Bishkekteploset OJSC

Financial statements

For the year ended 31 December 2019

The financial statements and auditor's report have been prepared in Russian and translated into English. In case of discrepancies, the Russian version shall prevail.

Contents

Country of incorporation:	2/1 Zhukeyeva-Pudovkina St, Bishkek, Kyrgyz Republic
Legal form:	Open Joint Stock Company
Principal activities:	Supply of hot water and heat to the households and organizations of Bishkek
General Director:	Abdykalykov E.E.

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Management is responsible for the preparation of financial statements that present fairly the financial position of Bishkekteploset OJSC (the "Company") as at 31 December 2019, and the related statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- Making an assessment of the Company's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining accounting records in compliance with IFRS
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Preventing and detecting fraud and other irregularities.

The financial statements of the Company for the year ended 31 December 2019 were approved by the Management of the Company on 25 March 2020.

On behalf of management:

Abdykalykov E.E.	Duyshenalieva A.A.
General Director	**Chief Accountant**
25 March 2020	25 March 2020
Bishkek, Kyrgyz Republic	Bishkek, Kyrgyz Republic

INDEPENDENT AUDITOR'S REPORT

To the Management of Bishkekteploset OJSC

Qualified opinion

We have audited the accompanying financial statements of Bishkekteploset OJSC (the "Company") which comprise the statement of financial position as at 31 December 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including summary of significant accounting policy.

In our opinion, except of the matter described in the "Basis for Qualified Opinion" section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, as well as its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

Basis for Qualified Opinion

As presented in Note 6, the carrying value of infrastructure assets at actual cost is 2,444,698 thousand som as at 31 December 2019 (31 December 2018: 1,872,803 thousand som). The Company did not conduct a full assessment of the infrastructure assets at the date of transition to IFRS (1 January 2004) or at subsequent years, which does not comply with the accounting policy of the Company. Additionally, the Company did not estimate the recoverable value of these assets as at 31 December 2019, despite the existence of indications of the possible impairment of property and equipment, that does not comply with the requirements of IAS 36 Impairment of Assets.
Given the specialized nature of these assets, we could not estimate their recoverable amount, and therefore, we were unable to determine the impact of these inconsistencies on the carrying amount of property and equipment and deferred tax liabilities as at 31 December 2019, as well as depreciation and deferred tax expenses for the year then ended.

As presented in Note 23, in 2019, the Company reflected the income from provision of technical connection services with a total amount of 41,525 thousand som, based on the agreements signed with developers of buildings to be connected to the main heating system. Given the particulars of the terms and conditions established for these connections, namely, that the infrastructure assets built as a result of those connections are not transferred to developers, but instead remain in the ownership and full control of the Company. In result the Company faces the obligations (established by the legislation of the Kyrgyz Republic) to provide thermal energy and hot water to the newly connected buildings for the period up to the end of the useful life of the constructed infrastructure assets. Therefore, the above amount should be accounted for as deferred income at the time of the newly constructed infrastructure assets are ready for operation and amortized over their useful life in accordance with IAS 20 Government Grants. Given the nature of the Company's accounting records, we could not obtain sufficient audit evidence regarding the actual date of availability for use of the connection infrastructure assets. Therefore, we were unable to determine the impact of these inconsistencies on the carrying amount of deferred income and deferred tax assets as at 31 December 2019, as well as income from amortization and deferred tax for the year then ended.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

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

Estimation of allowance for doubtful accounts

The Company's trade receivables arise as a result of the supply of thermal water to the households and organizations in the city of Bishkek. As at 31 December 2019, the carrying amount of the trade receivables was 418,936 thousand som, and the expected credit losses were estimated at 61,012 thousand som, with resulting net carrying amount of 357,924 thousand som (61.4% of current assets).

We have paid particular attention to the issue of determining the expected credit losses in accordance with the requirements of IFRS 9 Financial Instruments, due to the fact that the estimation process is complex and involves use of significant judgment by the management.

Our audit procedures in regard to the management's estimation of impairment of receivables included:

- review of the application of the “Expected Credit Loss” model in relation to the receivables of the Company,
- review of the grouping of trade receivables based on the characteristics of general credit risk, type of outstanding debt and time a particular account is overdue,
- review of the calculation of expected credit loss rates based on historical data.

Based on the results of the above procedures we did not find significant inconsistencies.

Other Matter

The audit of the financial statements of the Company for the year ended 31 December 2018 was conducted by another auditor, who expressed a qualified opinion on these statements on 11 March 2019.

The qualification referred to the following matters:

1. The Company did not conduct revaluation of property and equipment at the date of transition to IFRS or at subsequent periods. This question is still relevant for the current year ended 31 December 2019 and is reflected in the section “Basis for Qualified Opinion” of our report.
2. The Company did not recognize the loan received from the Ministry of Finance of the Kyrgyz Republic (Credit РПКР №54-р) at fair value. The Company has corrected this error in current year (Note 4).
3. The previous auditor was not able to verify the adequacy and completeness of the audit procedures relating to the financial position of the Company as at 31 December 2017, as well as its financial results and cash flows for the year then ended. This issue is not relevant for the current year, since we were able to verify the adequacy and completeness of the audit procedures relating to the financial position of the Company as at 31 December 2018, as well as its financial results and cash flows for the year then ended through examining certain audit procedures carried out by the previous auditor in relation to the audit of the balances at 31 December 2018, as well as by conducting additional tests to verify those balances.

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

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

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

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is high level of assurance, but is not a guaranty that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements arise from fraud and error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

From the maters brought to the attention of those charged with governance, we identify the issues that were most significant for the audit of financial statements for the current period and, therefore, are key audit matters. We describe these issues in our audit opinion, except in cases where the public disclosure of information on these issues is prohibited by law or regulation or when, in extremely rare cases, we conclude that information on any issue should not be disclosed in our conclusion, since it can reasonably be assumed that the negative consequences of the disclosure of such information will exceed the socially significant benefits of its disclosure.

Gnel Khachatryan, FCCA
Engagement Partner
BDO Armenia CJSC
25 March 2020

Bishkekteploset OJSC
Statement of financial position
As at 31 December 2019

in thousands of Kyrgyz Som	Note	31 December 2019	31 December 2018*
ASSETS			
Non-current assets			
Property and equipment	6	**2,577,182**	2,004,272
Intangible assets		**1,615**	2,074
Other non-current assets		**4,661**	3,417
Total non-current assets		**2,583,458**	**2,009,763**
Current assets			
Inventories	7	**131,840**	168,072
Trade and other receivables	8	**363,863**	392,761
Advances paid and other current assets	9	**4,652**	1,922
Tax advances	10	**6,274**	2,428
Cash and cash equivalents	11	**61,660**	35,468
Debt securities		**15,000**	15,000
Total current assets		**583,289**	**615,651**
TOTAL ASSETS		**3,166,747**	**2,625,414**
EQUITY AND LIABILITIES			
Equity			
Share capital	12	**366,842**	366,842
Treasury shares		**(1,701)**	-
Revaluation of assets		**35,691**	41,379
Reserve capital		**36,684**	36,684
Retained earnings		**730,484**	723,566
Total equity		**1,168,000**	**1,168,471**
Non-current liabilities			
Borrowings, non-current part	13	**475,748**	150,037
Deferred income	14	**944,300**	802,755
Deferred tax liability	25	**85,083**	79,045
Total non-current liabilities		**1,505,131**	**1,031,837**
Current liabilities			
Borrowings, current part	13	**41,077**	18,183
Trade and other payables	15	**311,052**	283,664
Advances from customers	16	**44,135**	28,422
Taxes payable	17	**8,390**	4,101
Other current liabilities	18	**88,962**	90,736
Total current liabilities		**493,616**	**425,106**
Total liabilities		**1,998,747**	**1,456,943**
TOTAL EQUITY AND LIABILITIES		**3,166,747**	**2,625,414**

(*) See Note 5 for details regarding the restatement as a result of an error.

The above statement of financial position should be read in conjunction with the accompanying notes 1-31.

General Director — Abdykalykov E.E.

Chief Accountant — Duishenalieva A.A.

Bishkekteploset OJSC
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2019

in thousands of Kyrgyz Som	Note	2019	2018*
Revenue	19	**1,933,615**	2,059,046
Cost of sales	20	**(1,798,452)**	(1,882,078)
Gross profit		**135,163**	**176,968**
General and administrative expenses	21	**(111,157)**	(112,660)
Distribution costs	22	**(127,337)**	(113,184)
Other income	23	**72,487**	37,170
Other expenses		**(3,239)**	(1,975)
Operating loss		**(34,083)**	**(13,681)**
Finance income		**5,965**	4,553
Finance costs		**(17,294)**	(17,653)
Gain/(loss) from exchange differences, net		**1,508**	(2,845)
Other gains/(losses), net	24	**54,900**	57,126
Profit before income tax		**10,996**	**27,500**
Income tax expense	25	**(6,038)**	(12,587)
Profit for the year		**4,958**	**14,913**
Other comprehensive income		**-**	-
Total comprehensive income for the year		**4,958**	**14,913**
Earnings per share			
From continuing and discontinued operations			
Basic and diluted (in som per share)	26	**0.0051**	0.0155
From continuing operations			
Basic and diluted (in som per share)	26	**0.0051**	0.0155

(*) See Note 5 for details regarding the restatement as a result of an error.

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes 1-31.

General Director — Abdykalykov E.E.

Chief Accountant — Duishenalieva A.A.

Bishkekteploset OJSC
Statement of cash flows
For the year ended 31 December 2019

in thousands of Kyrgyz Som	2019	2018
Cash flows from operating activities		
Cash generated from sales	2,039,141	2,158,408
Other cash receipts	66,129	23,156
Payments to suppliers	(1,379,002)	(1,435,973)
Payments to employees	(370,213)	(353,133)
Payments to the budget	(182,692)	(176,545)
Other payments	(8,005)	(12,491)
Cash generated from operations	165,358	203,422
Income tax paid	(18,206)	(18,681)
Net cash flows from operating activities	147,152	184,741
Cash flows from investing activities		
Payments for acquisition of PPE	(477,033)	(113,054)
Interest received	5,965	4,553
Loans disbursed	(5,100)	-
Deposits made	-	(40,000)
Deposits matured	-	40,000
Purchase of securities	-	(15,000)
Net cash used in investing activities	(476,168)	(123,501)
Cash flows from financing activities		
Proceeds from loans, grants and borrowings	392,358	7,271
Repayment of loans and borrowings	(18,192)	(18,000)
Dividends paid to shareholders	(3,744)	(27,752)
Interest paid on loans and borrowings	(13,319)	(9,341)
Transfer to restricted cash account (see Note 11)	(1,700)	-
Other payments	(24)	(4,550)
Purchase of treasury shares	(1,701)	-
Net cash from financing activities	353,678	(52,372)
Exchange (losses)/gains on cash and cash equivalents	(170)	(13)
Net increase in cash and cash equivalents	24,492	8,855
Cash and cash equivalents at beginning of year	35,468	26,613
Cash and cash equivalents at end of year	59,960	35,468

The above statement of cash flows should be read in conjunction with the accompanying notes 1-31.

General Director — Abdykalykov E.E.

Chief Accountant — Duishenalieva A.A.

ОАО «БИШКЕКТЕПЛОСЕТЬ» ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО ИНН 01206200110146

Bishkekteploset OJSC
Statement of changes in equity
For the year ended 31 December 2019

in thousands of Kyrgyz Som	Share capital	Treasury shares	Asset revaluation reserve	Reserve capital	Retained earnings	Total
1 January 2018	366,842	-	47,019	36,684	732,277	1,182,822
Comprehensive income for the year						
Profit for the year	-	-	-	-	14,913	14,913
OCI for the year, net of tax			(5,640)		5,640	-
Total comprehensive income	-	-	(5,640)	-	**20,553**	**14,913**
Contributions by and distributions to shareholders						
Dividends	-	-	-		(29,264)	(29,264)
Total contributions by and distributions to shareholders	-	-	-	-	(29,264)	(29,264)
31 December 2018	**366,842**	-	**41,379**	**36,684**	**723,566**	**1,168,471**
Comprehensive income for the year						
Profit for the year					**4,958**	**4,958**
OCI for the year, net of tax	-	-	**(5,688)**	-	**5,688**	-
Total comprehensive income	-	-	**(5,688)**	-	10,646	**4,958**
Contributions by and distributions to shareholders						
Dividends	-	-	-	-	**(3,728)**	**(3,728)**
Purchase of treasury shares	-	**(1,701)**	-	-	-	**(1,701)**
Total contributions by and distributions to shareholders	-	**(1,701)**	-	-	**(3,728)**	(5,429)
31 December 2019	**366,842**	**(1,701)**	**35,691**	**36,684**	**730,484**	**1,168,000**

The above statement of changes in equity should be read in conjunction with the accompanying notes 1-31.

General Director ______________ Abdykalykov E.E.

Chief Accountant ______________ Duishenalieva A.A

1. ABOUT THE COMPANY

“Bishkekteploset” open joint stock company (“Company”) was established 12 June 2001 following the reorganization of “Kyrgyzenergo” JSC. During 2001, the separation of “Kyrgyzenergo” JSC was carried out in accordance with the long-term state program “Reorganization and privatization of the joint stock company “Kyrgyzenergo”, approved by the Government Decision No. 333 dated 5 July 1998. As a result of the reorganization, “Kyrgyzenergo” JSC was divided into seven new companies. All assets and liabilities, as well as the operating activities of “Kyrgyzenergo” JSC were transferred to these companies. Shareholders of “Kyrgyzenergo” JSC received an equivalent share of ownership in the new companies.

The Company operates at the following address: 2/1 Zhukeyeva-Pudovkina St, Bishkek, 720031, Kyrgyz Republic.

The Company was re-registered by the Ministry of Justice of the Kyrgyz Republic on 12 April 2007 (registration certificate No. 15573-3300-AO). The Company is a legal entity under the legislation of the Kyrgyz Republic.

As at 31 December 2019, the shareholders of the Company were: the Government of the Kyrgyz Republic represented by “National Energy Holding Company” OJSC - 80.49%, the Social Fund of - 13.16%, other organizations - 1.64%, individuals - 4.71%.

The Company is in the business of distribution of hot water and heat to business customers and households.

The Company has obtained all the necessary licensing for its operation (issued by the State Agency on Energy under the Government of the Kyrgyz Republic):

- No. 000129, serial number 11 GAE, registration number No. 6 dated July 21, 2003;
- No. 000129, serial number 11-GAE, registration number No. 7 dated July 21, 2003;
- No. 000128, serial number 11-GAE, registration number No. 5 dated July 21, 2003.

Profit earned as a result of economic activity is distributed by the Shareholders of the Company in the manner established by the latter. The right to control the net profit belongs exclusively to the shareholders of the Company.

2. ECONOMIC ENVIRONMENT

The economy of the Kyrgyz Republic shows some characteristic features inherent in emerging markets. The Republic still carries on economic reforms and development of legal, tax and administrative infrastructure that would meet the requirements of the market economy. The future stability of the Kyrgyz economy will largely depend on the progress of these reforms, as well as on the effectiveness of measures taken by the government in the economy, financial and monetary policy. The decline in prices of mineral resources had a negative impact on the Kyrgyz economy. Interest rates in national currency (Kyrgyz som) remain high. The combination of these factors has led to reduction in the availability of finance and increase in the cost of capital. Additionally, there is uncertainty regarding further economic growth. All these may have unfavorable impact on the Company’s financial position and its results of operations. The management of the Company believes that it is taking appropriate measures to maintain the economic stability of the Company in the current conditions.

Management has created reserves for the impairment of trade and other receivables at the end of the reporting period, taking into account the current and projected economic situation.

Relationship with the Government

As at 31 December 2019 and 31 December 2018, the Company was controlled by the “National Energy Holding Company” OJSC (80.49% of the shares) (intermediate parent company). The activities of the “National Energy Holding Company” OJSC are controlled by the Government of the Kyrgyz Republic, therefore, the latter is the ultimate controlling party of the Company as at December 31, 2019.

The Company's counterparties also include state-controlled companies. In addition, the Government controls a number of suppliers of the Company.

The Government has a direct impact on the Company’s activities through regulation of rates for heat and hot water in the retail (consumer) market through the State Agency for Regulation of the Fuel and Energy Complex under the Government of the Kyrgyz Republic.

Rates at which the Company sells heat and hot water are determined based on the state regulations established for thermal energy and the regulations established for natural monopolies. Rates are historically determined by the "indexing" method.

As mentioned in Note 29, the policy of the Government of the Kyrgyz Republic in the economic, social and other areas may have a significant impact on the activities of the Company.

3. BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as amended by the Council for International Financial Reporting Standards (hereinafter "the IFRS Council").

These financial statements have been prepared in accordance with the historical cost measurement principle, except for certain classes of property, plant and equipment that are carried at revalued cost and financial assets and liabilities that are measured at fair value, as stated in the accounting policies and notes to these financial statements. The financial statements are presented in Kyrgyz som, and all amounts are rounded to the nearest thousand, unless otherwise indicated.

Going concern

The financial statements of the Company are prepared on the basis of the going concern principle, which provides for the continuation of ordinary activities, sale of assets and repayment of obligations in the ordinary course of business.

The management assumes that it will continue its activities in accordance with the principle of going concern, and in making such a judgment, the management has taken into account the current intentions and financial position of the Company. When assessing the Company's ability to continue its activities as a going concern, the following factors were considered:

- The Company is a strategically important entity for Bishkek city, distributing heat and hot water to business customers and households. The Company is a natural monopolist.
- One of the principles of the state policy in relation to the Company is a state sponsorship of Bishkekteploset OJSC. Therefore, the management believes the Company will continue its operations in the foreseeable future.

Comparative information

These financial statements present comparative information for the previous period. In case of change in the presentation format of the financial statements during the year, corresponding changes are made to the comparative indicators.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies

a) New standards, interpretations and amendments effective from 1 January 2019

New standards affecting the activities of the Company, which were adopted in the annual financial statements for the year ended 31 December 2019, and which entailed changes in the accounting policies of the Company, include:

- IFRS 16 Leases (IFRS 16); and
- Clarification of IFRIC 23 "Uncertainty regarding the rules for calculating income tax" (IFRIC 23).

The impact of these two standards on the financial statements of the Company is not significant.

It is expected that other new and amended standards and interpretations issued by the IASB, which will be applied for the first time in the next annual financial statements, will not affect the Company, since they are either not related to the Company's activities or require accounting in accordance with the current accounting policies of the Company.

b) New standards, interpretations and amendments not yet effective

The IASB issued a number of standards, amendments to standards and interpretations that will come into force in future reporting periods, and the Company decided not to adopt them ahead of schedule. The most significant of these are the following (which will take effect from the period starting January 1, 2020):

- IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (amendment - material definition)
- IFRS 3 "Business Combinations" (amendment - business definition)
- Revised conceptual framework for financial reporting.

The company is currently evaluating the impact of these new accounting standards and amendments.

c) Other standards

The Company does not expect that any other standards issued by the IASB, but not yet effective, will have a material impact on the Company.

Classification of assets and liabilities as current and non-current

The statement of financial position presents assets and liabilities based on their classification as current and non-current. An asset is current if:

- it is supposed to be realized or is intended for sale or use within the normal operating cycle;
- it is intended primarily for trading purposes;
- it is supposed to be realized within 12 (twelve) months after the end of the reporting period;
- or it represents cash or cash equivalents, unless there are restrictions on its exchange or use to pay off obligations for at least 12 (twelve) months after the end of the reporting period.

All other assets are classified as non-current.

An obligation is current if:

- it is supposed to be repaid within the normal operating cycle;
- it is held mainly for trading purposes;
- it is repayable within 12 (twelve) months after the end of the reporting period; or
- the Company does not have an unconditional right to defer repayment of the obligation for at least 12 (twelve) months after the end of the reporting period.

All other liabilities are classified as non-current.

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

Foreign Currency Transactions

The financial statements of the Company are presented in Kyrgyz som. Som is also the functional currency of the Company.

Transactions in foreign currencies are initially recorded in their functional currency at the spot rate set by the National Bank of the Kyrgyz Republic (NBKR) effective on the date the transaction meets the recognition criteria.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of the functional currency effective at the reporting date. All exchange differences arising on the redemption or translation of monetary items are included in a separate statement of comprehensive income.

Non-monetary items that are valued based on historical cost in foreign currency are translated at the rates prevailing at the date of the initial transaction.

Non-monetary items that are measured at fair value in a foreign currency are translated at the exchange rates at the date the fair value was determined. Gains or losses arising on the translation of non-monetary items are accounted for in accordance with the principles for recognition of gains or losses resulting from changes in the fair value of items (i.e. exchange differences between items, gains or losses on changes in the fair value, which are recognized in other comprehensive income or profit or loss are also recognized in other comprehensive income or profit or loss, respectively).

Exchange rates of foreign currencies, in which significant transactions have been conducted, are presented below:

Exchange rate at the end of the year (to som)	**31.12.2019**	**31.12.2018**
1 US dollar	**69.6439**	69.8500
1 euro	**77.9803**	80.0446
1 Russian ruble	**1.1250**	1.0047

Average exchange rate for the year (to som)	**2019**	**2018**
1 US dollar	**69.7895**	68.8427
1 euro	**78.1518**	81.3399
1 Russian ruble	**1.0785**	1.1025

Property and equipment

Items of property and equipment are initially recognized at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

The infrastructure assets are subsequently carried at fair value less accumulated depreciation and impairment losses recognized after the date of revaluation. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of the revalued asset does not differ significantly from that which would be determined using fair value at the end of the reporting period. Changes in fair value are recognized in other comprehensive income and accumulated in the revaluation reserve except to the extent that any decrease in value in excess of the credit balance on the revaluation reserve, or reversal of such a transaction, is recognized in profit or loss.

At the date of revaluation, the accumulated depreciation on the revalued infrastructure assets is eliminated against the gross carrying amount of the assets and the net amount is restated to the revalued amount of the assets. The excess depreciation on revalued infrastructure assets, over the amount that would have been charged on a historical cost basis, is transferred from the revaluation reserve to retained earnings when infrastructure assets are expensed through the statement of comprehensive income (e.g. through depreciation, impairment). On disposal of the asset the balance of the revaluation reserve is transferred to retained earnings.

Property and equipment transferred from customers are initially measured at fair value at the date on which control is obtained.

Freehold land is not depreciated. Depreciation on assets under construction does not commence until they are complete and available for use. Depreciation is provided on all other items of property and equipment so as to write off their carrying value over their expected useful economic lives on a straight-line basis. It is provided at the following rates:

	useful life
Buildings	8-100 years
Infrastructure assets	25 years
Equipment	5-20 years
Furniture and fixtures	5-15 years
Motor vehicles	5-10 years
Other	3-5 years

Capital repairs are added to the carrying amount of the asset repaired or are reflected as a separate asset only, if it is probable that the Company will have economic benefits from the operation of the asset and its value can be measured reliably. Significant specialized spare parts and auxiliary equipment, which are designated for capital repairs of infrastructure assets, are included in the property and equipment. All other spare parts and auxiliary equipment are reflected in the inventories and charged to the statement of profit or loss, when used in the operation.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

If the new expectations differ from previous expectations, the changes are accounted for as changes in the accounting estimate in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. This accounting estimate may have a significant impact on the residual value of property and equipment and on the depreciation charge recognized in the statement of comprehensive income.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The intangible assets of the Company mainly include computer software and licenses. Intangible assets are amortized on a straight-line basis over the estimated useful lives of the assets from 3 to 5 years.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognized in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Financial instruments - initial recognition and subsequent measurement

Financial assets

Initial recognition and measurement

Financial assets at initial recognition are classified as subsequently measured at amortized cost, fair value through other comprehensive income and fair value through profit or loss.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and cash equivalents, restricted cash, debt securities and trade receivables.

Subsequent measurement

For the purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets measured at amortized cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

<u>Financial assets at amortized cost (debt instruments)</u>

This category is the most appropriate for the Company. The Company measures financial assets at amortized cost, if both of the following conditions are met:
- Financial assets are held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows on dates specified, which are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding.

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

The Group's financial assets at amortized cost includes trade receivables.

<u>Financial assets at fair value through profit or loss</u>

The category of financial assets measured at fair value through profit or loss includes financial assets held for sale, financial assets classified (at the discretion of the Company) at initial recognition as measured at fair value through profit or loss, or financial assets that are necessarily measured at fair value. Financial assets are classified as held for sale if they are acquired for the purpose of selling in the near future. Derivatives, including separated embedded derivatives, are also classified as held for sale, unless they are designated, at the discretion of the Company, as effective hedging instruments.

Financial assets for which cash flows are not solely payments of principal and interest are classified and measured at fair value through profit or loss, regardless of the business model used.

Despite the criteria for classifying debt instruments as measured at amortized cost or at fair value through other comprehensive income, as described above, at initial recognition, the Company may at its discretion classify debt instruments as measured at fair value through profit or loss, if such classification eliminates or significantly reduces accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are recognized as other income in the statement of profit or loss when the right of payment has been established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded in the hybrid agreement that includes the main agreement that is a financial asset is not accounted for separately. The main agreement, which is a financial asset, must be classified together with the embedded derivative as a financial asset measured at fair value through profit or loss.

Derecognition

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognized if:

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment

The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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.

The Company's financial liabilities include trade and other payables and borrowings.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories as follows:

<u>Financial liabilities at fair value through profit or loss</u>

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

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

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

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

<u>Financial liabilities at amortized cost (loans and borrowings)</u>

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

The Company determines fair value of loans and borrowings, received at below-market interest rate, through discounting of the balances at market interest rate effective at the date of initial recognition.

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

This category generally applies to interest-bearing loans and borrowings.

Trade payables

Trade payables are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

Derecognition

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

Offsetting of financial instruments

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

Fair value measurement of financial instruments

The fair value of financial instruments traded in active markets at each reporting date is determined based on market quotes or dealer quotes (buy quotes for long positions and sell quotes for short positions) without deducting transaction costs.

For financial instruments that are not traded in an active market, fair value is determined by applying appropriate valuation techniques. Such techniques may include:

- use of prices of recently conducted commercial transactions;
- use of the current fair value of similar instruments;
- analysis of discounted cash flows or other valuation models.

An analysis of the fair value of financial instruments and details of how they are measured are disclosed in Note 28.

Equity

Share capital

Share capital is recognized at the fair value of consideration received or paid. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Dividends

The Company recognizes a liability to pay a dividend when the distribution is authorized and the distribution is no longer at the discretion of the Company. As per the corporate laws Kyrgyz Republic, a distribution is authorized when it is approved by the shareholders. A corresponding amount is recognized directly in equity.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost of inventories includes purchase cost determined using the weighted average cost method, as well as other costs incurred in bringing each item to its present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks, in transit and on hand and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Company's cash management.

Advances paid

Advances paid are accounted for at historical cost, less any allowance for impairment losses. Advances paid are classified as non-current when goods or services related to advances will be received within a period of more than one year, or if advances relate to an asset that, upon initial recognition, is classified as non-current. Advances for fixed assets are charged to the value of these fixed assets when the Company gains control of these assets and it is probable that it will receive future economic benefits associated with these assets. When there are indicators of impossibility to receive goods or services related to advances paid, the carrying amount is reduced and the corresponding impairment loss through profit or loss is recognized in the statement of comprehensive income.

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

Sale of heat and hot water

The Company recognizes revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured. When the Company considers that the criteria for revenue recognition are not met for a transaction, revenue recognition is delayed until such time as collectability is reasonably assured. Payments received in advance of revenue recognition are recorded as deferred income.

Rendering of maintenance services

The Company recognizes revenue from rendering of services in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed based on surveys of work performed.

Revenues are reflected net of VAT.

Trade receivables

A receivable is recognized if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section "Financial instruments – initial recognition and subsequent measurement".

Provisions

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. When the Group expects some or all of 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. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

Pensions

As stipulated by the legislation of the Kyrgyz Republic, the Company makes pension contributions (withheld from employee salary) at the rate of 10% of payroll to cumulative pension funds. The Company does not have any other obligations in relation to pensions.

Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference 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 the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

The Company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Value Added Tax (VAT)

Income, expenses and assets are recognized net of VAT, except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of VAT included

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Contingent liabilities and contingent assets

Contingent liabilities are not recognized, but are disclosed, unless the possibility of an outflow is remote.

Contingent assets are not recognized, but are disclosed, if the inflow of economic benefits is probable.

5. SIGNIFICANT ASSUMPTIONS AND SOURCES OF UNCERTAINTY IN ASSESSMENTS

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur

Useful lives of property and equipment

Management has estimated the useful lives of property and equipment based on its best estimate of the asset's life, as well as its intentions to continue using those assets. Management believes that the estimated useful lives of property and equipment are not significantly different from the economic lives of these assets. If the actual useful lives of property and equipment differ from estimates, then the financial statements may also differ materially.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognized by the Company.

Revaluation of property and equipment

The Company carries its infrastructure assets at fair value, with changes in fair value being recognized in OCI. For these assets, a valuation methodology based on a discounted cash flow (DCF) model was used, as there is a lack of comparable market data because of the nature of the properties. The Company engages an independent valuation specialist to assess fair value of infrastructure assets. Key assumptions used in obtaining estimates using the above method include a discount rate and a forecast of future cash flows.

Estimated provision for expected credit losses on trade receivables

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating).

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables and contract assets is disclosed in Note 8.

Taxes

The Company operates in KR jurisdiction with quite complex legal and tax regulatory environment. The income tax positions taken are considered by the Company to be supportable and are intended to withstand challenge from tax authorities. However, it is acknowledged that some of the positions are uncertain and include interpretations of complex tax laws which could be disputed by tax authorities. The Company judges these positions on their technical merits and this on a regular basis using all the information available (legislation, case law, regulations, established practice, authoritative doctrine as well as the current state of discussions with tax authorities, where appropriate). A liability is recorded for each item that is not probable of being sustained on examination by the tax authorities, based on all relevant information. The liability is calculated taking into account the most likely outcome or the expected value, depending on which is thought to give a better prediction of the resolution of each uncertain tax position in view of reflecting the likelihood of an adjustment being recognized upon examination. These estimates are based on facts and circumstances existing at the end of the reporting period. The tax liability and income tax expense include expected penalties and late payment interests arising from tax disputes.

The tax legislation of the Kyrgyz Republic provides liability for tax violations:

- If the tax is underestimate of up to 2% of the comprehensive annual profit for the year preceding the audited calendar year, tax penalty is not applied;
- If the tax is underestimated in above 2% and up to 5% of the comprehensive annual profit for the year preceding the audited calendar year, a tax penalty of 50% of the underestimated tax is applied;
- If the tax is underestimated in above 5% of the comprehensive annual profit for the year preceding the audited calendar year, a tax penalty of 100% of the underestimated tax is applied.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

Correction of error

The Company determines fair value of loans and borrowings, received at below-market interest rate, through discounting of the balances at market interest rate effective at the date of initial recognition.

Over the past eight years, the Company has carried out modernization of its infrastructure assets, which has mostly been financed by borrowed funds. The borrowing balances were reflected in the Company's financial statements at amortized cost determined by discounting the future cash flows at below-market interest rate (see Note 13). In accordance with IFRS 9 “Financial Instruments”, the Company should have reflected these liabilities at fair value at the date of initial recognition with subsequent measurement at amortized cost determined by discounting the future cash flows at market interest rate.

The error has been corrected by restating each of the affected financial statement line items for the prior periods as follows:

Statement of Financial Position (extract)

	31.12.2018	Increase/ Decrease	31.12.2018 Recalculated	31.12.2017	Increase/ Decrease	01.01.2018
Borrowings, net of short-term part	209,229	(59,192)	150,037	224,132	(66,138)	157,994
Deferred income	743,563	59,192	802,755	705,479	66,138	771,617

Statement of profit and loss and other comprehensive income (extract)

	2018	Income Increase/ Decrease	2018 Recalculated
Finance cost	(9,735)	(7,918)	(17,653)
Other gains/(losses) - net	49,208	7,918	57,126

6. PROPERTY, PLANT AND EQUIPMENT

in thousands of Kyrgyz Som	Land and buildings	Infrastructure assets	Motor vehicles	Other	Construction in progress	Total
Cost or valuation						
As at 1 January 2018	**103,229**	**3,358,228**	**10,351**	**67,393**	**7,973**	**3,547,174**
Additions	22	170,942	2,144	23,536	122,205	**318,849**
Disposals	(22)	(7,380)	(194)	-	(114,337)	**(121,933)**
Impairment	-	(78,585)	-	-	-	**(78,585)**
31 December 2018	**103,229**	**3,443,205**	**12,301**	**90,929**	**15,841**	**3,665,505**
Additions	-	165,552	765	-	535,737	**702,054**
Disposals	-	(6,483)	(291)	-	(184)	**(6,958)**
Transfers from CIP	47	527,817	-	-	(527,864)	-
31 December 2019	**103,276**	**4,130,091**	**12,775**	**90,929**	**23,530**	**4,360,601**
Accumulated depreciation						
As at 1 January 2018	**33,561**	**1,466,172**	**7,903**	**40,531**	-	**1,548,167**
Depreciation charge	1,737	111,218	718	6,576	-	**120,249**
Disposals	-	(6,989)	(194)	-	-	**(7,183)**
31 December 2018	**35,298**	**1,570,401**	**8,427**	**47,107**	**-**	**1,661,233**
Depreciation charge	1,722	119,473	754	6,764	**-**	**128,713**
Disposals	-	(6,238)	(289)	-	-	**(6,527)**
31 December 2019	**37,020**	**1,683,636**	**8,892**	**53,871**	**-**	**1,783,419**
Net book value						
31 December 2018	**67,931**	**1,872,804**	**3,874**	**43,822**	**15,841**	**2,004,272**
31 December 2019	**66,256**	**2,446,455**	**3,883**	**37,058**	**23,530**	**2,577,182**

Government borrowings are secured on the Company's property and equipment with net book value of 202,422 thousand som as at 31 December 2019 (31 December 2018: 175,899 thousand som) (see Note 13).

The fully depreciated property and equipment at cost was 893,339 thousand som as at 31 December 2019 (31 December 2018: 895,670 thousand som).

The net book value of infrastructure assets includes an amount of 463,522 thousand som (2018: nil) relating to the reconstruction of the section "Vostok" of the main heating system, running from CK-B-3a to pump station No. 4 (II start-up complex from CK-B-4 to the new heating complex on "Peremichka-Radiozavod" heating network), which was completed in 2019. In order to finance this project, the Company borrowed funds ($5,600,000) from Russian-Kyrgyz Development Fund (see Note 13).

Depreciation charge is allocated as follows:

In thousands of Kyrgyz Som	**2019**	**2018**
Cost of sales	126,505	118,057
General and administrative expenses	1,345	1,295
Distribution costs	863	897
	128,713	**120,249**

7. INVENTORIES

in thousands of Kyrgyz Som	**2019**	**2018**
Materials and consumables	125,923	156,769
Fuel	4,577	6,790
Spare parts	1,675	2,126
Other	3,394	2,387
Impairment	(3,729)	-
	131,840	**168,072**

Materials and consumables are used for maintenance and repair works of the heating system.

8. TRADE AND OTHER RECEIVABLES

in thousands of Kyrgyz Som	**2019**	**2018**
Trade receivables	418,936	417,011
Less: provision for impairment of trade receivables	(61,012)	(29,716)
Total financial assets excluding cash carried at amortized cost	357,924	387,295
Other receivables	5,939	5,466
	363,863	**392,761**

The carrying value of trade and other receivables classified at amortized cost approximates fair value.

Movements in the impairment allowance for trade receivables are as follows:

in thousands of Kyrgyz Som	**2019**	**2018**
Opening provision for impairment of trade receivables	**29,716**	**8,735**
Increase during the year	31,935	20,981
Receivable written off during the year as uncollectible	(639)	-
At 31 December	**61,012**	**29,716**

The lifetime expected loss provision for trade receivables and contract assets is as follows:

31 December 2019

in thousands of Kyrgyz Som	**0-30 days**	**31-90 days**	**91-180 days**	**181-270 days**	**270-365 days**	**Over a year**	**Total**
Gross carrying amount	**74,886**	**286,033**	**2,897**	**25,926**	**5,239**	**23,955**	**418,936**
Expected loss rate	1%	7%	22%	42%	97%	100%	15%
Loss provision	**(749)**	**(19,787)**	**(647)**	**(10,767)**	**(5,106)**	**(23,955)**	**(61,012)**

31 December 2018

in thousands of Kyrgyz Som	**0-30 days**	**31-90 days**	**91-180 days**	**181-270 days**	**270-365 days**	**Over a year**	**Total**
Gross carrying amount	**72,500**	**301,517**	**1,730**	**19,774**	**3,967**	**17,523**	**417,011**
Expected loss rate	1%	1%	7%	23%	97%	100%	7%
Loss provision	**(725)**	**(3,015)**	**(121)**	**(4,479)**	**(3,853)**	**(17,523)**	**(29,716)**

9. ADVANCES PAID AND OTHER CURRENT ASSETS

in thousands of Kyrgyz Som	**2019**	**2018**
Prepaid expenses	4,651	1,911
Advances for acquisition of inventories	1	11
	4,652	**1,922**

10. TAX ADVANCES

in thousands of Kyrgyz Som	**2019**	**2018**
Profit tax	4,795	989
VAT, accrued from advances	1,439	1,232
Land tax	40	38
Property tax	-	169
	6,274	**2,428**

11. CASH AND CASH EQUIVALENTS

in thousands of Kyrgyz Som	**2019**	**2018**
Cash at bank available on demand	56,551	30,894
Restricted cash	1,700	-
Cash in transit	3,323	4,571
Cash on hand	86	3
	61,660	**35,468**
Less restricted cash	(1,700)	-
Total cash and cash equivalents presented in the statement of CF	**59,960**	**35,468**

An interest at 5% a rate per annum is accrued on current bank accounts.

Restricted cash represents the minimum cash balance held in the savings account as stipulated by the Credit Agreement signed with Russian-Kyrgyz Development Fund.

As at 31 December 2019 and 31 December 2018, the Company concentrated cash in one commercial bank in the amount of 55,567 thousand som or 90%, and 26,365 thousand som or 74%, respectively.

All funds are placed in commercial banks of the Kyrgyz Republic without assigned external credit ratings.

As at 31 December 2019 and 2018, cash and cash equivalents were denominated in the following currencies:

in thousands of Kyrgyz Som	**2019**	**2018**
Kyrgyz som	61,650	32,657
Russian ruble	10	30
U.S. dollar	-	2,763
Euro	-	18
	61,660	**35,468**

12. SHARE CAPITAL AND RESERVES

As at 31 December 2019 and 2018, the share capital of the Company was 366,842 thousand som and 366,842 thousand som respectively. The number of shares was 965,237,234 with a nominal value of 0.38 som. As at 31 December 2019 and 2018, the Company's shares were distributed among the shareholders as follows:

in thousands of Kyrgyz Som	**Number of shares**	**Share %**
"National Energy Holding Company" OJSC	776,873,392	80%
Social Fund of the Kyrgyz Republic	127,040,460	13%
Other (legal entities)	18,754,020	2%
Other (individuals)	42,569,362	4%
	965,237,234	**100%**

The Company established a reserve capital at 10% of the share capital for covering future losses.

13. BORROWINGS

As at 31 December 2019 and 2018, loans included the following:

in thousands of Kyrgyz Som	2019	2018
Borrowings (denominated in US dollars)	**516,825**	**168,220**
Less: short-term part	(41,077)	(18,183)
Borrowings, net of short-term part	**475,748**	**150,037**

The borrowings were provided by the Government of the Kyrgyz Republic represented by the Ministry of Finance and the Russian-Kyrgyz Development Fund. The Government of the Kyrgyz Republic received funds provided to the Company from international financial organizations, the International Development Association and the European Bank for Development and Reconstruction.

in thousands of Kyrgyz Som

Lender	Currency	Interest rate under the agreement	Maturity	2019	2018
Russian-Kyrgyz Development Fund (RKFR)	US dollar	4.0-5.0%	2027	359,260	-
International Development Association (IDA)	US dollar	2.5%	2031	157,565	168,220
European Bank for Development and Reconstruction (EBRD)	US dollar	LIBOR+1% – used bal. 0.5% - unused bal.	2032	-	-
				516,825	**168,220**

Since the borrowings were provided to the Company at below-market interest rates, the amortized cost of the borrowings was determined by discounting future cash flows at market interest rates effective at the date of initial recognition of borrowings, 8.34% for borrowing from IDA and 6.57% for borrowing from the RKDF. Accordingly, the finance costs of borrowings for the year ended 31 December 2019 (accrued using the effective interest method) were 17,024 thousand som. The difference between the carrying value of borrowings and their fair value at 31 December 2019 and 2018 was recognized as deferred income (see Note 14).

The table below details the changes in liabilities resulting from financing activities, including both changes arising from cash flows and non-cash changes. Liabilities arising from financing activities are those liabilities from which cash flows have been or future cash flows will be classified in the statement of cash flows as cash flows from financing activities.

in thousands of Kyrgyz Som	2019	2018
At the beginning of year	**168,220**	**175,925**
Cash flows		
Proceeds from long-term borrowings	391,038	-
Repayment of short-term borrowings	(18,192)	(18,000)
	372,846	**(18,000)**
Non-cash flows		
Recognition of discount on borrowings	(35,386)	-
Amortization of discount	12,521	8,030
The effect of foreign currency revaluation	(1,376)	2,265
	(24,241)	**10,295**
At the end of year	**516,825**	**168,220**

14. DEFERRED INCOME

in thousands of Kyrgyz Som	2019	2018
Deferred income on infrastructure assets received*	**862,545**	**743,563**
Deferred income on government borrowings **	81,755	59,192
	944,300	**802,755**

(*) Based on the KR Government decision the Company has received infrastructure assets constructed to connect new buildings to the heating system.

(**) the difference between the carrying amount of government borrowings and their fair value.

The movement of deferred income is presented as follows:

in thousands of Kyrgyz Som	2019	2018
At the beginning of year	**802,755**	**705,479**
Additions	215,091	155,186
Income recognized during the year	(73,546)	(57,910)
At 31 December	**944,300**	**802,755**

15. TRADE AND OTHER PAYABLES

in thousands of Kyrgyz Som	2019	2018
Trade payables for thermal energy purchased	236,403	219,458
Other payables for PPE and capital construction purchased	67,501	28,078
Other payables for goods and materials purchased	3,910	27,265
Other payables for other services purchased	2,924	2,210
Other payables for repair works purchased	314	6,653
	311,052	**283,664**

The carrying value of trade and other payables classified as financial liabilities measured at amortized cost approximates fair value.

The average credit period for accounts payable generally does not exceed 1-3 months. No interest is accrued on trade payables. Trade payables mainly include the balance of goods and services purchased and operating expenses. As at 31 December 2019 and 2018, trade and other payables are denominated in Kyrgyz som.

As at 31 December 2019 and 31 December 2018, the Company had one creditor with the debt of 227,211 thousand som and 214,702 thousand som, respectively, or 73% and 76%.

16. ADVANCES FROM CUSTOMERS

in thousands of Kyrgyz Som	2019	2018
Advances of buyers for heat and hot water supply	25,948	24,574
Advances of customers for other services	18,187	3,848
	44,135	**28,422**

17. TAXES PAYABLE

in thousands of Kyrgyz Som	2019	2018
VAT payable	4,399	3,891
Payroll taxes payable	3,991	210
	8,390	**4,101**

18. OTHER CURRENT LIABILITIES

in thousands of Kyrgyz Som	2019	2018
Accrued payroll	44,152	39,889
Reserves	18,793	20,900
Accrued payroll taxes	13,577	13,474
Dividends payable	6,495	6,515
Other	5,945	9,958
	88,962	**90,736**

19. REVENUE

in thousands of Kyrgyz Som	2019	2018
Revenue from sale of heat and hot water	1,826,434	1,955,178
Revenue from services rendered	107,181	103,868
	1,933,615	**2,059,046**

The Company generated all its revenue within the territory of the Kyrgyz Republic (Bishkek city).

20. COST OF SALE

in thousands of Kyrgyz Som	2019	2018
Cost of thermal energy purchased	1,056,600	1,113,678
Payroll	223,177	214,767
Depreciation of property and equipment	126,343	117,889
Cost of services rendered	99,510	100,202
Unrecoverable VAT	99,404	114,194
Repairs and maintenance	73,737	94,969
Utilities	49,931	51,610
Payroll taxes	31,937	30,355
Fuel and lubrication materials	7,432	9,525
Accident repairs	2,060	5,468
Other	28,321	29,421
	1,798,452	**1,882,078**

21. GENERAL AND ADMINISTRATIVE EXPENSES

in thousands of Kyrgyz Som	2019	2018
Payroll	72,413	70,562
Payroll taxes	10,140	9,552
Depreciation of property and equipment	1,284	1,253
Materials and consumables	1,200	1,456
Other taxes	999	1,017
Fuel	661	666
Amortization of intangible assets	492	317
Other	23,968	27,837
	111,157	**112,660**

22. DISTRIBUTION COSTS

in thousands of Kyrgyz Som	31.12.2019	31.12.2018
Payroll	66,253	64,258
Impairment loss	31,935	20,981
Payroll taxes	9,443	8,995
Materials and consumables	2,108	1,455
Depreciation of property and equipment	863	897
Utilities	237	218
Amortization of intangible assets	199	339
Services	165	178
Other	16,134	15,863
	127,337	**113,184**

23. OTHER INCOME

in thousands of Kyrgyz Som	**31.12.2019**	**31.12.2018**
Income from penalties	27,157	15,164
Income from technical connections	41,525	19,141
Income from disposal of inventories	3,230	2,290
Lease income	575	533
Other	-	42
	72,487	**37,170**

24. OTHER GAINS/(LOSSES) - NET

in thousands of Kyrgyz Som	**31.12.2019**	**31.12.2018**
Deferred income released on infrastructure assets received	42,054	36,934
Deferred income released on discounting of gov. borrowings	12,535	7,918
Income from disposal of assets	2,979	10,689
Grant income	10,442	8,519
Grant expenses	(10,451)	(8,519)
Impairment of non-financial assets	(3,729)	-
Other income	1,070	1,585
	54,900	**57,126**

25. INCOME TAX EXPENSES

The Company accrues income tax for the current period in accordance with the requirements of the Kyrgyz Republic tax legislation, which may differ from IFRS. For the years ended 31 December 2019 and 2018, the corporate income tax rate was 10%.

As some expenses are not deductible for tax purposes and also due to their non-taxable nature, the Company has certain permanent tax differences.

Deferred tax reflects the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount determined for tax purposes. The temporary differences as at 31 December 2019 and 2018 mainly resulted from different accounting methods for tax financial reporting purposes.

in thousands of Kyrgyz Som	**2019**	**2018**
Current income tax expense	-	-
Deferred income tax expense	6,038	12,587
Income tax expense recognized in the statement of comprehensive income	**6,038**	**12,587**

Reconciliation of tax expense and the accounting profit multiplied by Kyrgyz Republic domestic tax rate for 2019 and 2018 is as follows:

in thousands of Kyrgyz Som	**2019**	**2018**
IFRS profit before tax	**10,996**	**27,500**
Tax at statutory income tax rate of 10% (2018: 10%)	1,100	2,750
Tax effect of permanent differences	4,938	9,837
Profit tax expense	**6,038**	**12,587**
Current income tax	-	-
Deferred income tax	6,038	12,587
Income tax expense	**6,038**	**12,587**

The following shows the tax effect on the main temporary differences that give rise to deferred income tax assets and liabilities as at 31 December 2019 and 2018:

in thousands of Kyrgyz Som	2019	2018	Recognized in profit or loss
Deferred tax assets arising from:			
Reserve for unused vacation leaves	(18,793)	(17,501)	(1,292)
Provisions for impairment of receivables	(61,012)	(29,716)	(31,296)
Provisions for impairment of advances	(389)	(389)	-
Provisions for impairment of inventories	(3,729)	-	(3,729)
Tax losses	(32,431)	(13,608)	(18,823)
Deferred tax liabilities arising from:			
Accelerated depreciation for tax purposes	967,182	851,662	115,520
Deferred tax liabilities, net	**850,828**	**790,448**	**60,380**
Deferred income tax (10%)	**85,083**	**79,045**	**6,038**

26. EARNINGS PER SHARE

	2019	2018
Net profit (in thousand som)	4,958	14,913
Weighted average number of ordinary shares outstanding (pcs.)	965,237,234	965,237,234
Basic earnings/loss per share (in som per share)	**0,0051**	**0,0155**

27. TRANSACTIONS WITH RELATED PARTIES

Related parties are represented by the key management personnel of the Company, the companies in which the Company's key management personnel directly or indirectly owns a significant voting power, as well as the entities controlled by the Government of the Kyrgyz Republic. Transactions with related parties were carried out on terms agreed between the parties, which were not necessarily carried out at market rates, except for regulated services, offered to both related and third parties at state regulated rates.

The following table shows the total amount of transactions with related parties for 2019 and 2018, as well as the balances on accounts with related parties as at 31 December 2019 and 2018:

in thousands of Kyrgyz Som	2019	2018
Purchases of thermal energy from Electric Stations OJSC (part of CoS)	**960,246**	1,011,339
Accounts payable to Electric Stations OJSC	**227,211**	214,702
Purchases of thermal energy from Bishkekteploenergo OJSC (part of CoS)	**96,354**	102,339
Accounts payable to Bishkekteploenergo OJSC	**9,192**	4,756
Borrowings from MFKR and KRDF	**516,825**	168,220
Finance costs on borrowings	**(17,294)**	(17,653)

Compensation to key management personnel

The key management personnel of the Company comprise of members of the Company's management, which were four persons as at 31 December 2019 and 2018, and compensation to the key management personnel for the years ended 31 December 2019 and 2018 amounted to 6,580 thousand som and 6,332 thousand som, respectively. In 2019 and 2018, there were no payments to key management personnel related to long-term employee benefit liabilities.

28. FINANCIAL INSTRUMENTS - RISK MANAGEMENT

The Company's principal financial liabilities comprise borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations and construction of fixed assets. The Company' financial assets comprise trade receivables, cash and cash equivalents, debt securities that arise directly from its operating activities.

The Company is exposed to foreign currency risk, credit risk and liquidity risk.

The Company's senior management oversee the management of these risks. It takes the necessary measures to ensure that financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Company's policies and risk objectives.

FINANCIAL ASSETS

in thousands of Kyrgyz Som	31.12.2019	31.12.2018
Financial assets at amortized cost:		
Trade receivables (Note 8)	357,924	387,295
Debt securities	15,000	15,000
Other financial assets	4,661	3,417
Cash and cash equivalents (Note 11)	61,660	35,468
	439,245	**441,180**

FINANCIAL LIABILITIES

in thousands of Kyrgyz Som	31.12.2019	31.12.2018
Financial liabilities at amortized cost:		
Borrowings (Note 13)	516,825	168,220
Trade and other payables (Note 15)	311,052	283,664
	827,877	**451,884**

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency). The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar exchange rates, with all other variables held constant. The Company's exposure to foreign currency risk for all other currencies is insignificant.

31 December 2019

in thousands of Kyrgyz Som	Kyrgyz som	US dollar	Total
Current assets			
Trade receivables	357,924	-	357,924
Debt securities	15,000	-	15,000
Other financial assets	4,661	-	4,661
Cash and cash equivalents	61,650	10	61,660
	439,235	**10**	**439,245**
Liabilities			
Borrowings	-	(516,825)	(516,825)
Trade and other payables	(311,052)	-	(311,052)
	(311,052)	(516,825)	(827,877)
Net position	**128,183**	**(516,815)**	**(388,632)**

31 December 2018

in thousands of Kyrgyz Som	Kyrgyz som	US dollar	Total
Current assets			
Trade receivables	387,295	-	387,295
Debt securities	15,000	-	15,000
Other financial assets	3,417	-	3,417
Cash and cash equivalents	32,671	2,797	35,468
	438,383	**2,797**	**441,180**
Liabilities			
Borrowings	-	(168,220)	(168,220)
Trade and other payables	(283,664)	-	(283,664)
	(283,664)	(168,220)	(451,884)
Net position	**154,719**	**(165,423)**	**(10,704)**

Sensitivity analysis

In case of a 10% depreciation of the Kyrgyz som against the mentioned foreign currencies, the Company's capital as at 31 December 2019 would have decreased by 23,257 thousand som (2018: 7,444 thousand som). This analysis assumes that all other variables, in particular interest rates, would remain unchanged.

In case of a 10% appreciation of the Kyrgyz som against the mentioned foreign currencies, the Company's capital as at 31 December 2019 would have increased by 23,257 thousand som (2018: 7,444 thousand som), assuming that all other variables would remain unchanged.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks.

With regard to credit risk associated with other financial assets of the Company, which include cash in banks, trade and other receivables, the credit risk of the Company is associated with the possibility of default of the counterparty, while the maximum risk is equal to the carrying amount of these instruments.

The Company holds cash and cash equivalents in Optima Bank OJSC, Kyrgyz Investment Commercial Bank OJSC. The mentioned banks were not assigned credit ratings.

Trade receivables are mainly represented by receivables from consumers (business customers and households) of hot water and heat. The Company does not have a significant concentration of credit risk for one counterparty.

The above book value of cash in banks, receivables, debt securities and other financial assets reflects the maximum credit risk of the Company for these financial instruments.

Liquidity risk

Liquidity risk arises from the Company's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due.

The Company's management has created the necessary liquidity risk management system in accordance with the requirements of liquidity management and short-term, medium-term and long-term financing. The Company manages liquidity risk by maintaining adequate reserves, loans and available credit lines, by constantly monitoring the forecasted and actual movement of money and comparing the maturities of financial assets and liabilities.

The table below summarizes the maturity dates of the financial liabilities of the Company as at 31 December 2018 based on contractual undiscounted payments:

31 December 2019 *in thousands of Kyrgyz Som*	**1-3 m**	**3 m - 1 yr**	**1-2 yrs**	**2-5 yrs**	**Over 5 yrs**
Borrowings	5,319	58,977	92,629	261,597	287,742
Trade and other payables	311,052	-	-	-	-
	316,371	**58,977**	**92,629**	**261,597**	**287,742**

31 December 2018 *in thousands of Kyrgyz Som*	**1-3 m**	**3 m - 1 yr**	**1-2 yrs**	**2-5 yrs**	**Over 5 yrs**
Borrowings	1,382	22,269	25,342	68,931	154,770
Trade and other payables	283,664	-	-	-	-
	285,046	**22,269**	**25,342**	**68,931**	**154,770**

Capital management

The primary objective of the Company's capital management is to ensure that it will be able to keep abiding going concern principle along with maximizing the shareholders' value by the leverage optimization.

The company manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2019.

Fair value hierarchy

In accordance with IFRS, fair value is defined as the value at which a financial instrument can be acquired in a transaction between knowledgeable parties, willing to complete such a transaction and independent from each other, except for cases of forced or liquidation sale.

The following methods and assumptions were used to determine fair value:

- The carrying amounts of cash and cash equivalents, trade receivables, trade and other payables approximate their fair value due to the short-term nature of these financial instruments.
- The fair value of unquoted borrowings, provided by the Government of the Kyrgyz Republic, represented by the Ministry of Finance and Kyrgyz-Russian Development Fund, is estimated by discounting future cash flows at interest rates available for debts with similar terms, credit risk and remaining maturities.

The company uses the following hierarchy for determining and disclosing the fair value of financial instruments and by valuation methods:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other methods for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: methods that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Fair value of financial instruments

As at 31 December 2019 and 2018, there were no financial instruments classified as financial instruments of level 1 or 2.

For the years ended 31 December 2019 and 2018, there were no transfers of financial instruments fair value between levels 1, 2 and 3.

As at 31 December 2019 and 2018, the management assessed that the fair value of financial instruments, such as trade receivables and payables, other financial assets, cash and cash equivalents approximates their carrying amount, largely due to short-term maturities of these instruments.

Borrowings are carried at amortized cost, which approximates their fair value.

29. CONTINGENT LIABILITIES

Operating environment

The Kyrgyz Republic continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the country's economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary policy measures undertaken by the Government.

Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

Taxation

Various types of laws and regulations in the Kyrgyz Republic are not always clearly stated and their interpretation is subject to opinions of the local tax inspectors. Instances of inconsistent opinions between laws and regulations are not unusual, including opinions on interpretations with regard to revenue, expenses and other financial statement areas. In this regard, the position of the management regarding taxes may be disputed by tax authorities. Government control over taxation in the Kyrgyz Republic is growing. Tax audits may cover three calendar years preceding the year in which the decision to conduct the audit is made. In certain circumstances, earlier periods may also be reviewed.

These circumstances may indicate that tax risks in the Kyrgyz Republic can be much higher than in other countries. The Company believes that it has paid or accrued all taxes that are applicable. Because of uncertainties associated with Kyrgyz Republic's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount paid to date and accrued at 31 December 2019.

The resulting effect of this matter is that additional tax liabilities may arise. However, due to the range of uncertainties described above in assessing any potential additional tax liabilities, it is not practicable for the management to estimate financial impact in terms of the amount of additional tax liabilities, if any, together with any associated penalties and charges for which the Company may be held liable.

Environmental matters

As the environment regulation of the Kyrgyz Republic on payments for environmental pollution and remedial actions is evolving, the Company may incur losses in the future, financial effect of which is impossible to reasonably estimate due to impact of such factors as ambiguity in determination of parties responsible for these losses and Government's assessment of the involved parties' opportunities to compensate the losses on environment recovery. From the management's viewpoint, such losses will unlikely have material effect on the Company's financial position, and, consequently, will not result in a need to make additional provision for probable claims or penalties of state conservation authorities in the financial statements.

Antimonopoly laws

The Company's operations are subject to antitrust laws control. It is possible, that with the evolution of the interpretation of antitrust laws in the Kyrgyz Republic and changes in the approach of the Antimonopoly Agency such transactions may be challenged in the future. Currently, the impact of such matters on the financial statements cannot be reliably estimated, and, therefore, no provision for any liability has been made in these financial statements.

Insurance

The insurance industry in the Kyrgyz Republic is in the process of development, and many forms of insurance coverage common in developed countries are not yet available in the Kyrgyz Republic.

The Company has obtained insurance policies restricting insurance coverage to certain types of risks relating to its assets, operations, civil liability, or other insured risks. Thus, the Company is exposed to the risks for which there is no insurance coverage.

Management understands that as long as the Company does not have adequate insurance coverage, there is a risk that loss of particular assets may have a material adverse effect on the Company's operations and its financial position.

Legal proceedings

In the normal course of its operating activity, the Company may be the subject of legal proceedings and adjudications. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Company.

30. FAIR VALUE MEASUREMENT DISCLOSURES

The following table sets out the assets and liabilities, for which fair values are disclosed in the notes.

Item	Fair value thous. som	Valuation technique	Fair value hierarchy level	Significant unobservable inputs
Borrowings	516,825	*Current and non-current* The carrying amount of borrowings approximates their fair value.	Level 3	N/A
Trade receivables	357,924	*Current* The carrying amount of short term (less than 12 months) trade receivables approximates their fair value.	Level 3	N/A
Trade and other payables	311,052	*Current* The carrying amount of short term (less than 12 months) trade payables approximates their fair value.	Level 3	N/A

31. EVENTS AFTER REPORTING DATE

The 2019 Novel Coronavirus infection (‘coronavirus’) or ‘COVID-19’ outbreak posed a serious public health threat in 2020. It has interrupted the movement of people and goods throughout the world, and many levels of government are instituting restrictions on individuals and businesses. The resulting impact on financial reporting may be significant.

The management of “Bishkekteploset” OJSC estimated the possible impact of the pandemic on the future cash flows of the Company through a financial analysis of the sensitivity in relation to possible reduction in revenue in 2020. Due to the fact that the Company is a natural monopolist on Bishkek’s thermal energy market (a significant drop in demand for heat and hot water is not expected), and also taking into account the social elements present in the Company’s activities (in the event of a decline in the creditworthiness of Bishkek population, provision of funding by the Government is quite likely), management believes that it can either secure the necessary funding to pay off the Company’s obligations, or defer payment of particular obligations under the Government’s guarantees.