		(23)	(10)
Purchase of available-for-sale assets		(40)	-
Net cash flows used in investing activities		**(7,318)**	**(2,666)**
Cash flows from financing activities			
Proceeds from borrowings		7,494	3,858
Repayment of borrowings		(2,596)	(2,322)
Interest paid		(457)	(252)
Dividends paid		(16)	(4)
Change in restricted cash related to borrowings		(685)	607
Net cash flows from financing activities		**3,740**	**1,887**
Net foreign exchange difference on cash and cash equivalents		926	78
Net change in cash and cash equivalents		**1,450**	**1,005**
Cash and cash equivalents, at the beginning of the year		1,271	266
Cash and cash equivalents, at the end of the year		**2,721**	**1,271**

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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

In billions of Uzbek soums	Attributable to equity holders of the parent company					Non-controlling interest	Total
	Share capital	Cumulative translation differences	Retained earnings	Other funds	Total		
Balance at 1 January 2016	**1,000**	**-**	**17,766**	**-**	**18,766**	**15,685**	**34,451**
Net loss for the year	-	-	1	-	**1**	(871)	**(870)**
Other comprehensive income	-	442	218	-	**660**	201	**861**
Total comprehensive income/(loss) for the year	**-**	**442**	**219**		**661**	**(670)**	**(9)**
Change of non-controlling interest in subsidiaries	-	-	-	-	**-**	(38)	**(38)**
Increase in share capital from retained earnings	3,225	-	(3,225)	-	**-**	-	**-**
Dividends to shareholders	-	-	(4)	-	**(4)**	-	**(4)**
Contribution from shareholders	-	-	-	144	**144**	-	**144**
Distribution to shareholders	-	-	-	(94)	**(94)**	-	**(94)**
Other movements	-	-	(1)	175	**174**	71	**245**
Balance at 31 December 2016	**4,225**	**442**	**14,755**	**225**	**19,647**	**15,048**	**34,695**
Net loss for the year	-	-	(10,304)	-	**(10,304)**	(6,443)	**(16,747)**
Other comprehensive income	-	7,324	201	-	**7,525**	169	**7,694**
Total comprehensive loss for the year	**-**	**7,324**	**(10,103)**	**-**	**(2,779)**	**(6,274)**	**(9,053)**
Change of non-controlling interest in subsidiaries	-	-	-	-	**-**	102	**102**
Increase in share capital from retained earnings	10,190	-	(10,190)	-	**-**	-	**-**
Dividends to shareholders	-	-	(16)	-	**(16)**	-	**(16)**
Contribution from shareholders	-	-	-	595	**595**	-	**595**
Distribution to shareholders	-	-	-	(240)	**(240)**	-	**(240)**
Other movements	-	(79)	-	18	**(61)**	1	**(60)**
Balance at 31 December 2017	**14,415**	**7,687**	**(5,554)**	**598**	**17,146**	**8,877**	**26,023**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. The Group and its operations

Joint-Stock Company "Uzbekneftegaz" (JSC “Uzbekneftegaz” or the “Company”) is a state oil and gas enterprise of the Republic of Uzbekistan. The Company and its subsidiaries (collectively, the “Group”) are principally engaged in extraction and refining of crude oil, gas and gas condensate, as well as transportation and sale of gas and refined oil products.

The Company was originally established as an Uzbek State Conglomerate of the Oil and Gas Industry pursuant to the Presidential Decree No. UP-393, dated 3 May 1992, which was subsequently superseded by the Presidential Decree No. UP-518, dated 23 December 1992, in order to mainly re-organize the legal and organizational structure of the Company from State Conglomerate of Oil and Gas Industry to National Oil and Gas Corporation. In 1998, National Oil and Gas Corporation was restructured to be National Holding Company, which subsequently became a Joint-Stock Company in June 2017, in accordance with the Presidential Decree No. PP-3107.

As of 31 December 2017, the share capital of the Company consisted of 14,414,500,572 common shares issued at UZS 1,000 par value as well as preferred non-voting shares of 519,856 issued at UZS 1,000 par value.

As of 31 December 2017, on behalf of the Government of Uzbekistan (the “Government”), the Centre for the State Asset Management under the State Property Committee owns 100% of total common shares of the Company or 99.99% of the total shares. The preferred non-voting shares consist of 0.01% of total shares and are owned by private individuals and other legal entities.

The Company has its registered office in the Republic of Uzbekistan, Tashkent city, Yashnabod district, Istigbol Street, 21.

Under Uzbekistan law, natural resources, including oil, gas, precious metals, and minerals and other commercial resources situated in the territory of Uzbekistan, are the property of the Republic of Uzbekistan, until they are extracted. Law of the Republic of Uzbekistan, *On Subsurface Resources*, regulates relations arising in connection with the geological study, use and protection of subsurface resources in the territory of the Republic of Uzbekistan. Pursuant to the law, geological study and exploration activities may be conducted only on the basis of a license, unless it is financed through the state budget or it is a part of the Government approved exploration program. A separate production license is required for the development and extraction activities, which is given for the duration of field life as approved by the State Committee on Geology and Mineral Resources.

Main objectives of the Group include, but not limited, to the following:

- to determine strategic development of the oil and gas industry in Uzbekistan and to develop executable steps for achieving these strategic goals;
- to fulfill the needs of the national economy and the population of Uzbekistan for the oil and gas products.

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

1. The Group and its operations (continued)

Name of the Subsidiary	Principal activities	Country of incorporation	equity interest % 2017	2016	2015
"Uzburneftegaz" JSC	Exploration and drilling	Uzbekistan	51%	51%	51%
"Uzneftegazdobicha" JSC	Oil and gas production	Uzbekistan	51%	51%	51%
"Muborakneftgaz" JSC	Oil and gas production	Uzbekistan	51%	51%	51%
"Uztransgaz" JSC	Gas transportation and sales	Uzbekistan	51%	51%	51%
"Ustyurtgaz" LLC	Oil and gas production	Uzbekistan	51%	51%	51%
"Gazlineftegazdobicha" LLC	Oil and gas production	Uzbekistan	51%	51%	51%
"Shurtanneftgaz" LLC	Oil and gas production	Uzbekistan	51%	51%	51%
"Gissarneftegaz" JV LLC	Oil and gas production	Uzbekistan	31%*	31%*	31%*
"Kokdumaloq-gaz " JV LLC	Oil and gas production	Uzbekistan	38%*	38%*	38%*
"Muborak Gas Refinery Plant" LLC	Gas processing	Uzbekistan	51%	51%	51%
"Shurtan Gas Chemical Complex" LLC	Petrochemicals production	Uzbekistan	51%	51%	51%
"Uznefteproduct" JSC	Sales of refined oil products	Uzbekistan	66%	67%	52%
"Bukhara Refinery Plant" LLC	Oil refining	Uzbekistan	66%	67%	52%
"Fergana Refinery Plant" LLC	Oil refining	Uzbekistan	66%	67%	52%
"Uzbekistan GTL" LLC	Gas-to-liquids production	Uzbekistan	100%	100%	63%

* Company has power and rights to direct relevant activities of "Gissarneftegaz" JV LLC and "Kokdumaloq-gaz " JV LLC. The Company assessed that it exercises control over "Gissarneftegaz" JV LLC and "Kokdumaloq-gaz " JV LLC.

Non-controlling interest in the above material subsidiaries of the Group, with exception of "Gissarneftegaz" JV LLC and "Kokdumaloq-gaz " JV LLC, is owned by the Centre for the State Asset Management under the State Property Committee, who is the sole owner of common shares of the Company.

The Group also has equity interest in the following material joint ventures, which are accounted under the equity method:

Name of the equity investee	Principal activities	Country of incorporation	equity interest % 2017	2016	2015
"Asia Trans Gaz" JV LLC	Gas transportation	Uzbekistan	50%	50%	50%
"Uz-Kor Gas Chemical" JV LLC	Petrochemicals production	Uzbekistan	50%	50%	50%

2. Basis of preparation

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

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

JSC "Uzbekneftegaz" and its subsidiaries maintain their books and records in accordance with statutory accounting and taxation principles and practices applicable in Uzbekistan. These consolidated financial statements were derived from the Company's and its subsidiaries' statutory books and records.

For all periods up to and including the year ended 31 December 2017, the Group prepared its financial statements in accordance with National Accounting Standards (NAS). These consolidated financial statements for the year ended 31 December 2017 are the first the Group prepared in accordance with IFRS. Refer to Note 3 for information how the Group adopted IFRS.

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

The consolidated financial statements were approved and authorized for issue by the Chief Executive Officer of the Group on 5 June 2020.

2. Basis of preparation (continued)

Foreign currencies

Functional and presentation currency

The Group's consolidated financial statements are presented in Uzbek soums, which is also the Company's and the majority of subsidiaries' functional currency. For each entity, management determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Company's management *Transactions and balances*

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

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

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

Group Companies

The results and financial position of all the Group's subsidiaries, joint ventures and associates (none of which operate in a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at that reporting date;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of other comprehensive income.

Exchange rates

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

The currency exchange rate of CBU as of 31 December 2017 was 8,120 UZS to 1 US dollar. This rate was used to translate monetary assets and liabilities denominated in United States dollars ("US dollar", or "USD") as of 31 December 2017 (31 December 2016: 3,231 UZS to 1 US dollar, 1 January 2016: 2,810 UZS to 1 US dollar). The currency exchange rate of CBU as of 5 June 2020 was 10,148 UZS to 1 US dollar.

3. Significant accounting policies

First-time adoption of IFRS

These financial statements are the first consolidated financial statements of the Group prepared in accordance with IFRS. The date of transition to IFRS is 1 January 2016. For periods up to and including the year ended 31 December 2016, the Group complied with the requirements of the legislation and prepared special purpose financial statements in accordance with national principles of accounting with consolidation features. Due to a lack of complete consolidation of subsidiaries and eliminating transactions, disclosure of reconciliation is not appropriate.

3. Significant accounting policies (continued)

First-time adoption of IFRS (continued)

Accounting policies described in Note 3 were applied when preparing the consolidated financial statements for the year ended 31 December 2017 and the comparative information for 2016 and opening balance sheet as at the date of transition to IFRS.

As a first-time adopter of IFRS, the Group applied IFRS 1 *First-Time Adoption of International Financial Reporting Standards*. The standard contains a number of voluntary and mandatory exemptions from the requirement to retrospectively apply IFRS effective at 1 January 2016.

Exemptions applied

The Group has taken the following exemptions:

- IFRS 3 Business Combinations has not been applied retrospectively to business combinations that occurred before the date of transition to IFRS. As a result, assets and liabilities represented in the financial statements under the national accounting standards have remained unchanged and the Group has recognized all the assets and liabilities at the date of transition that were acquired or accepted as a result of past business combinations.
- The Group has measured the fair value of property, plant and equipment and construction in progress as at 1 January 2016 and used the resulting values as deemed cost.
- At the date of transition, accumulated translation reserve was deemed to be zero, i.e., no retrospective restatement of accumulated translation reserve was made.
- The Group has designated financial instruments (other than designated as held to maturity or loans and accounts receivable) as financial instruments:
    - (a) at fair value through profit or loss; or
    - (b) available for sale at the date of transition to IFRS (provided that the recognition criteria of IAS 39 are met).
- The Group has taken the exemption for liabilities to which IFRS Interpretations Committee ("IFRIC") Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* applies, specifically:
    - The Group has estimated the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to the date of transition using its best estimate of the historical discount rate that would have applied for that liability over the intervening period.
    - The Group has calculated the accumulated depreciation relating to such amount as at the transition date based on the current estimate of the asset's useful life using the depreciation method elected by the Group or IFRS purposes.
- The Group has analyzed all lease agreements (designated as finance or operating lease under GAAP) to determine whether they should be designated differently at the date of transition to IFRS pursuant to IFRIC 4 Determining Whether an Arrangement Contains a Lease.
- The Group has applied the transitional provisions in IAS 23 Borrowing Costs and capitalizes borrowing costs relating to all qualifying assets after the date of transition. Similarly, the Group has not restated for borrowing costs capitalized under NAS on qualifying assets prior to the date of transition to IFRS.

Estimates:

- Estimates made under NAS at the date of the opening balance sheet that are in line with IFRS are used in the IFRS opening balance sheet unless there are indications that such estimates are wrong.
- Any new information relating to estimates that was received after the date of transition to IFRS is treated as a non-adjusting event after the reporting date and is not recognized in the opening balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Significant accounting policies (continued)

First-time adoption of IFRS (continued)

- Estimates made under NAS may be revised for consistency with IFRS but must be based on information existing at the date of the opening balance sheet.
- Estimates that were not required by NAS must be made based on information existing at the date of the opening balance sheet.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Profit or loss and each component of other comprehensive income are attributable to the equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interest having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

Business combinations, goodwill and other intangible assets

Acquisitions by the Group of controlling interests in third parties (or interest in their charter capital) are accounted for using the acquisition method.

The date of acquisition is the date when effective control over the acquiree passes to the Group.

3. Significant accounting policies (continued)

Business combinations, goodwill and other intangible assets (continued)

The cost of an acquisition is measured as an aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or a liability should be recognized within profit or loss for the period if they do not represent measurement-period adjustments. If the contingent consideration is classified as equity, it should not be re-measured.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests over the fair value of net identifiable assets acquired and liabilities assumed. If the aggregate of the consideration transferred and the amount of non-controlling interest is lower than the fair value of the net assets of the subsidiary acquired and liabilities assumed, the difference is recognized in profit or loss for the period.

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the pooling of interest method.

The assets and liabilities of the subsidiary transferred under common control are recorded in the consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill, if any, inherent in the Predecessor’s original acquisition is also recorded in the consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor’s goodwill, and the consideration paid is accounted for in the consolidated financial statements as an adjustment to equity.

The consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but which does not comprise control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group’s investments in its joint ventures and associates are accounted for using the equity method. Under the equity method, the investment in a joint venture or an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group’s share of net assets of the joint venture or associate since the acquisition date. Goodwill relating to the joint venture or associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group’s share of the results of operations of the joint venture or associate, deducted by the amount of dividends declared from joint venture or associate to the Group. Any change in OCI of those investees is presented as part of the Group’s OCI. In addition, when there has been a change recognized directly in the equity of the joint venture or associate, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the joint venture or associate are eliminated to the extent of the interest in the joint venture or associate.

3. Significant accounting policies (continued)

Investments in associates and joint ventures (continued)

The aggregate of the Group’s share in profit or loss of a joint venture and an associate is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interest in the subsidiaries of the joint venture or associate. The financial statements of the joint venture or associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring their accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its joint venture or associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture or associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognizes the loss as ‘Impairment of investment in joint venture or associate’ in the statement of profit or loss.

Upon loss of joint control over the joint venture or significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture or associate upon loss of joint control or significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Current versus non-current classification

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

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

All other assets are classified as non-current. A liability is current when:

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

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are always classified as non-current assets and liabilities.

Financial assets

The Group recognizes financial assets in its balance sheet when, and only when, it becomes a party to the contractual provisions of the financial instrument. When financial assets are recognized initially, they are measured at fair value, which is usually the price of the transaction, i.e. the fair value of consideration paid or received.

When financial assets are recognized initially, they are classified as one of the following, as appropriate: (1) financial assets at fair value through profit or loss, (2) loans issued and accounts receivable, (3) financial assets held to maturity, or (4) financial assets available for sale.

3. Significant accounting policies (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated as financial assets at fair value through profit or loss at initial recognition. Financial assets held for trading are those which are acquired principally for the purpose of sale or repurchase in the near future or are part of a portfolio of identifiable financial instruments that have been commonly managed and for which there is evidence of a recent pattern of actual short-term profit taking, or which are derivative instruments (unless the derivative instrument is defined as an effective hedging instrument). Financial assets at fair value through profit or loss are classified in the consolidated balance sheet as current assets and changes in the fair value are recognized in the consolidated statement of profit or loss as Finance income or Finance expenses.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Subsequent to initial recognition, the fair value of financial assets at fair value that are quoted in an active market is defined as bid prices for assets and ask prices for issued liabilities as of the measurement date.

If no active market exists for financial assets, the Group measures the fair value using the following methods:

- analysis of recent transactions with peer instruments between independent parties;
- current fair value of similar financial instruments;
- discounting future cash flows.

The discount rate reflects the minimum return on investment an investor is willing to accept before starting an alternative project, given its risk and the opportunity cost of forgoing other projects.

Loans issued and accounts receivable include non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market, not classified as financial assets held for trading and have not been designated as at fair value through profit or loss or available for sale. If the Group cannot recover all of its initial investment in the financial asset due to reasons other than deterioration of its quality, the financial asset is not included in this category. After initial recognition, loans issued and accounts receivable are measured at amortized cost using the effective interest rate method (“EIR"), less impairment losses. The EIR amortization is included in Finance income in the consolidated statement of profit or loss. The losses arising from impairment or gains from impairment reversals are recognized in the consolidated statement of profit or loss.

The Group does not classify financial assets as held to maturity if, during either the current financial year or the two preceding financial years, the Group has sold, transferred or exercised a put option on more than an insignificant (in relation to the total) amount of such investments before maturity, unless: (1) the financial asset was close enough to maturity or the call date so that changes in the market rate of interest did not have a significant effect on the financial asset’s fair value; (2) after substantially all of the financial asset’s original principal had been collected through scheduled payments or prepayments; or (3) due to an isolated non-recurring event that was beyond the Group’s control and could not have been reasonably anticipated by the Group.

Dividends and interest income are recognized in the consolidated statement of profit or loss on an accrual basis. The amount of accrued interest income is calculated using the effective interest rate.

All other financial assets not included in the other categories are designated as financial assets available for sale. Specifically, the shares of other companies not included in the first category are designated as available for sale. In addition, the Group may include any financial asset in this category at the initial recognition.

Financial liabilities

The Group recognizes financial liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the financial instrument. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

3. Significant accounting policies (continued)

Financial liabilities (continued)

When financial liabilities are recognized initially, they are classified as one of the following:

- financial liabilities at fair value through profit or loss;
- other financial liabilities.

Financial liabilities at fair value through profit or loss are financial liabilities held for trading unless such liabilities are linked to the delivery of unquoted equity instruments.

At the initial recognition, the Group may include in this category any financial liability, except for equity instruments that are not quoted in an active market and whose fair value cannot be reliably measured. After initial recognition, however, the liability cannot be reclassified.

Financial liabilities not classified as financial liabilities at fair value through profit or loss are designated as other financial liabilities. Other financial liabilities include, inter alia, trade and other accounts payable, and loans and borrowings payable.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognized in profit or loss in the consolidated statement of profit or loss. Other financial liabilities are carried at amortized cost.

The Group writes off a financial liability (or part of a financial liability) from its balance sheet when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying value of a financial liability (or a part of a financial liability) extinguished or transferred to another party and the redemption value, including any transferred non-monetary assets and assumed liabilities, is recognized in profit or loss. Any previously recognized components of other comprehensive income pertaining to this financial liability are also included in the financial result and are recognized as gains and losses for the period.

Impairment of financial assets

At each balance sheet date, the Group analyzes whether there is objective evidence of impairment for all categories of financial assets, except those recorded at fair value through profit or loss. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include (but is not limited to) indications that debtors or a group of debtors are experiencing financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Cash and cash equivalents

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

Trade and other receivables

Trade and other receivables are carried at amortized cost using the effective interest rate method. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for

3. Significant accounting policies (continued)

Trade and other receivables (continued)

impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of provision is recognized in profit or loss. The primary factors that the Group considers when determining whether a receivable is impaired is its overdue status and realizability or related collateral, if any.

The following other principal criteria are also used to determine whether there is an objective evidence that an impairment loss has occurred:

- The counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- The counterparty considers bankruptcy or a financial reorganisation;
- There is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty;
- The value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

Trade and other receivables are derecognized upon cash receipts from customers and borrowers or other similar settlements.

Inventories

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

Exploration and evaluation costs

Subsoil use rights for geological activities

In accordance with Uzbekistan law, if geological activities are approved by the Government and financed with government grant, subsoil use rights are considered granted by the competent government authorities upon the receipt of Government approved cost estimates. Such subsoil use rights are granted with no substantial cost to the Group.

Exploration and evaluation cost or drilling activities

The Group recognizes exploration and evaluation costs using the successful efforts method as permitted by IFRS 6 *Exploration for and Evaluation of Mineral Resources*. Under this method, costs related to exploration and evaluation (exploration and appraisal drilling) are temporarily capitalized in cost centers by field until the drilling program results in the discovery of economically feasible oil and gas reserves.

The length of time necessary for this determination depends on the specific technical or economic difficulties in assessing the recoverability of the reserves. If a determination is made that the well did not encounter oil and gas in economically viable quantities, the well costs are expensed to Exploration expenses in the consolidated statement of profit or loss and other comprehensive income.

3. Significant accounting policies (continued)

Exploration and evaluation costs (continued)

Exploration and evaluation assets are recognized at cost less impairment, if any, as property, plant and equipment until the existence (or absence) of commercial reserves has been established. The initial cost of exploration and evaluation assets acquired through a business combination is formed as a result of purchase price allocation. The cost allocation to mineral rights to prove properties and mineral rights to unproved properties is performed based on the respective oil and gas reserves information. Exploration and evaluation assets are subject to technical, commercial and management review as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When indicators of impairment are present, an impairment test is performed.

If, subsequently, commercial reserves are discovered, the carrying value, less losses from impairment of the respective exploration and evaluation assets, is classified as oil and gas properties. However, if no commercial reserves are discovered, such costs are expensed after exploration and evaluation activities have been completed.

Property, plant and equipment

The Group elected to measure property, plant and equipment at the date of transition to IFRS (1 January 2016) at their fair value and use that fair value as their deemed cost at that date, which is permitted by IFRS 1 *First-Time Adoption of International Financial Reporting Standards*. Fair value was determined in accordance with IFRS 13 *Fair value measurement* by reference to income and market-based evidences and by using the depreciated replacement cost method. Subsequent to transition to IFRS, property, plant and equipment are stated at cost as described below, less accumulated depreciation and provision for impairment, where required.

The initial cost of an asset purchased after 1 January 2016 comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of decommissioning obligation, if any, and, for qualifying assets, borrowing costs. The assets held under finance lease are also included within property, plant and equipment. Non-recoverable value-added tax related with acquisition of property, plant and equipment is capitalized by the Group. Non-recoverable value-added tax related with operational activities is charged to profit or loss.

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

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

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

Oil and gas properties

Expenditure on the construction, installation or completion of infrastructure facilities such as separators, compressors, the pipelines and the drilling of commercially proven development wells is capitalized within tangible and intangible assets according to nature. When development is completed on a specific field, it is transferred to production assets (oil and gas properties).

The present value of the estimated costs of decommissioning oil and gas production wells and facilities, including abandonment and site restoration costs, are recognized when the obligation is incurred and are included within the carrying value of property, plant and equipment, subject to depletion using unit-of-production method.

3. Significant accounting policies (continued)

Depreciation, depletion and amortization

Property, plant and equipment related to oil and gas properties are depleted using a unit-of-production method.

Depletion of oil and gas assets is computed on a field-by-field basis over proved developed reserves or over total proved reserves, as appropriate. Shared oil and gas properties and equipment (e.g. gathering and initial processing systems, etc.) are depleted over total proved reserves.

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

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

Property, plant and equipment	Useful life
Buildings and structures	30-45 years
Pipelines	30-50 years
Refinery assets	5-30 years
Machinery and equipment	5-20 years
Vehicles and other property, plant and equipment	3-10 years

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

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

Asset retirement (decommissioning) obligations

The Group has asset retirement (decommissioning) obligations (ARO) associated with its core business activities.

The Group's exploration, development and production activities involve the use of wells, related equipment and operating sites, oil gathering and treatment facilities, tank farms and in-field pipelines. Generally, licenses and other regulatory acts require that such assets be decommissioned upon the completion of production. According to these requirements, the Group is obliged to decommission wells, dismantle equipment, restore the sites and perform other related activities. The Group's estimates of these obligations are based on current regulatory or license requirements, as well as actual dismantling and other related costs. These liabilities are measured by the Group using the present value of the estimated future costs of decommissioning of these assets. The discount rate is reviewed at each reporting date and reflects current market assessments of the time value of money and the risks specific to the liability.

In accordance with "IFRIC" Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, the provision is reviewed at each balance sheet date as follows:

- upon changes in the estimates of future cash flows (e.g., the costs of and timeframe for abandoning one well) or the discount rate, changes in the amount of the liability are included in the cost of the item of property, plant, and equipment, whereby such cost may not be negative and may not exceed the recoverable value of the item of property, plant, and equipment;
- any changes in the liability due to its nearing maturity (change in the discount) are recognized in Finance expenses.

3. Significant accounting policies (continued)

Asset retirement (decommissioning) obligations (continued)

The Group's refining and distribution activities involve refining operations, and other distribution terminals, and retail sales. The Group's refining operations consist of major petrochemical operations and industrial complexes. Legal or contractual asset retirement (decommissioning) obligations related to petrochemical, oil refining and distribution activities are not recognized due to the limited history of such activities in these segments, the lack of clear legal requirements as to the recognition of obligations, as well as the fact that decommissioning periods for such assets are not determinable.

Because of the reasons described above, the fair value of an asset retirement (decommissioning) obligation in the refining and distribution segment cannot be reasonably estimated.

Due to continuous changes in the regulatory and legal environment in Uzbekistan, there could be future changes to the requirements and contingencies associated with the retirement of long-lived assets.

Capitalized interest

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

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

Leasing agreements

Leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the asset, are classified as financial leases and are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance expenses and reduction of the lease liability in order to achieve a constant rate of interest on the remaining balance of the liabilities. Finance expenses are charged directly to the consolidated statement of profit or loss.

Leased property, plant and equipment are accounted for using the same policies applied to the Group's own assets. In determining the useful life of a leased item of property, plant and equipment, consideration is given to the probability of the title being transferred to the lessee at the end of the lease term.

If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. Where such certainty exists, the asset is depreciated over its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

Government grants

Grants from the Government are recognized at their fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

3. Significant accounting policies (continued)

Provisions for liabilities and charges

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

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

Taxes collected from customers and remitted to governmental authorities

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

VAT and excise receivable and payable are recognized as Other current assets and Trade and other payables in the consolidated balance sheet, respectively.

Pension and other post-retirement benefits

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

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

Significant estimate: pensions and other post-retirement benefits

Accounting for defined benefit pensions and other post-retirement benefits involves making significant estimates when measuring the Group's pension obligations. These estimates require assumptions to be made about many uncertainties. Pensions and other post-retirement benefit assumptions are reviewed at the end of each year. These assumptions are used to determine the projected benefit obligation at the year end.

The assumptions that are the most significant to the amounts reported are the discount rate, salary growth and mortality levels. Assumptions about these variables are based on the environment in the country. The assumptions used vary from year to year, with resultant effects on future net income and net assets. Changes to some of these assumptions, in particular the discount rate could result in material changes to the carrying amounts of the group's pension and other post-retirement benefit obligations within the next financial year. Any differences between these assumptions and the actual outcome will also affect future net income and net assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Significant accounting policies (continued)

Revenue recognition

Revenues are recognized when risks and rewards pass to the customer, which usually occurs when the title passes to the customer, provided that the contract price is fixed or determinable and collectability of the receivable is reasonably assured. Specifically, domestic sales of crude oil and gas, as well as petroleum products and materials are usually recognized when title passes. For export sales, title generally passes at the border of the Uzbekistan and the Group covers transportation expenses (except freight), duties and taxes on those sales. Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts, volume rebates and reimbursable taxes.

Sales of support services are recognized as services are performed provided that the service price can be determined and no significant uncertainties regarding the receipt of revenues exist.

Expense recognition

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

Refinery maintenance costs

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

Income taxes

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

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

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

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

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

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

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

3. Significant accounting policies (continued)

Income taxes (continued)

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

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

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

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the taxation authority of the same jurisdiction and the Group intends to settle its current tax assets and liabilities on a net basis.

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

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

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

Deferred tax assets and liabilities are not discounted.

Accounting for contingencies

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

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

Loss contingencies considered remote are generally not disclosed unless they involve financial guarantees, in which case the nature of the guarantee would be disclosed. However, in some instances in which disclosure is not otherwise required, the Group may disclose contingent liabilities or other uncertainties of an unusual nature which, in the judgment of management after consultation with its legal or tax counsel, may be of interest to shareholders or others.

Equity

Non-controlling interest

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity of the Group's owners. Total comprehensive income is attributed to the Group's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Significant accounting policies (continued)

Equity (continued)

Dividends

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

Other distributions to the Shareholder

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

Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenues, results or assets are 10 per cent or more of all the segments are reported separately.

Related parties

Related parties are defined in IAS 24 Related Party Disclosures.

Governmental economic and social policies affect the Group's financial position, results of operations and cash flows. The Government imposed an obligation on the Group to provide an uninterrupted supply of oil and gas to customers in Uzbekistan at government-controlled prices. Transactions with the state include taxes, which are detailed in Note 25.

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

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

Subsequent events

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

4. Critical estimates and judgements

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

Consolidation of subsidiaries

Management judgment is involved in the assessment of control and the consolidation of subsidiaries in the Group's consolidated financial statements taken into account voting rights and contractual arrangements with other shareholders and other relevant facts and circumstances in assessing whether it has control over the entity in accordance with IFRS 10 *Consolidated Financial Statements*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Critical estimates and judgements (continued)

Valuation of fixed assets

The Group reflects its fixed assets at historical cost. However, in order to assess the fair value of fixed assets as at 1 January 2016 the Group invited an independent valuation company (KPMG Tax & Advisory LLP). As an exception to the application of IFRS 1, the Group used fair value of fixed assets as deemed cost at the date of transition to IFRS. This assumption affects the cost of assets recognized in the financial statements, as well as depreciation and impairment.

Cost approach was used as the main approach in determination of fair value of fixed assets, since the major part of fixed assets are specialized assets, which do not generate cash flows separately from each other and separately from the cash generating unit, which they are part of.

Income approach was used in determination of economic impairment that must be considered in applying the cost approach. As part of the income approach, the present value of future cash flows attributable to the fixed assets for each cash generating unit was determined using the cash flow discount method.

Comparative approach was used to determine the fair value of non-specialized fixed assets, mainly vehicles.

Oil and gas reserves

Oil and gas reserves are a material factor in the Group’s computation of depreciation, depletion and amortization expenses and impairment losses. The Group estimates its oil and gas reserves in accordance with the methodology of the Society of Petroleum Engineers (“SPE”). In estimating its reserves under SPE methodology, the Group uses long-term planning prices. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year-end spot prices. Management believes that long-term planning price assumptions, which are also used by management for their business planning and investment decisions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves.

All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability.

Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data, availability of new data, or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for Depreciation Depletion & Amortization (DD&A) in relation to oil and gas production assets. The Group has included in proved reserves only those quantities that are expected to be produced during the initial subsoil use contract period. This is due to the uncertainties surrounding the outcome of such renewal procedures, since the renewal is ultimately at the discretion of the Government. An increase in the Group’s subsoil use contract periods and corresponding increase in reported reserves would generally lead to lower DD&A expense and could materially affect earnings. A reduction in proved developed reserves will increase DD&A expense (assuming constant production), reduce income and could also result in an immediate write-down of the property’s book value. Given the relatively small number of producing fields, it is possible that any changes in reserve estimates year on year could significantly affect prospective charges for DD&A.

Proved reserves of the Group as of 31 December 2017 were based on reports prepared by independent reservoir engineers in accordance with Petroleum Resources Management System rules. For certain assets proved reserves are based on estimation of internal engineers.

4. Critical estimates and judgements (continued)

Recoverability of oil and gas assets, midstream, refining and other assets

The Group assesses assets or CGU for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such indicators include changes in the Group’s business plans, changes in commodity prices leading to unprofitable performances, changes in product mixes, and for oil and gas properties, significant downward revisions of estimated proved reserves. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term oil prices, discount rates, future capital requirements, operating performance (including production and sales volumes) that are subject to risk and uncertainty. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered to be impaired and is written down to its recoverable amount. In assessing recoverable amount, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

Assets retirement obligations

Under the provisions of current legislation and regulations, the Group has legal or constructive obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Group’s obligation relates to the ongoing closure of all non-producing wells. The settlement date of the final closure obligations has been assumed to be the end of production period due to economic life test of the oil and gas reserves.

Where neither subsoil use contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the subsoil use contract term, no liability has been recognized. There is some uncertainty and significant judgment involved in making such a determination. Management’s assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice.

The Group calculates asset retirement obligations separately for each field. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Uzbekistan market.

At each reporting date the Group reviews site restoration provisions and adjusts them to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Group’s estimate can be affected by changes in asset removal technologies, costs and industry practice. Uncertainties related to the final closure costs are mitigated by the effects of discounting the expected cash flows. The Group estimates future well abandonment cost using current year prices and the average long-term inflation rate.

The long-term inflation and discount rates used to determine the obligation in the consolidated statement of financial position across the Group entities at 31 December 2017 were in the range from 12% and 15%, respectively (2016: 11% and 15%). Movements in the provision for asset retirement obligations are disclosed in *Note 19*.

Impairment provision for trade receivables

The impairment provision for trade receivables is based on management’s assessment of the probability of collection of individual customer accounts receivable. Significant financial difficulties of the customer, probability that the customer will suffer bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is potentially impaired. Actual results could differ from

4. Critical estimates and judgements (continued)

Impairment provision for trade receivables (continued)

these estimates if there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates.

When there is no expectation of recovering additional cash for an amount receivable, amount receivable is written off against associated provision.

Future cash flows of trade receivables that are evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Employee benefits

The cost of defined long-term employee benefits before, on and after retirement and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

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

Taxation

In assessing tax risks, management considers to be probable obligations the known areas of tax positions which the Group would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, amendments to the taxation terms of the Group's subsoil use contracts, the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities. Uncertainties related to taxation are disclosed in Note 31.

Taxable income is computed in accordance with the tax legislation enacted as at 1 January 2017. Deferred tax is calculated with respect to both CIT and IDT. Deferred income tax is calculated on temporary differences for assets and liabilities at the expected rates that were enacted by tax authorities as at 31 December 2017.

Deferred tax assets are recognized for all allowances and unused tax losses to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognized deferred tax liabilities as at 31 December 2017 was UZS 3,892 (2016: UZS 2,061, 2015: UZS 2,211) (Note 29).

Fair value of financial instruments

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

Useful lives of property, plant and equipment

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

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

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures. The new standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the related interpretations on Revenue recognition. The standard is effective for annual periods beginning on or after 1 January 2018. In April 2016, the IASB issued amendments to IFRS 15, which have the same effective date as the new standard: 1 January 2018. As a result of the analysis performed by the Group, the conclusion was made that there will be no significant impact of the standard on the consolidated financial statements.

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. The final version of IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*, and all previous versions of IFRS 9. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. In respect of impairment, IFRS 9 replaces the "incurred loss" model used in IAS 39 with a new "expected credit loss" model that will require a more timely recognition of expected credit losses. The standard is effective for annual periods beginning on or after 1 January 2018. In October 2017, the IASB issued amendments to IFRS 9 effective on 1 January 2019.

The Group is currently assessing the impact of the standard on the opening balance of retained earnings as of 1 January 2018 as a result of the shift from the "incurred loss" impairment model to "expected credit loss" model, as well as the change in classification for certain significant financial assets of the Group – from the "amortized cost" category to the "fair value through profit or loss" category.

In September 2014, the IASB issued amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* entitle *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. These narrow scope amendments clarify that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not), and a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The IASB has postponed the date by when the entities must change these aspects of accounting for transactions between investors and equity accounted investees. Application of the amendments, initially planned for annual periods beginning on or after 1 January 2016, has been deferred. The Group does not expect the amendments to have a material impact on the consolidated financial statements, as their requirements are already incorporated in the accounting policy of the Group.

In January 2016, the IASB issued IFRS 16 *Leases*. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and establishes a single lessee accounting model. The most significant effect of the new requirements for the lessee will be an increase in lease assets and financial liabilities. The new standard replaces the previous leases standard, IAS 17 *Leases*, and the related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019, with earlier application permitted for companies that also apply IFRS 15 *Revenue from Contracts with Customers*. The Group is currently assessing the impact of the standard on the consolidated financial statements.

In June 2016, the IASB issued amendments to IFRS 2 *Share-based Payment* entitled *Classification and Measurement of Share-based Payment Transactions*. The amendments provide requirements for the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

In December 2016, the IASB issued IFRIC 22 Interpretation entitle *Foreign Currency Transactions and Advance Consideration*. The IFRIC addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. IFRIC 22 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Group does not expect the amendments to have a material impact on the consolidated financial statements as their requirements are already incorporated in the accounting policy of the Group.

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

In December 2016, the IASB issued amendments to IAS 40 *Investment Property* entitled *Transfers of Investment Property*. The amendments clarify the requirements for transfers to, or from, investment property. The amendments are effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*. IFRS 17 establishes a single framework for the accounting for insurance contracts and contains requirements for related disclosures. The new standard replaces IFRS 4 *Insurance Contracts*. The standard is effective for annual periods beginning on or after 1 January 2021. The Group does not expect the standard to have a material impact on the consolidated financial statements.

In June 2017, the IASB issued IFRIC 23 Interpretation entitled *Uncertainty over Income Tax Treatments*. The IFRIC clarifies that for the purposes of calculating current and deferred tax, companies should use a tax treatment of uncertainties, which will probably to be accepted by the tax authorities. IFRIC 23 is effective for annual periods beginning on or after 1 January 2019. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

In October 2017, the IASB issued amendments to IAS 28 *Investments in Associates and Joint Ventures*. These amendments clarify that the companies should apply IFRS 9 *Financial Instruments*, including impairment requirements, for the long-term investments in associates and joint ventures, which are accounted for otherwise than using the equity method, including long-term loans given to associates and joint ventures. The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. The impact of the amendments was assessed within the assessment of the impact of IFRS 9 *Financial Instruments* (see above).

6. Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the management of the Group and for which discrete financial information is available.

The Group is organized into business units and subsidiaries based on their products and services and has four reportable segments as follows:

- Oil and gas – representing extraction of oil and gas;
- Gas sales and transportation – representing transportation and marketing of natural and liquefied gas;
- Refining – representing refining of crude oil and other hydrocarbons and sales of oil products.
- Drilling services – representing drilling of oil and gas wells and mainly servicing Oil and gas segment needs.

The remaining operating segments have been aggregated and presented as other operating segment due to their insignificance.

Substantially all the Group's operations and assets are located in the Republic of Uzbekistan.

The Group’s segments are strategic business units and subsidiaries that focus on different customers. Management monitors the operating results of its business units and subsidiaries separately for the purpose of making decisions about resource allocation and performance assessment. Transfer prices between operating segments are either on an arm’s length basis or non-arm’s length basis.

Management evaluates performance of each segment based on both revenues and profit after tax.

6. Segment information (continued)

Segment information for the reportable segments for the year ended 31 December 2017 is set out below:

	Oil and Gas	Gas sales and transpor-tation	Refining	Drilling services	Other	Adjust-ments and elimina-tions (*)	Total
Revenues and other income							
External customers	3,018	8,760	6,722	821	352	-	**19,673**
Inter-segment	4,179	50	82	1,372	963	(6,646)	**-**
Total revenues and other income	**7,197**	**8,810**	**6,804**	**2,193**	**1,315**	**(6,646)**	**19,673**
Costs and expenses							
Costs and expenses other than depreciation, depletion and amortization	(5,733)	(7,983)	(6,203)	(2,291)	(837)	6,323	**(16,724)**
Depreciation, depletion and amortization	(1,657)	(1,317)	(211)	-	(94)	-	**(3,279)**
Total costs and expenses	**(7,390)**	**(9,300)**	**(6,414)**	**(2,291)**	**(931)**	**6,323**	**(20,003)**
Operating (loss)/profit	**(193)**	**(490)**	**390**	**(98)**	**384**	**(323)**	**(330)**
Finance income	36	5	76	34	180	-	**331**
Finance expense	(377)	(77)	(182)	(54)	(375)	132	**(933)**
Other non-operating income	89	4	9	4	345	(141)	**310**
Foreign exchange differences	(6,442)	(3,120)	(891)	(892)	(3,899)	-	**(15,244)**
Loss before income tax	**(6,887)**	**(3,678)**	**(598)**	**(1,006)**	**(3,365)**	**(332)**	**(15,866)**
Income tax expense	(81)	(10)	(250)	(26)	(514)	-	**(881)**
Net loss for the year	**(6,968)**	**(3,688)**	**(848)**	**(1,032)**	**(3,880)**	**(331)**	**(16,747)**
Other segment information							
Investments in associates and joint ventures	4,332	3,935	30	-	106	-	**8,403**
Capital expenditures	7,299	644	131	322	117	-	**8,513**
Total segment assets	**34,625**	**35,187**	**5,764**	**3,356**	**16,349**	**(15,207)**	**80,074**
Total segment liabilities	**22,492**	**13,918**	**6,574**	**4,244**	**20,650**	**(13,827)**	**54,051**

(*) Inter-segment balances are eliminated on consolidation. Amounts shown as eliminations include intercompany balances.

(**) Capital expenditure represents additions to non-current assets other than financial instruments and deferred tax assets.

6. Segment information (continued)

Segment information for the reportable segments for the year ended 31 December 2016 is set out below:

	Oil and Gas	Gas sales and transpor-tation	Refining	Drilling services	Other	Adjust-ments and elimina-tions (*)	Total
Revenues and other income							
External customers	3,499	7,672	5,130	662	280	-	**17,243**
Inter-segment	4,220	33	54	1,138	711	(6,156)	**-**
Total revenues and other income	**7,719**	**7,705**	**5,184**	**1,800**	**991**	**(6,156)**	**17,243**
Costs and expenses							
Costs and expenses other than depreciation, depletion and amortization	(6,393)	(5,482)	(4,473)	(1,848)	(749)	5,942	**(13,003)**
Depreciation, depletion and amortization	(1,551)	(1,374)	(223)	-	(86)	-	**(3,234)**
Total costs and expenses	**(7,944)**	**(6,856)**	**(4,696)**	**(1,848)**	**(835)**	**5,942**	**(16,237)**
Operating profit (loss)	**(225)**	**849**	**488**	**(48)**	**156**	**(214)**	**1,006**
Finance income	9	3	5	-	64	-	**81**
Finance expense	(177)	(117)	(152)	(33)	(152)	-	**(631)**
Other non-operating income	51	2	3	14	291	(59)	**302**
Foreign exchange differences	(618)	(289)	(81)	(71)	(99)	-	**(1,158)**
(Loss)/profit before income tax	**(960)**	**448**	**263**	**(138)**	**260**	**(273)**	**(400)**
Income tax expense	(114)	(303)	(316)	(18)	281	-	**(470)**
Net (loss)/profit for the year	**(1,074)**	**145**	**(53)**	**(156)**	**541**	**(273)**	**(870)**
Other segment information							
Investments in associates and joint ventures	1,521	1,237	30	-	43	-	**2,831**
Capital expenditures	3,963	461	88	117	75	-	**4,704**
Total segment assets	**21,761**	**31,720**	**4,049**	**3,087**	**12,050**	**(15,788)**	**56,879**
Total segment liabilities	**13,667**	**6,061**	**2,738**	**3,592**	**10,387**	**(14,261)**	**22,184**

7. Related party transactions

For the purpose of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In 2017 and 2016 the Group entered into transactions with shareholders and companies controlled by shareholders (including enterprises directly or indirectly controlled by the Uzbek Government), associates and joint ventures and key management.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Related party transactions (continued)

In the course of its ordinary business, the Group enters into transactions with other companies controlled by the Uzbek Government. Bank loans are recorded based on market interest rates. Taxes are accrued and paid in accordance with applicable tax law. The Group sells crude oil and petroleum products to related parties in the ordinary course of business at prices close to average market prices.

At 31 December 2017, 2016 and 1 January 2016, the outstanding balances with related parties were as follows:

	As at 31 December 2017				As at 1 January	
	2017		2016		2016	
	Government and entities under government control	Associates and joint ventures	Government and entities under govern ment control	Associates and joint ventures	Government and entities under govern ment control	Associates and joint ventures
Gross amount of trade receivables	1,946	39	1,785	12	4,362	124
Impairment provisions for trade receivables	(782)	-	(946)	-	(519)	-
Cash and cash equivalents	684	-	174	-	8	-
Restricted cash	229	-	323	-	471	-
Advances paid	172	-	96	-	311	-
Loans due from related parties	10	3,090	20	1,156	16	923
Borrowings	(12,233)	-	(3,785)	-	(2,701)	-
Trade and other payables	(34)	(2,818)	(27)	(593)	(60)	(1,621)
Advances received	(2)	-	(27)	-	(59)	-

The transactions with related parties for the year ended 31 December 2017 and 2016 were as follows:

	2017		2016	
	Government and entities under government control	Associates and joint ventures	Government and entities under government control	Associates and joint ventures
Sales of gas	2,937	140	2,818	70
Sales of oil products	206	-	51	-
Services rendered	38	23	1	-
Interest on loans due to related parties	(245)	-	(121)	-
Transportation and selling expenses	(161)	(264)	(104)	(160)
Purchases of inventory	(708)	(1,610)	(941)	(839)
Other operating income	10	-	27	8

Key management compensation

Key management personnel include members of the Board of Directors and members of the Management Board. All of the Group's key management are appointed by the President of the Republic of Uzbekistan. Compensation of key management personnel, including basic salary, bonuses and other payments, amounted to UZS 255 million and UZS 279 million in 2017 and 2016, respectively.

8. Cash and cash equivalents

	As at 31 December		As at 1 January
	2017	**2016**	**2016**
Current accounts with banks – US dollars	1,988	1,078	122
Current accounts with banks – UZS	689	185	136
Current accounts with banks – other currencies	40	3	2
Term deposits with banks – UZS	4	5	6
	2,721	**1,271**	**266**

9. Restricted cash

At 31 December 2017, restricted cash was mainly represented by accounts in the amount of UZS 1,235 billion (31 December 2016: UZS 550 billion, 1 January 2016: UZS 1,157 billion) held by the Group as collateral for letters of credit.

10. Trade receivables

	As at 31 December		As at 1 January
	2017	**2016**	**2016**
Trade accounts receivable	10,774	6,988	6,497
Less: allowance for impairment	(3,824)	(2,785)	(2,269)
Trade accounts receivable	**6,950**	**4,203**	**4,228**

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

As at 31 December 2017, 2016 and 1 January trade receivables were non-interest bearing.

Movements in the allowance for impairment of trade accounts receivable were as follows:

	2017	**2016**
At 1 January	2,785	2,269
Charge for the year	1,154	519
Recoveries	(115)	(3)
At 31 December	**3,824**	**2,785**

The impaired receivables mainly relate to overdue debts (in excess of 360 days) for oil, natural gas and oil products supplied to general population as well as to state-owned entities.

As at 31 December 2017, 2016 and 1 January 2016 the ageing analysis of trade accounts receivable is as follows:

			Past due but not impaired				
	Total	**Neither past due nor impaired**	**<30 days**	**30-60 days**	**61-90 days**	**91-120 days**	**>120 days**
At 31 December 2017	6,950	3,774	875	1,437	800	12	52
At 31 December 2016	4,203	1,612	1,367	466	647	25	86
At 1 January 2016	4,228	2,044	887	775	136	279	107

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Inventories

	As at 31 December		As at 1 January
	2017	2016	2016
Materials and supplies (at net realisable value)	1,032	957	898
Refined oil products (at cost or net realisable value)	554	473	456
Gas products (at cost)	781	314	220
Crude oil (at cost)	389	75	41
Work-in-progress (at cost)	97	121	156
Other	115	34	58
	2,968	**1,974**	**1,829**

12. Loans due from related parties

			As at 31 December		As at 1 January
	Maturity	Interest rate	2017	2016	2016
Loans due from JV "Uz-Kor Gas Chemical" in US dollars	December 2024	10%	3,394	1,325	1,098
Loans due from other related parties in other currencies			10	20	16
			3,404	**1,345**	**1,114**

13. Property, plant and equipment

	Oil and Gas	Gas pipelines	Refinery assets	Buildings and structures	Machinery and equipment	Other	CIP	Total
Cost								
At 1 January 2016	**10,645**	**19,346**	**988**	**4,576**	**1,739**	**474**	**5,912**	**43,680**
Additions	79	-	-	105	254	25	3,799	**4,262**
Disposals	(81)	-	(2)	(33)	(18)	(43)	(1,705)	**(1,882)**
Additions to ARO	56	-	-	-	-	-	-	**56**
Transfers from CIP	2,268	58	76	66	58	1	(2,527)	**-**
Transfers from E&E assets	153	-	-	-	-	-	-	**153**
Translation to presentation currency	-	-	-	-	-	1	109	**110**
At 31 December 2016	**13,118**	**19,404**	**1,062**	**4,714**	**2,033**	**458**	**5,590**	**46,379**
Additions	257	-	16	238	400	86	7,025	**8,022**
Disposals	(239)	-	(39)	(75)	(105)	(87)	(420)	**(965)**
Additions to ARO	356	-	-	-	-	-	-	**356**
Transfers from CIP	4,352	1,003	30	221	144	10	(5,760)	**-**
Transfers from E&E assets	98	-	-	-	-	-	-	**98**
Translation to presentation currency	-	-	-	-	-	-	3,162	**3,162**
At 31 December 2017	**17,942**	**20,407**	**1,069**	**5,098**	**2,472**	**467**	**9,597**	**57,052**
Depreciation and impairment								
At 1 January 2016	-	-	-	-	-	-	-	**-**
Charge for the year	(1,329)	(1,035)	(142)	(349)	(255)	(123)	-	**(3,233)**
Disposals	2	-	1	-	11	16	-	**30**
Impairments	-	-	-	-	-	-	-	**-**
At 31 December 2016	**(1,327)**	**(1,035)**	**(141)**	**(349)**	**(244)**	**(107)**	**-**	**(3,203)**
Charge for the year	(1,422)	(1,034)	(130)	(362)	(258)	(73)	-	**(3,279)**
Disposals	30	-	6	7	49	23	-	**115**
Impairments	-	-	-	-	-	-	-	**-**
Translation to presentation currency	-	-	-	-	-	-	-	**-**
At 31 December 2017	**(2,719)**	**(2,069)**	**(265)**	**(704)**	**(453)**	**(157)**	**-**	**(6,367)**
Net book value								
At 1 January 2016	**10,645**	**19,346**	**988**	**4,576**	**1,739**	**474**	**5,912**	**43,680**
At 31 December 2016	**11,791**	**18,369**	**921**	**4,365**	**1,789**	**351**	**5,590**	**43,176**
At 31 December 2017	**15,223**	**18,338**	**804**	**4,394**	**2,019**	**310**	**9,597**	**50,685**

13. Property, plant and equipment (continued)

In 2017, the Group capitalized in the carrying amount of property, plant and equipment borrowing costs at the amount of UZS 172 billion which are related to the construction of assets (2016: UZS 42 billion).

“Uzbekistan GTL” LLC, a wholly owned subsidiary of the Group, is engaged in the capital project related to the development of synthetic liquid fuel using gas-to-liquid (GTL) technology. GTL is planning to use methane rich gas as feedstock for the GTL facility and produce GTL diesel, GTL aviation kerosene, GTL naphtha and liquified petroleum gas (LPG) in Uzbekistan. As of 31 December 2017, the construction-in-progress balance was UZS 7,217 billion (31 December 2016: UZS 850 billion; and 1 January 2016: UZS 704 billion).

In 2017 and 2016 the Group received government grants for capital expenditures in the amount of UZS 309 billion and UZS 86 billion, respectively.

14. Exploration and evaluation assets

	Total
Net book value as at 1 January 2016	**474**
Additions	442
Transfer to property, plant and equipment	(153)
Expensed	(364)
Net book value as at 31 December 2016	**399**
Additions	491
Transfer to property, plant and equipment	(98)
Expensed	(467)
Net book value as at 31 December 2017	**325**

15. Investments in joint ventures and associates

				As at 31 December		**As at 1 January**
	Place of business	**Main activity**	**Percentage ownership**	**2017**	**2016**	**2016**
"Uz-Kor Gas Chemical" LLC	Uzbekistan	Manufacturing of the polymer products	50%	4,214	1,520	1,127
"Asia Trans Gas" LLC	Uzbekistan	Natural gas transportation	50%	3,924	1,224	786
Other joint ventures and associates	Uzbekistan			265	87	63
				8,403	**2,831**	**1,976**

The following table summarizes the movements in the investments in 2017 and 2016:

	2017	**2016**
At January 1	2,831	1,976
Share in profits of joint ventures and associates, net	931	521
Additional contributions without change in ownership	146	10
Dividends received	(149)	(29)
Impairment of investments	(23)	(1)
Foreign currency translation	4,649	340
Other	18	14
At December 31	**8,403**	**2,831**

15. Investments in joint-ventures and associates (continued)

The equity share in profits of associates and joint ventures comprises the following:

	2017	2016
"Uz-Kor Gas Chemical" JV LLC	374	206
"Asia Trans Gaz" JV LLC	533	293
Other joint ventures and associates	24	22
	931	**521**

The following tables illustrate summarized financial information of material joint ventures, based on financial statements of these entities for 31 December 2017, 2016 and 1 January 2016:

	As at 31 December		As at 1 January
"Uz-Kor Gas Chemical" LLC	**2017**	**2016**	**2016**
Non-current assets	26,451	10,159	8,921
Current assets, including	5,005	2,029	591
Cash and cash equivalents	1,368	1,239	294
Non-current liabilities, including	5,869	8,329	7,090
Non-current financial liabilities	5,869	6,105	5,243
Current liabilities, including	17,159	817	168
Current financial liabilities	16,625	720	43
Equity	8,427	3,041	2,253
Share of ownership	50%	50%	50%
Carrying amount of the investment	**4,213**	**1,520**	**1,127**
Revenue	4,127	1,808	56
Cost of Sales	(1,908)	(785)	(27)
General and administrative expenses	(309)	(125)	(57)
Interest expense	(1,364)	(496)	(31)
Other income	202	10	9
Profit/(loss) for the year	**748**	**412**	**(50)**
Dividends received	126	-	-

	As at 31 December		As at 1 January
"Asia Trans Gas" JV LLC	**2017**	**2016**	**2016**
Non-current assets	26,838	11,248	10,268
Current assets, including	3,968	1,574	1,226
Cash and cash equivalents	2,460	871	601
Non-current liabilities, including	20,250	9,300	9,754
Non-current financial liabilities	20,134	9,300	9,754
Current liabilities, including	2,708	1,075	168
Current financial liabilities	2,422	964	-
Equity	7,848	2,448	1,572
Share of ownership	50%	50%	50%
Carrying amount of the investment	**3,924**	**1,224**	**786**

15. Investments in joint-ventures and associates (continued)

"Asia Trans Gas" JV LLC	**2017**	**2016**	**2016**
Revenue	3,319	1,790	1,399
Cost of Sales	(1,494)	(814)	(691)
General and administrative expenses	(83)	(53)	(31)
Interest expense	(559)	(319)	(249)
Foreign exchange gain	17	2	2
Other income	5	2	12
Income tax expense	(139)	(22)	-
Profit for the year	**1,066**	**586**	**442**

16. Trade and other payables

	As at 31 December		**As at 1 January**
	2017	**2016**	**2016**
Trade accounts payable	17,133	5,560	6,317
Other non-income tax payables	3,273	2,547	3,829
Dividends payable	1,420	671	623
Advances received	871	570	565
Total trade and other payables	**22,697**	**9,348**	**11,334**

Trade payables mainly represent payables for crude oil, oil products, gas, construction, drilling, transportation and utilities provided by vendors of the Group.

Included in Trade accounts payable balance as of 31 December 2017, UZS 7,840 billion (31 December 2016: UZS 3,070 billion; 1 January 2016: UZS 2,666 billion) is related to the suspended payable to Zeromax GmbH, registered Swiss company. This outstanding payable denominated in USD has been suspended since 2010, when bankruptcy proceeding was initiated against Zeromax GmbH (Note 31).

As at 31 December 2017, 2016 and 1 January 2016 trade accounts payable and other current liabilities were not interest bearing.

17. Borrowings

At 31 December 2017, short-term borrowings of the Group were represented by the following facilities

Facilities	**Interest rate**	**Maturity date**	**Total borrowed in original currency**	**Balance as at 31 December 2017**
Short-term facilities in UZS	0%-21%	January 2017 – December 2018	2,009	1,578
Short-term facilities millions of US dollars	4%-8%	January 2017 – December 2018	13	101
Current portion of long-term borrowings				2,200
Total short-term borrowings and current portion of long-term borrowings				**3,879**

17. Borrowings (continued)

At 31 December 2016, short-term borrowings of the Group were represented by the following facilities:

Facilities	**Interest rate**	**Maturity date**	**Total borrowed in original currency**	**Balance as at 31 December 2016**
Short-term facilities in UZS	11%-18%	January 2016 – December 2017	**1,334**	904
Short-term facilities in millions of US dollars	8%	January 2016 – December 2017	**7**	24
Other			**-**	57
Current portion of long-term borrowings				1,533
Total short-term borrowings and current portion of long-term borrowings				**2,518**

At 1 January 2016, short-term borrowings of the Group were represented by the following facilities:

Facilities	**Interest rate**	**Maturity date**	**Total borrowed in original currency**	**Balance as at 1 January 2016**
Short-term facilities in UZS	11%-18%	January 2015 – December 2016	**1,194**	852
Short-term facilities in millions of US dollars	4%-5%	January 2015 – December 2016	**8**	21
Other			-	81
Current portion of long-term borrowings			-	657
Total short-term borrowings and current portion of long-term borrowings				**1,611**

17. Borrowings (continued)

At 31 December 2017, long-term borrowings of the Group were represented by the following facilities:

			Balance as at 31 December 2017	
Facilities	**Interest rate***	**Maturity date**	**Non-current portion**	**Current portion**
USD 740 million	2.25%	December 2030	4,882	55
USD 200 million	5.00%	October 2026	1,610	98
USD 200 million	5.00%	January 2026	1,515	111
USD 164 million	5.00%	June 2027	1,157	45
USD 144 million	2.00%	June 2027	991	44
USD 130 million	3.50%	January 2023	631	149
USD 110 million	7.00%	November 2019	595	298
USD 140 million	7.00%	December 2019	521	506
USD 58 million	5.00%	December 2024	466	24
USD 280 million	6.50%	December 2026	392	27
USD 53 million	3.50%	July 2023	374	13
USD 61 million	5.00%	July 2021	337	16
USD 54 million	3.50%	July 2023	335	12
USD 55 million	2.25%	February 2023	270	2
USD 47 million	4.50%	September 2023	258	9
USD 37 million	2.00%	June 2027	258	8
USD 45 million	5.50%	November 2027	252	-
UZS 425 000 million	0.00%	December 2019	234	118
UZS 26 500 million	0.00%	December 2019	233	158
UZS 268 000 million	3.00%	June 2019	231	-
USD 33 million	4.00%	September 2022	177	6
USD 38 million	7.00%	October 2020	136	11
USD 15 million	7.00%	December 2024	113	9
USD 15 million	8.50%	December 2020	111	-
USD 20 million	10.00%	September 2022	81	-
USD 10 million	9.00%	February 2019	79	-
UZS 65 000 million	16.00%	December 2022	57	-
Other			676	481
Total long-term borrowings			**16,972**	**2,200**

17. Borrowings (continued)

At 31 December 2016, long-term borrowings of the Group were represented by the following facilities:

			Balance as at 31 December 2016	
Facilities	**Interest rate**	**Maturity date**	**Non-current portion**	**Current portion**
USD 740 million	2.25%	December 2030	826	-
USD 200 million	5.00%	September 2024	528	136
USD 200 million	5.00%	June 2024	461	171
USD 164 million	5.00%	June 2025	403	66
USD 144 million	2.00%	June 2025	354	59
USD 130 million	3.50%	January 2023	307	84
USD 140 million	7.00%	December 2019	302	151
USD 110 million	7.00%	November 2019	237	118
USD 58 million	5.00%	June 2022	152	39
USD 54 million	3.50%	July 2021	109	43
USD 38 million	5.00%	May 2018	107	-
USD 54 million	3.50%	July 2021	99	39
USD 37 million	2.00%	June 2025	92	14
USD 55 million	2.25%	February 2023	84	24
UZS 165,000 million	10.00%	June 2021	79	22
USD 61 million	5.00%	July 2019	48	86
UZS 46,000 million	12.00%	March 2022	46	-
USD 15 million	8.50%	December 2020	46	-
UZS 70,200 million	10.00%	June 2021	44	13
USD 15 million	7.00%	June 2022	40	11
USD 33 million	4.00%	September 2020	39	33
USD 85 million	Libor + 4.50%	June 2018	37	37
USD 16 million	2.50%	July 2020	30	10
USD 38 million	7.00%	October 2018	22	35
Other			221	342
Total long-term borrowings			**4,713**	**1,533**

17. Borrowings (continued)

At 1 January 2016, long-term borrowings of the Group were represented by the following facilities:

			Balance as at 1 January 2016	
Facilities	**Interest rate**	**Maturity date**	**Non-current portion**	**Current portion**
USD 200 million	5.00%	September 2024	524	39
USD 200 million	5.00%	June 2024	491	79
USD 164 million	5.00%	June 2025	386	-
USD 144 million	2.00%	June 2025	339	-
USD 130 million	3.50%	January 2023	315	91
USD 58 million	5.00%	June 2022	161	-
USD 53 million	3.50%	July 2021	129	14
USD 54 million	3.50%	July 2021	118	13
USD 38 million	5.00%	May 2018	107	-
UZS 165,000 million	10.00%	June 2021	101	22
USD 55 million	2.25%	February 2023	93	21
USD 37 million	2.00%	June 2025	88	-
USD 61 million	5.00%	July 2019	83	73
USD 85 million	Libor + 4.50%	June 2018	64	32
UZS 70,200 million	10.00%	June 2021	56	13
USD 33 million	4.00%	September 2020	53	21
USD 16 million	2.50%	July 2020	44	-
UZS 46,000 million	12.00%	March 2022	43	-
USD 15 million	7.00%	June 2022	42	-
USD 50 million	7.50%	May 2019	37	25
USD 38 million	7.00%	October 2018	32	25
USD 2 million	8.00%	October 2017	29	-
USD 10 million	7.00%	October 2018	28	-
USD 7 million	8.00%	May 2019	27	-
USD 8 million	7.00%	October 2018	23	-
USD 15 million	7.00%	June 2017	21	21
UZS 34 700 million	8.50%	February 2019	18	-
USD 7 million	6m Libor + 2.25%	June 2022	18	-
UZS 14,000 million	14.00%	April 2017	10	0
USD 3 million	6m Libor + 6,25%	August 2022	9	-
CNY 30 million	0.00%	June 2021	8	-
USD 2 million	6m Libor + 3.75%	January 2019	5	-
USD 1.6 million	8.00%	June 2020	5	-
USD 280 million	6.50%	December 2016	-	136
Other			84	32
Total long-term borrowings			**3,591**	**657**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Borrowings (continued)

Changes in liabilities arising from financing activities:

	1 January 2017	Cash flows	Interest paid	Principal repaid	Finance cost	Foreign exchange movement	Other	31 December 2017
Long-term and short-term borrowings	7,231	7,494	(457)	(2,596)	811	9,312	(944)	20,851
Total liabilities from financing activities	**7,231**	**7,494**	**(457)**	**(2,596)**	**811**	**9,312**	**(944)**	**20,851**

	1 January 2016	Cash flows	Interest paid	Principal repaid	Finance cost	Foreign exchange movement	Other	31 December 2016
Long-term and short-term borrowings	5,202	3,858	(252)	(2,322)	403	511	(169)	7,231
Total liabilities from financing activities	**5,202**	**3,858**	**(252)**	**(2,322)**	**403**	**511**	**(169)**	**7,231**

18. Provisions

	Asset Retirement Obligations	Employee benefit obligations	Legal claims	Total
As at 1 January 2016	**274**	**1,405**	**28**	**1,707**
				-
Provision for the year	13	(478)	-	**(465)**
Change in estimate	43		-	**43**
Unwinding of discount	39	226	-	**265**
Use of provision	-	(61)	-	**(61)**
Foreign currency translation	-		4	**4**
As at 31 December 2016	**369**	**1,092**	**32**	**1,493**
				-
Provision for the year	27	(269)	-	**(242)**
Change in estimate	329	**-**	-	**329**
Unwinding of discount	101	173	-	**274**
Use of provision	-	(55)	-	**(55)**
Foreign currency translation	-	-	49	**49**
As at 31 December 2017	**826**	**941**	**81**	**1,848**

19. Deferred income from government grants

	2017	2016
At 1 January	**500**	**413**
Received during the year	2,603	642
Released to the statement of profit and loss	(1,077)	(555)
At 31 December	**2,026**	**500**

As at 31 December 2017, current of deferred income mainly comprised of government grants received from Ministry of Finance in the form of excise and value added taxes exemptions to finance investment projects related to geological and prospecting works, wells infrastructure development. In 2017, the Group has also received government grants in the forms of interest-free loans and donations to cover losses from devaluation of local currency.

20. Shareholders' equity

Share capital

In 2017, the Group issued 10,190,202,561 common shares (2016: 3,225,654,157 common shares) with a nominal value of UZS 1,000 each.

Non-controlling interests

Share of the Centre for State Asset Management in non-controlling interests as at 31 December 2017 amounted to UZS 11,186 billion (31 December 2016: UZS 15,773 billion, 1 January 2016: UZS 16,227 billion) and its non-controlling interest in net loss for the year ended 2017 was UZS 4,587 billion (2016: UZS 455 billion).

21. Revenue

	2017	**2016**
Sales of gas and gas products	8,091	7,649
Sales of refined oil products	6,082	4,969
Sales of petrochemical products	638	619
Gas transportation fees	870	334
Oil refinery tolling fees	94	78
Gas processing and tolling fees	284	80
Sales of other products	606	464
	16,665	**14,193**

22. Cost of purchased oil, gas, petroleum products and other materials

	2017	**2016**
Purchased gas for resale	2,007	1,010
Purchased crude oil	2,588	1,549
Materials and supplies	554	463
	5,149	**3,022**

23. Production expenses

	2017	**2016**
Payroll	2,155	1,974
Shortfall penalties for export sales	282	82
Services	207	158
Repair and maintenance	260	155
Utilities	277	254
Construction	193	1,242
Transportation costs	115	71
Other	411	54
	3,900	**3,990**

24. Taxes other than income tax

	2017	**2016**
Subsoil tax	685	609
Value added taxes	607	476
Property taxes	597	484
Contributions to non-budget funds	502	444
Excise taxes	480	437
Non-resident taxes	56	-
Other taxes	55	60
	2,982	**2,510**

25. General and administrative expenses

	2017	2016
Collection agency fee	313	-
Charitable donations and sponsorship	250	358
Payroll	118	94
Consulting services	98	44
Materials and supplies	25	46
Repair and maintenance	52	52
Other	58	169
	914	**763**

26. Transportation and selling expenses

	2017	2016
Transportation	469	339
Payroll	313	333
Services	80	63
Other	57	71
	919	**806**

27. Finance income

	2017	2016
Gain on initial recognition	168	3
Interest income on loans due from related parties	100	58
Other	63	20
	331	**81**

28. Finance costs

	2017	2016
Interest expense	559	313
Provision: Unwinding of discount of Employee benefit obligations	173	226
Provision: Unwinding of discount of Asset Retirement Obligations	101	39
Unwinding of discount	81	48
Other	19	5
	933	**631**

29. Income taxes

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

	2017	2016
Current tax charge	393	763
Deferred tax charge/(credit) − origination and reversal of temporary differences	1,831	(150)
Less: deferred tax recognised in other comprehensive income	(1,343)	(143)
Income tax expense reported in the statement of profit and loss	**881**	**470**

29. Income taxes (continued)

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

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2017, 2016 and 1 January 2015 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax-book bases' differences for certain assets.

A reconciliation of income tax expenses applicable to profit before income tax at the statutory income tax rate (14.9% in 2017 and 2016) to income tax expenses was as follows for the years ended December 31:

	2017	2016
Loss before income tax	**(15,866)**	**(400)**
Statutory tax rate	14.90%	14.90%
Theoretical income tax benefit at the statutory rate	**(2,364)**	**(60)**
Unrecognized deferred tax asset	2,310	174
Non-deductible expenses	405	165
Unrecognised deferred tax assets on loss making subsidiaries	378	-
Income of subsidiaries taxed at different rates	228	250
Excess profit tax	100	95
Tax privileges	(176)	(154)
Income tax expense reported in the statement of profit or loss	**881**	**470**

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	1 January 2016	In the statement of profit or loss	In the statement of other compre-hensive income	31 December 2016	In the statement of profit or loss	In the statement of other compre-hensive income	31 December 2017
Deferred tax assets							
Trade receivables	1,424	257	-	1,681	2,290	-	3,971
Advances paid	122	(63)	-	59	457	-	516
Inventories	188	53	-	241	197	-	438
Provisions	189	15	(59)	145	27	(51)	121
Other	112	255	5	372	54	-	426
Gross deferred tax assets	**2,035**	**517**	**(54)**	**2,498**	**3,025**	**(51)**	**5,472**
Unrecognized deferred tax asset	(1,126)	(174)	-	(1,300)	(2,310)	-	(3,610)
Deferred tax assets	**909**	**343**	**(54)**	**1,198**	**715**	**(51)**	**1,862**
Deferred tax liabilities							
Property, plant and equipment	(2,569)	172	-	(2,397)	232	-	(2,165)
Investments in joint ventures and associates	(142)	(30)	(89)	(261)	511	(1,292)	(1,042)
Borrowings	(68)	33	-	(35)	(160)	-	(195)
Other non-current liabilities	(341)	(225)	-	(566)	(1,786)	-	(2,352)
Deferred tax liabilities	**(3,120)**	**(50)**	**(89)**	**(3,259)**	**(1,203)**	**(1,292)**	**(5,754)**
Net deferred tax liabilities/(assets)	**(2,211)**	**293**	**(143)**	**(2,061)**	**(488)**	**(1,343)**	**(3,892)**

30. Financial risk management

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

Market risk

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

The sensitivity analyses in the following sections relate to the position as at 31 December 2017, 2016 and 1 January 2016.

Foreign exchange risk

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

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

	Increase/decrease in UZS to US dollar exchange rate	Effect on profit before tax
2017	+24.8%	(4,732)
	-24.8%	4,732
2016	+10.1%	(601)
	-10.1%	601
2015	+9.6%	(610)
	-9.6%	610

Interest rate risk

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

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

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

30. Financial risk management (continued)

Market risk (continued)

Commodity price risk

The Group generates most of its revenue from the sale of commodities, primarily oil and gas products. Historically, the prices of these products have been regulated by the Government of Uzbekistan, except for prices of oil refined and natural gas products for export sales, which are contract based with predominantly fixed prices. Starting from 2018 oil and gas market in the Republic of Uzbekistan is being deregulated (Note 32).

Credit risk

The Group controls its own exposure to credit risk. All external customers and their financial guarantors, other than related parties, undergo a creditworthiness check (including sellers of goods and services who act on a prepayment basis). The Group performs an ongoing assessment and monitoring of the financial position and the risk of default. In the event of a default by the parties on their respective obligations under the financial guarantee contracts, the Group's exposure to credit risk will be limited to the corresponding contract amounts.

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

Liquidity risk

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

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

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

At 31 December 2017	<1 year	1 to 5 years	> 5 years	Total
Borrowings	4,215	10,188	8,238	**22,641**
Trade accounts payable	22,697	-	-	**22,697**
Other current liabilities	1,415	-	-	**1,415**
Other non-current liabilities	-	1,096	-	**1,096**
Total undiscounted financial liabilities	**28,327**	**11,284**	**8,238**	**47,849**

At 31 December 2016	<1 year	1 to 5 years	> 5 years	Total
Borrowings	2,640	3,152	1,796	**7,588**
Trade accounts payable	9,348	-	-	**9,348**
Other current liabilities	785	-	-	**785**
Other non-current liabilities	-	641	-	**641**
Total undiscounted financial liabilities	**12,773**	**3,793**	**1,796**	**18,362**

30. Financial risk management (continued)

Liquidity risk (continued)

At 1 January 2016	<1 year	1 to 5 years	> 5 years	Total
Borrowings	1,667	2,450	1,312	**5,429**
Trade accounts payable	11,334	-	-	**11,334**
Other current liabilities	1,079	-	-	**1,079**
Other non-current liabilities	-	120	-	**120**
Total undiscounted financial liabilities	**14,080**	**2,570**	**1,312**	**17,962**

These consolidated financial statements are prepared on a going concern basis. As of 31 December 2017, 2016 and 1 January 2016, the Group's current liabilities exceeded its current assets. Included in the balances of Trade and other payables of the Group as at 31 December 2017, 2016 and 1 January 2016 are significant aged, disputed and suspended payables to several counterparties, including Zeromax GmbH (Note 16). These payable balances have no due dates but pending the results of the disputes. In addition, management believes that the Group has access to sufficient financing resources with domestic banks as well as already existing undrawn committed borrowing facilities, in order to meet the Group's cash payment obligations when they become due. Information about borrowings facilities is presented in Note 31. In April 2020, the Group transferred significant portion of the borrowings into shareholder's equity (Note 32).

Capital management

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

Fair value of financial instruments

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

	31 December 2017		31 December 2016		1 January 2016	
	Carrying amounts	Fair values	Carrying amounts	Fair values	Carrying amounts	Fair values
Cash and cash equivalents	2,721	2,721	1,271	1,271	266	266
Restricted cash	1,235	1,235	550	550	1,157	1,157
Trade receivables	6,950	6,950	4,203	4,203	4,228	4,228
Other current assets	409	409	347	347	689	689
Loans due from related parties	3,404	3,404	1,345	1,345	1,114	1,114
Other non-current financial assets	160	160	114	114	179	179
Other non-current assets	493	493	223	223	477	477
Total financial assets	**15,372**	**15,372**	**8,053**	**8,053**	**8,110**	**8,110**
Trade and other payable	22,697	22,697	9,348	9,348	11,334	11,334
Borrowings	20,851	20,568	7,232	7,148	5,202	5,140
Other current liabilities	1,415	1,415	785	785	1,079	1,079
Other non-current liabilities	1,097	1,097	642	642	120	120
Total financial liabilities	**46,060**	**45,777**	**18,007**	**17,923**	**17,735**	**17,673**

30. Financial risk management (continued)

Fair value of financial instruments (continued)

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2017:

	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets for which fair values are disclosed				
Cash and cash equivalents	2,721	–	–	**2,721**
Restricted cash	1,235	–	–	**1,235**
Trade receivables	–	–	6,950	**6,950**
Other current assets	–	–	409	**409**
Loans due from related parties	–	–	3,404	**3,404**
Other non-current financial assets	–	–	160	**160**
Other non-current assets	–	–	493	**493**
Liabilities for which fair values are disclosed				
Trade and other payable	–	–	22,697	**22,697**
Borrowings	–	–	20,568	**20,568**
Other current liabilities	–	–	1,415	**1,415**
Other non-current liabilities	–	–	1,097	**1,097**

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2016:

	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets for which fair values are disclosed				
Cash and cash equivalents	1,271	–	–	**1,271**
Restricted cash	550	–	–	**550**
Trade receivables	–	–	4,203	**4,203**
Other current assets	–	–	347	**347**
Loans due from related parties	–	–	1,345	**1,345**
Other non-current financial assets	–	–	114	**114**
Other non-current assets	–	–	223	**223**
Liabilities for which fair values are disclosed				
Trade and other payable	–	–	9,348	**9,348**
Borrowings	–	–	7,148	**7,148**
Other current liabilities	–	–	785	**785**
Other non-current liabilities	–	–	642	**642**

30. Financial risk management (continued)

Fair value of financial instruments (continued)

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 1 January 2016:

	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets for which fair values are disclosed				
Cash and cash equivalents	266	–	–	**266**
Restricted cash	1,157	–	–	**1,157**
Trade receivables	–	–	4,228	**4,228**
Other current assets	–	–	689	**689**
Loans due from related parties	–	–	1,114	**1,114**
Other non-current financial assets	–	–	179	**179**
Other non-current assets	–	–	477	**477**
Liabilities for which fair values are disclosed				
Trade and other payable	–	–	11,334	**11,334**
Borrowings	–	–	5,140	**5,140**
Other current liabilities	–	–	1,079	**1,079**
Other non-current liabilities	–	–	120	**120**

31. Contingencies, commitments and operating risks

Operating environment

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

Specifically, the President of the Republic of Uzbekistan issued Decree #4947 dated 7 February 2017 and confirmed Action Strategy on five priority areas of development of the Republic of Uzbekistan in 2017-2021. The government is carrying large-scale political and legal socio-economic reforms, state and regional programs in accordance with the Action Strategy for 2017-2021.

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

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

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

Legal proceedings

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

31. Contingencies, commitments and operating risk (continued)

Legal proceedings (continued)

The insolvency (bankruptcy) proceedings of Zeromax GmbH (“Zeromax”) were instituted in court in the canton of Zug, Switzerland in October 2010 and are ongoing. In 2011, creditors, including “Uztransgaz” JSC (“UTG”), registered their claims under the Zeromax bankruptcy procedure.

In October 2012, in connection with bankruptcy proceeding of Zeromax, the court appointed liquidator filed a claim against UTG to return certain assets owned by Zeromax, which were transferred to UTG as part of the settlement agreement between UTG and Zeromax. The claim is based on the allegations that the asset transfer from Zeromax to UTG was not legal. Since 2012, there was no progress in the claim due to procedural requirements. The management believe that the Group is liable only to the extent that UTG’s normal trade payable to Zeromax, as accrued in Trade accounts payable at 31 December 2017. However, no additional provision has been made related to the return of certain assets, as the management believe that it is highly probable UTG will be successful in defending the claim.

Taxation

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

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

As at 31 December 2017 management believes that its interpretation of the relevant legislation is appropriate and that the Group’s tax, currency and customs position will be sustained.

Compliance with financial covenants

At 31 December 2017, the Group had loans payable in total amount of UZS 20,971 billion which were received for financing its investing and operating activity. The Group is subject to certain financial covenants related to these borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default.

Gas transportation and sale commitments

In 2015, the Group concluded number of agreements with respect to the sale and transportation by the Group of over 114 billion cubic meters of natural gas for the commission of 1.5 percent of the total sum of the gas realized until 2024.

The Group had also agreement signed in 2017 for the gas transportation of 21 billion cubic meters of natural gas, according to which it gets 1.7 USD per every thousand cubic meters of the natural gas transported for 100 km. The total amount of the agreement will be a maximum of USD 280 million and the agreement is effective till 31 December 2020.

In May of 2012, the Group entered into a number of agreements under which the Group is obliged to make available 41 billion cubic meters of natural gas and 2 billion tons of gas condensate for the total amount of over UZS 9,945 billion until 2041.

31. Contingencies, commitments and operating risk (continued)

Crude oil purchase commitments

Based on sale and purchase agreements concluded by the Group in 2017, the Group has commitments to purchase crude oil for the total amount of UZS 4,752 billion for the period beginning from signing of the agreement up to the end of 2018 at a price which is stipulated in the agreements.

Capital commitments

The Company and its subsidiaries are engaged in ongoing capital projects for the exploration and development of production facilities and the modernization of refineries. As at 31 December 2017, the Group had capital commitments of approximately UZS 24,551 billion (2016: UZS 9,279 billion) related to construction and acquisition of property, plant and equipment including UZS 23,006 billion (2016: UZS 9,279 billion) relating to construction of GTL plant.

Undrawn loan commitments

At 31 December 2017, the Group had available UZS 672 billion (31 December 2016: UZS 1,444 billion, 1 January 2016: UZS 22 billion) of undrawn committed borrowing facilities.

Guarantees and indemnities issued

As of 31 December 2017, the Group has outstanding performance guarantee issued in favor of Bank GBP International S.A. whereas it provides guarantee should its joint venture “Natural Gas Stream” LLC fail to perform its obligation under the Facility Agreement for the total amount of up to USD 200 million.

As of the reporting date the management of the Group believes that there were no cases of non-performance from the guaranteed parties and, accordingly, no obligation related to the above stated contingency was recognized.

32. Subsequent events

Changes in the Group’s structure and management

Following the Presidential Decree numbered 4388, dated 9 July 2019, “Uztransgaz” JSC, which represents gas transportation and sales segment of the Group, ceased to be a subsidiary member of the Group and effective as of November 2019 the Group’s shares of ownership in “Uztransgaz” JSC transferred to the Centre for State Asset Management.

In January 2020, Mekhriddin Abdullaev was appointed Chairman of the Management Board of the Group.

Refined oil products market deregulation

Within the framework of reforms being held in oil and gas industry, the Government began deregulation of prices for refined oil products. From 1 May 2020, the Government abolished state regulation of retail prices for most popular fuel AI-80 petrol and diesel. Starting from June 2019, the Government deregulated the price of AI-91 petrol.

New loans

On 24 April 2019, the Group signed facility agreements with international financial institutions for the total amount of USD 2,080 million to finance construction of the GTL plant. The loan principals are repayable until 15 December 2031.

In September 2019, the Group and Silk Road Fund (China) signed a USD 585 million loan agreement to finance projects aimed at growth of hydrocarbon production.

Share issuance

In April 2020, the Company issued 33,080,079,640 common shares. As consideration, the Company capitalized loans provided by Fund for Reconstruction and Development of the Republic of Uzbekistan to the Group during 2010-2019 for financing investments projects in the total amount UZS 16,425 billion and dividends in the amount UZS 115 billion into shareholders’ equity.

32. Subsequent events (continued)

COVID-19

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

New projects

During subsequent period, the Group in cooperation with different companies started a number of key projects, including:

- The construction of GTL plant which is expected to be completed by late 2020. First production of synthetic liquid fuel using gas-to-liquid technology based on purified methane of "Shurtan Gas Chemical Complex" LLC is expected to be launched in early 2021.
- Modernization and reconstruction of existing facilities at “Bukhara Refinery Plant” LLC. The approximate cost of the project is USD 674 million. The project provides for an expanding refining capacity from 79% to 95%, increase the yield of light oil products from 77% to 91%, production of oil products complying with Euro-5 standard. First stage of the project started in 2019 and the final stage is expected to be completed in 2025.
- Expansion of the production capacity of "Shurtan Gas Chemical Complex" LLC. Cost of the project is USD 1,700 million. The project will increase the production capacity of polyethylene up to 280 thousand tons, polypropylene up to 100 thousand tons, pyrolysis distillate and oil up to 50 thousand tons.
- Reconstruction and expansion the capacity of the Gazli underground gas storage (UGS) with the development of the field. Within the framework of the project, the Group and Forus JSC established a joint venture in October 2018 for subsequent joint operation of the Gazli UGS facility. The cost of the project is estimated to USD 850 million. Currently, a Concept for increasing gas storage, additional exploration and additional development of gas horizons and oil fields of the Gazli UGS is being developed.
- Organization of production of base oils of groups II and III on the basis of “Fergana Refinery Plant” LLC. The approximate cost of the project is 150 million USD and the project is planned to be completed by 2021.

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