

The Republic of Uzbekistan

JSC Thermal Power Plant

**The Republic of Uzbekistan
Data Collection Survey
for Introduction of International Financial
Reporting Standards (IFRS) in Power Sector**

Final Report

February 2023

**Japan International
Cooperation Agency
(JICA)**

KPMG AZSA LLC

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JR
23-005

Thermal Power Plant and Navoi Thermal Power Plant

Recommendations to improve the implementation system, including document management and developing the personnel necessary for IFRS financial statement preparation

February 2023



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Abbreviations

Abbreviation	Meaning
AP	Accounting Policy
FAR	Financial accounting and reporting (the same as NAS)
FS	Financial Statements (Финансовая отчетность)
Group	Group of companies JSC “TPP”
IFRS	International Financial Reporting Standards
NAS	National Accounting Standards
NTPP	JSC «Navoi Thermal Power Plant»
PPE	Property, Plant and Equipment
1C System	Automated accounting and reporting system under IFRS based on 1C System. Specialized configurations of automated accounting and reporting system based on 1C System.
Tax	Tax accounting
Tax (ex. NAS)	Tax accounting (based on previous National Accounting Standards rules)
TPP	JSC «Thermal Power Plant»

Chapter 1

Overview of the Survey



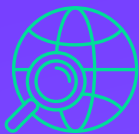
Chapter 1

Overview of the Survey

1.1. Background and purpose of the Survey



Survey background



The survey

Initially the aim of the survey is to identify issues facing NTPP in the preparation of IFRS financial statements and to propose initiatives to strengthen NTPP's ability to prepare IFRS financial statements

independently. During the project the object of the survey was changed to joint-stock company «Thermal Power Plant» for the reasons described on slide 10. The survey includes findings and initiatives related both to TPP and NTPP.



Energy sector in Uzbekistan

The Republic of Uzbekistan is being promoted by the *Action Strategy 2017–2021 in Five Priority Areas* (February 2017) initiative from the President. This supports economic reforms and policies in the country, including improving the business environment for foreign companies, attracting investment, and reducing tariffs.

In 2019 a comprehensive reorganisation centred on dismantling JSC «Uzbekenergo» was carried out under the supervision of the newly established Ministry of Energy. The implementing bodies were the Thermal Power Holding Corporation, the Hydroelectric Power Holding Corporation, the Transmission Holding Corporation, the Distribution Holding Corporation, and the Nuclear Power Research Institute. To run the electricity business, the power plant corporation, the transmission business corporation, and the distribution business corporation were established as management-independent entities. These will be independent and report financially under International Financial Reporting Standards (IFRS).

Since January 1, 2021, joint-stock companies, commercial banks, insurance organisations and legal entities classified as major taxpayers will organise accounting and, starting from the 2021, must to prepare IFRS financial statements.

Under these circumstances, especially in the power generation sector, there is a large delay in IFRS financial reporting compared to the transmission and distribution sectors. Hence it is essential to assess the current status of financial reports, identify bottlenecks, and assess future cooperation policies

On the basis of JSC «Uzbekenergo», the **joint-stock company «Thermal Power Plant» (TPP)** was established, assigned to manage the thermal power plants and power centres of the country that generate electric and thermal energy.

JSC «TPP» consists of 6 thermal power plants, 3 thermal power centres, and 3 service enterprises and other companies.

As part of Official Development Assistance (ODA), JICA has been developing ODA loan projects and technical cooperation for the **joint-stock company «Navoi Thermal Power Plant» (NTPP)**, a subsidiary of TPP. Both NTPP and TPP face challenges that need to be addressed in order to build a capacity to prepare IFRS financial statements independently. In December 2022 NTPP became a branch of TPP.



Japan International Cooperation Agency (JICA)

The Japan International Cooperation Agency is a governmental agency that delivers the bulk of Official Development Assistance (ODA) for the government of Japan.

JICA aims to contribute to promoting international cooperation as well as the robust development of the Japanese and global economies by supporting the socioeconomic development, recovery, and economic stability of developing regions.

JICA is considering a "development policy support programme" that aims to promote socio-economic recovery and stability and development efforts, by providing financial support to the country.

General information

JSC TPP supplies electric and heat power in order to meet the needs of the economic sector and the population of the Republic of Uzbekistan. On the basis of JSC TPP the Group JSC Thermal Power Plants was set up.

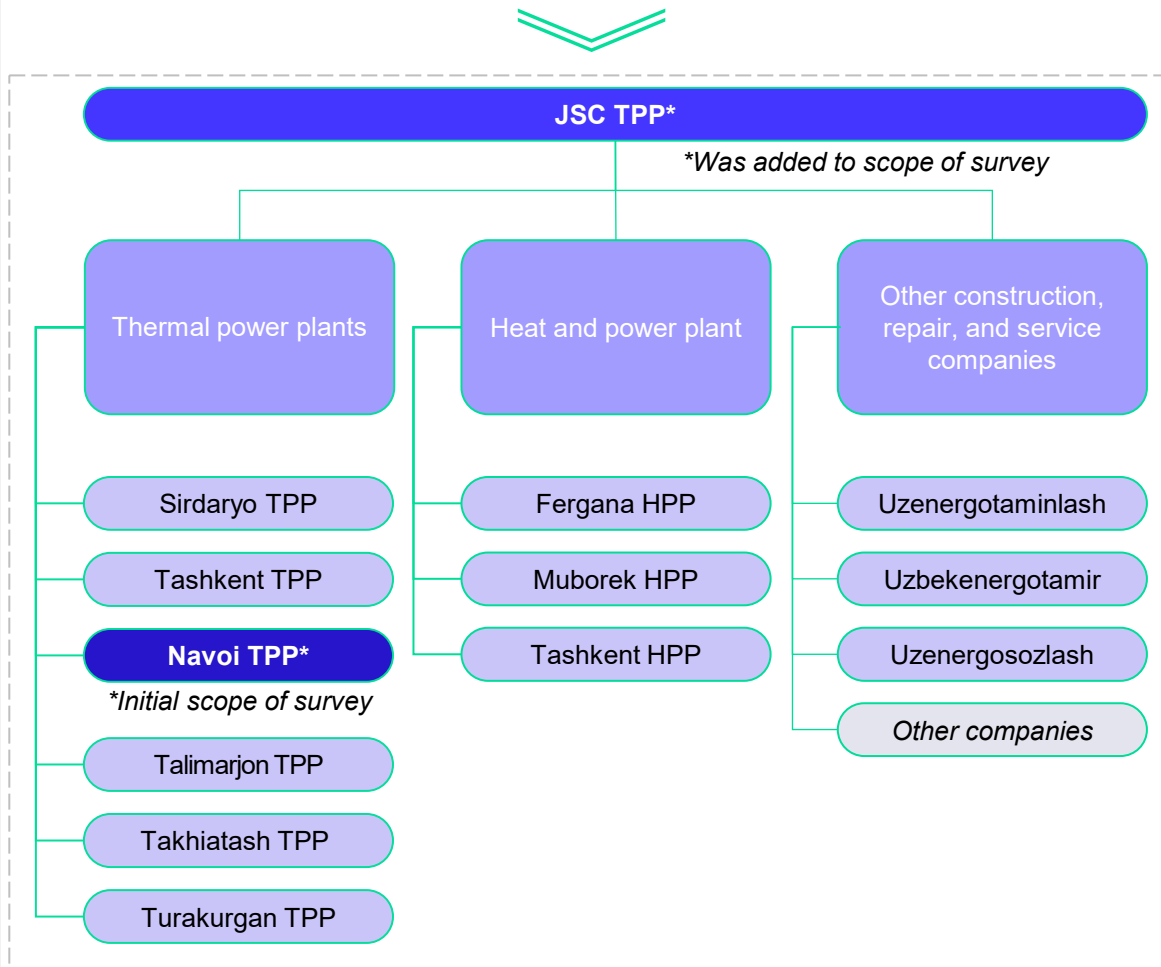
JSC TPP is a state joint-stock company that was registered on 19 April 2019. The Uzbek Government through the Ministry of Finance is the sole shareholder of the Company.

JSC Navoi TPP is one of the Group's largest thermal power stations, both in terms of capacity and number of employees (in December 2022 NTPP became a branch of TPP).

Currently the Group is seeking to optimise accounting functions, including:

- the independent preparation of IFRS financial statements
- improving the competences of staff responsible for preparing IFRS financial statements
- improving the quality of financial statements
- the automation of financial reporting

Group Structure



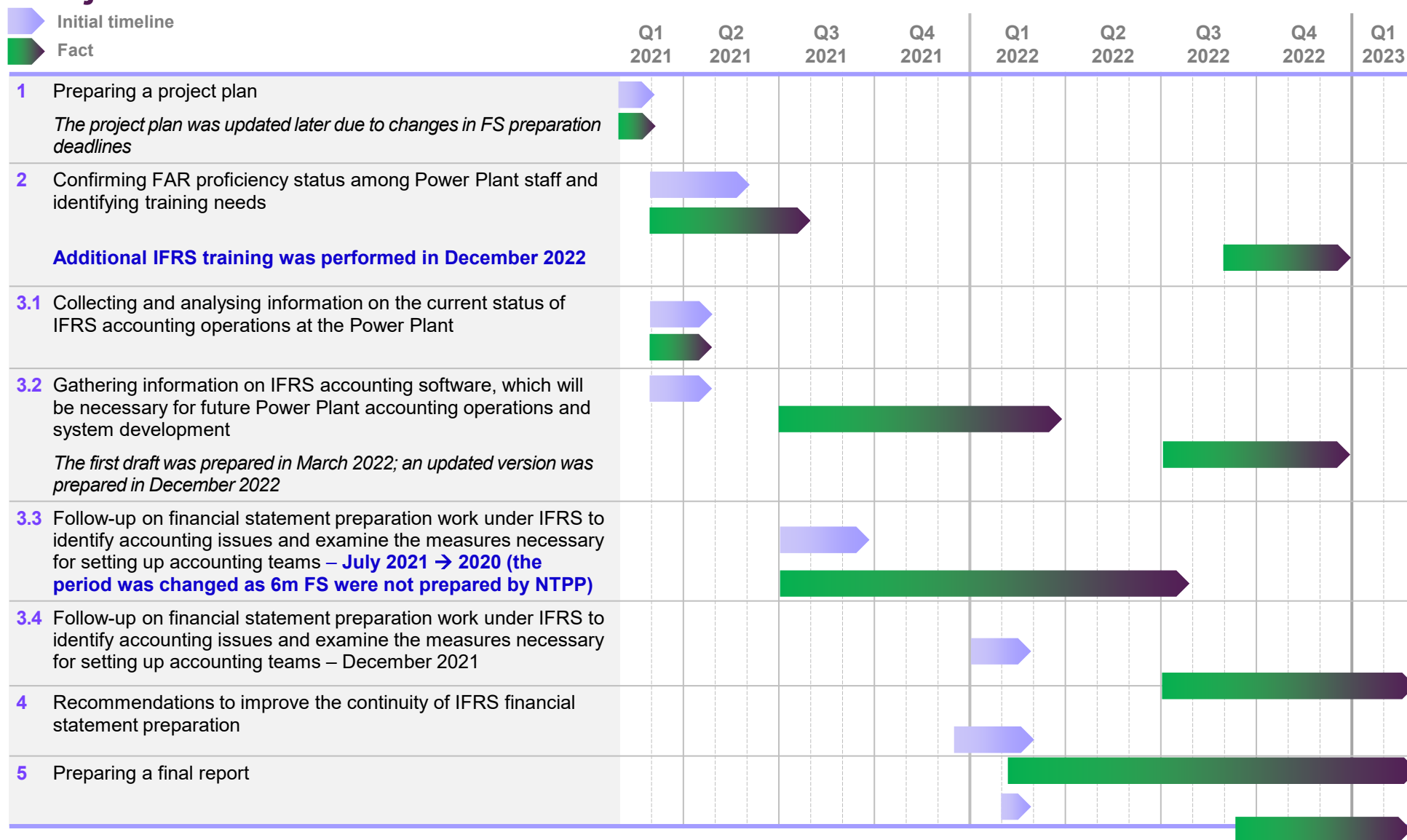
Chapter 1

Overview of the Survey

1.2. Survey objectives

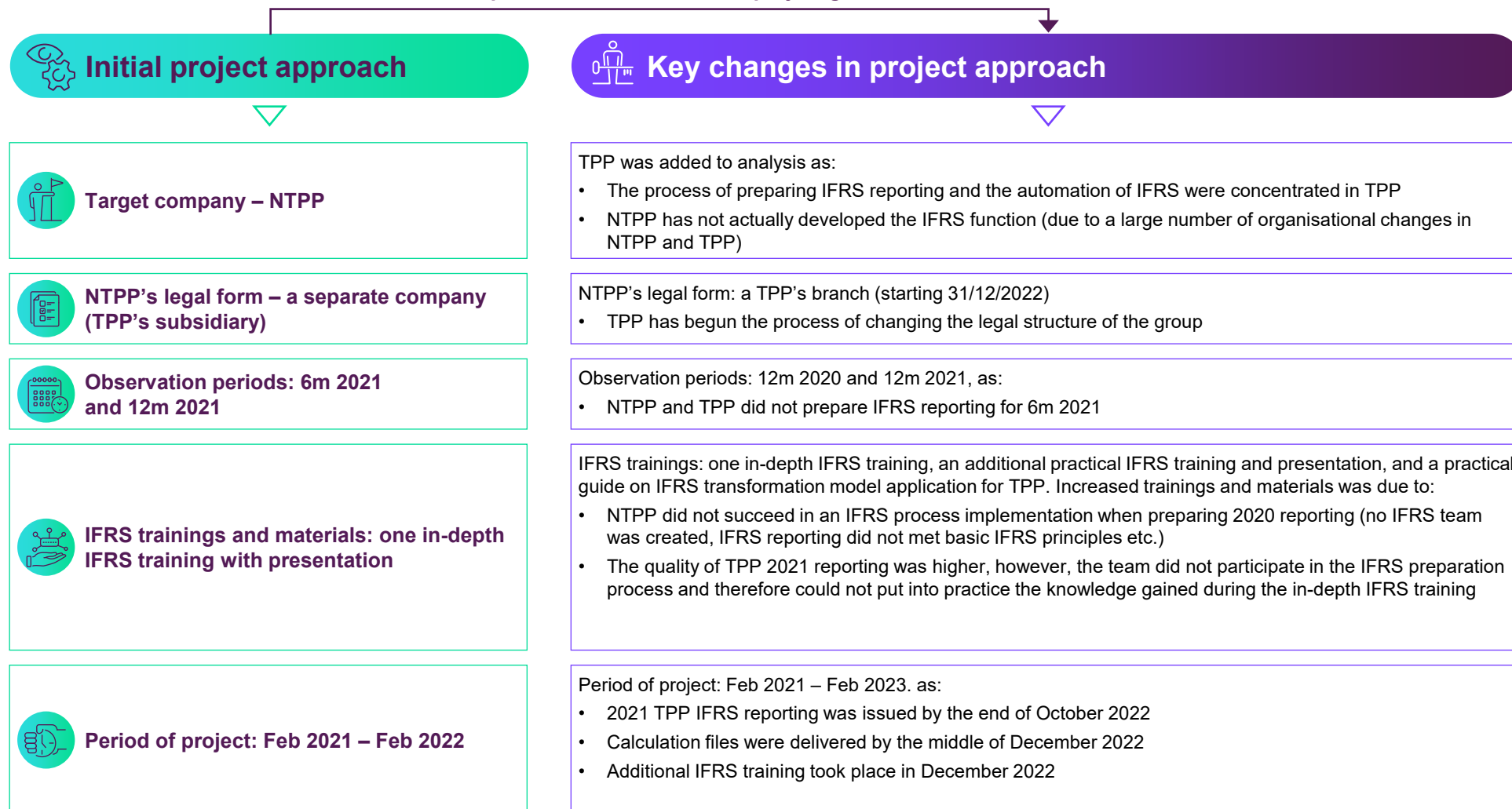


Project timeline



Amendments in project approach

Some amendments to the project approach were required in order to meet the project goals



Chapter 1

Overview of the Survey

1.3. Overall picture of the survey



Key observations

Observations

Organisation of the process

- Individual IFRS financial statements of Navoi Thermal Power Plant were prepared in a **simplified format** and do not comply with the Group's IFRS Accounting Policy
- The individual financial statements of the Navoi Thermal Power Plant and the consolidated financial statements of Thermal Power Plant Group were **prepared by external consultants** (both for the 2020 and 2021 reporting years)
- current TPP processes are **based on the goal of supporting the process of preparing and auditing** IFRS financial statements performed by external consultants; the processes should be transformed to achieve the goal of independently preparing IFRS financial statements
- The Company **has insufficiently regulated processes; responsibilities and deadlines** for tasks are not fixed
- There are **no controls in place to check the correctness and completeness of IFRS** reporting.

Methodology

- NTPP **does not have an IFRS accounting policy**.
- NTPP **does not have a system of controls** to check the correctness and completeness of IFRS accounting and reporting
- **Methodological solutions** required to achieve the goal of automating accounting processes and preparation of IFRS financial statements **have not been adopted** (IFRS chart of accounts, accounting approaches to parallel accounting of particular assets and liabilities)

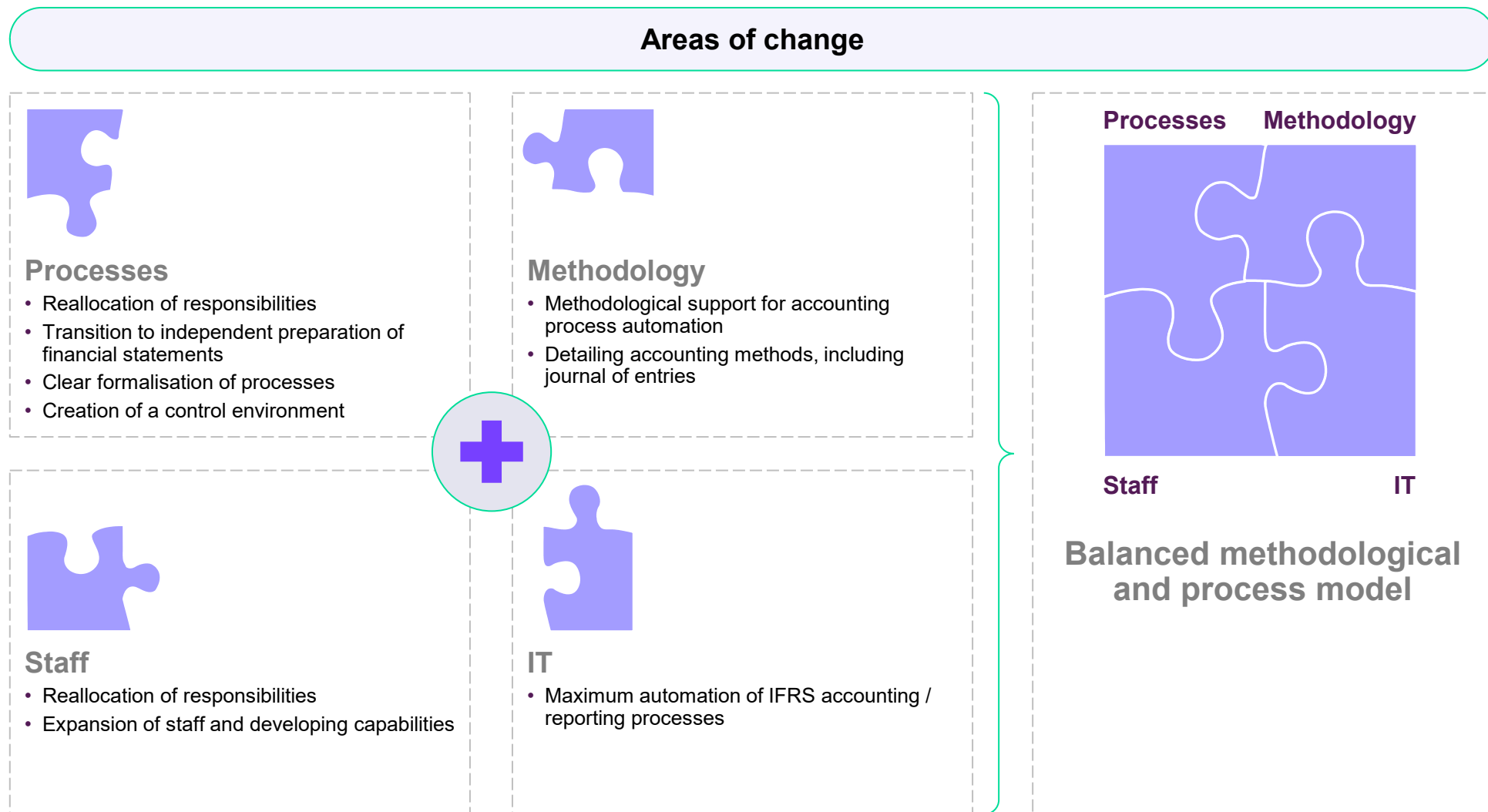
Staffing

- During the survey period, there was a **significant shortage of personnel able to prepare IFRS financial statements** at Group companies. Thus, none of the Group's companies, with the exception of JSC TPP (including JSC NTPP), has an IFRS department
- NTPP has no IFRS department or any other team that can perform at least some reporting tasks
- The IFRS department of JSC TPP currently performs the goals of supporting the process of preparing and auditing IFRS financial statements performed by external consultants; for the purposes of an independent preparation of financial statements and the performance of other IFRS department functions, **a rise in the number and development of the capabilities of employees is required**
- The current capacity of the IFRS department is insufficient to ensure a continuous increase of their involvement in the reporting process

IT

- To date, IFRS financial statements are being prepared through the transformation of data using Excel. The company does **not have an automated accounting system** that makes it possible to maintain IFRS accounting and prepare financial statements.
- TPP is in process of IFRS automation. A unified IT solution shall be used among all TPP companies (deadlines are shifting)
- Automating IFRS accounting is an important task from the point of view of building an independent function of preparing IFRS reporting, while this project requires the allocation of additional resources for its project management and quality control

Proposed changes



List of identified challenges

N o.	Name	Description of the issue	Impact of the issue on			
			Organisation of the process	Staff	Methodology	IT
Navoi TPP						
1	Lack of staff required to prepare IFRS financial statements	There is a lack of staff to prepare individual IFRS financial statements. NTPP has no IFRS department or any other team that can perform at least some reporting tasks. NTPP now (since NTPP became a branch in Dec 2023) has no official obligation (regulated by Uzbek law) to prepare IFRS statements (however, reporting may still be required for internal purposes)		●		
2	Insufficient process regulation	There are no regulations for IFRS reporting processes, and responsibilities and deadlines for tasks are not fixed. There is no system of controls in place to check the correctness and completeness of IFRS accounting and reporting	●			
3	IFRS financial statements are prepared by external consultants	Individual IFRS financial statements are not prepared independently; external consultants are engaged	●			
4	Individual IFRS financial statements prepared by NTPP do not comply with the accounting approaches of the Group TPP	Individual IFRS financial statements are prepared in a simplified format, and do not correspond to the accounting approaches of the Group TPP. Recommendations provided during the current project on IFRS financial statements for 2020 were not used in IFRS financial statements for 2021			●	
5	Lack of IFRS accounting policy	Navoi Thermal Power Plant does not have an IFRS accounting policy, and the IFRS accounting policy prepared for JSC TPP does not apply to the preparation of IFRS financial statements for NTPP.			●	

List of identified challenges

N o.	Name	Description of the issue	Impact of the issue on			
			Organisation of the process	Staff	Methodology	IT
TPP						
1	Lack of staff required to prepare IFRS financial statements	Lack of staff for the independent preparation of consolidated IFRS financial statements. TPP has formally created an IFRS department and issued IFRS statements. At the same time, we believe the Company will not be able to independently generate reports for the subsequent periods independently, as in fact, the number of TPP tasks was limited, and the process was carried out by external contractors. TPP's involvement must be continuously increased. The current capacity of the IFRS department is insufficient to ensure a continuous increase of their involvement in the reporting process.		●		
2	Control over the preparation of IFRS financial statements is reduced	Control over the process of preparing financial statements on the part of TPP is insufficient. Not all settlement files used in preparing consolidated IFRS financial statements were received from external consultants. Calculations for the figures in IFRS financial statements were not received in the files from external consultant in full.	●			
3	Insufficient process regulation	There are no regulations for IFRS reporting processes; responsibilities and deadlines for tasks are not fixed.	●			
4	IFRS financial statements are prepared by external consultants	Individual IFRS financial statements are not prepared independently; external consultants are engaged	●			
5	The need to automate the reporting process	Automating IFRS accounting is an important task from the point of view of building an independent function able to prepare IFRS reporting, while this project requires the allocation of additional resources for its project management and quality control				●
6	Improving the IFRS accounting policy	The TPP IFRS accounting policy is insufficient for the purposes of using it as an instruction for accounting staff or for use in the process of implementing the automation of IFRS accounting			●	●

List of identified challenges

N o.	Name	Description of the issue	Impact of the issue on			
			Organisation of the process	Staff	Methodology	IT
NTPP/TPP						
1	Current period-end closing schedule does not allow you to receive reports quickly	The current deadlines for preparing consolidated IFRS financial statements do not meet the Company's needs and goals	●			
2	No IFRS accounting or reporting software	No automated IFRS accounting or reporting system				●
3	Methodological tasks related to the automation of IFRS accounting and reporting have not been resolved	During the implementation of the project to automate accounting and the preparation of IFRS financial statements, the Company needs to meet its methodological, organisational, HR, and IT objectives.			●	●

Further project documents and materials

N o.	Name	Description of initiative or recommendation	Initiative implementation status	Impact of the issue on			
				Organisation of the process	Staff	Methodology	IT
Navoi TPP							
1	Detailed comments on 2020 financial statements	Detailed comments and recommendations on individual IFRS financial statements for 2020 have been prepared (see slide 64)	Done			●	
TPP							
2	Comments on adjustments to 2020 financial statements	Comments on adjustments to the consolidated IFRS financial statements of TPP for 2020 were prepared (see slide 64)	Done			●	
3	Support in obtaining settlement files for financial statements from external consultants	Support of TPP in the process of obtaining information from an external consultant (settlement files for IFRS financial statements for 2020 and for 2021) (see slide 64)	Done	●			
NTPP/TPP							
4	Training IFRS Fundamentals	In June-July 2021, we held a training on the topic IFRS Fundamentals for employees of the Thermal Power Plant Group (see slide 46)	Done		●	●	
5	Analysing legislative requirements related to IFRS accounting	Analysing Uzbek legislative requirement son IFRS accounting and submitting IFRS financial statements. Parallel accounting for IFRS and Tax (ex. NAS) is recommended (see slide 64)	Done			●	

Further project documents and materials

N o.	Name	Description of initiative or recommendation	Initiative implementation status	Impact of the issue on			
				Organisation of the process	Staff	Methodology	IT
NTPP/TPP							
6	Analysing possible options for the IFRS chart of accounts	Analysing possible options of the IFRS chart of accounts for the Group was conducted. Recommendations on selecting an IFRS chart of accounts based on NAS was provided (see slide 64)	Done			●	●
7	Organising parallel accounting for IFRS and Tax (ex. NAS) in the system	Recommendations on selecting a unified chart of accounts with a simultaneous presentation of IFRS and Tax transactions (ex. NAS) was provided (see slide 64)	Done			●	●
8	Organising parallel accounting for Property, Plant and Equipment in the system	Recommendations for possible implementation (process, documents, reports) was provided (see slide 64)	Done			●	●
9	Training “The procedure for preparing data transformation from NAS to IFRS and consolidation”	Additional training based on the settlement files used in preparing 2021 consolidated financial statements has been prepared (see slides 37,38)	Done		●	●	
10	Description of the procedure for preparing the transformation of data from NAS to IFRS and consolidation (guide)	A detailed description of the step-by-step process of preparing IFRS financial statements has been prepared (see slide 39)	Done	●	●	●	

Further project documents and materials

N o.	Name	Description of initiative or recommendation	Initiative implementation status	Impact of the issue on			
				Organisation of the process	Staff	Methodology	IT
NTPP/TPP							
11	List of tasks related to the organisation of the reporting process	Analysing tasks to be addressed as part of the organisation of the reporting process (for a full list see chapter 2.1)	Done	●			
12	Detailed recommendations on improving the accounting policy for a group of TPP	Detailed recommendations on the accounting policy prepared as part of the project to automate the process of preparing IFRS financial statements were provided. The comments were submitted to a TPP consultant (see slide 65)	Done			●	●

Key steps to ensure progress (initiatives)

01.



IFRS reporting preparation roadmap

Officially approve the “IFRS reporting preparation roadmap” within the company, including the timing of IFRS reporting, those responsible for its implementation, and the scope of tasks

Gaining
experience

02.



KPI for internal IFRS function

Set a clear KPI for internal IFRS function development – the KPI should be set at a very senior TPP level (and NTPP if required) and correspond to the approved “IFRS reporting preparation roadmap”

Gaining
experience

03.



IFRS department staffing

Increase the staff of the IFRS department by searching the labour market or retraining employees from other departments of the company

Gaining
experience

04.



Reducing external involvement

Conclude a contract (amend the current contract) with an external consultant that contains at least the following terms:

- The scope of work of the external consultant should be reduced year by year. The Company should start performing separate calculations independently
- All communication with an external auditor should be conducted by the Company (not an external consultant)
- An external consultant should transfer all calculation files (with formulas) to the Company and also assist the Company in a files' analysis (answer questions)
- The contract terms (incl. scope and deadlines) should correspond to the approved roadmap

Gaining
experience

Key steps to ensure progress (initiatives)

05.



Professional development

Develop and approve an ongoing training programme, training goals, and approve training KPIs – e.g. Excel training activities for employees who will now and in the future participate in IFRS reporting, set a clear KPI for ACCA/ DipIFR regular progress for all IFRS department staff to ensure their professional growth. Regularly monitor the process

06.



QA for IT methodology

Implement quality control over methodological automation solutions – ensure that the methodological solutions developed by an external local consultant correspond to best practices for both the methodology and organisation of the process

07.



Project management for IT implementation

Monitor the IFRS automation project in the system – by creating a sufficient project team, including representatives from the IT and IFRS department and a dedicated project manager, developing and updating the detailed project plan, setting KPIs, monitoring the results etc. Appoint an internal IT specialist responsible for both project support and further support of the 1C IFRS system

08.



Documentation

Develop and approve internal documentation in order to unify approaches – IFRS accounting policy (incl. standard correspondence of accounts for complex IFRS transactions), rules of interaction during accounting and reporting (incl. deadlines), instructions, the organisational structure and job descriptions

09.



Professional development

Control

Regularly monitor the results

List of recommendations

N o.	Name	Description of initiative or recommendation	Impact of the issue on			
			Organisation of the process	Staff	Methodology	IT
NTPP/TPP						
1	02. KPI for internal IFRS function	Set a clear KPI for internal IFRS function development. The KPI should be set at a very senior TPP level (and NTPP if required) and correspond to the approved “IFRS reporting preparation roadmap”	●			
2	Resolving methodological issues for automation purposes 08. Documentation	Approval of the IFRS chart of accounts, revision of the IFRS accounting policy (instructions for the accountant should be indicated, and journal of entry attachments included). Develop a procedure for preparing financial statements, deciding on the targeted procedure for tax accounting (for a full list see chapter 2.3, slides 66-79)			●	●
3	Organisation and regulation of target processes 01. IFRS reporting preparation roadmap	Prepare regulations on interactions among divisions and the procedure for providing information (deadlines, frequency, format) Prepare period-end closing regulations (including period-end monitoring) Identify owners and the content of directories used in accounting Creation of a control environment (regular automated and analytical reviews) (for a full list see Chapter 2.2, slides 40, 71-74)	●	●		

List of recommendations

N o.	Name	Description of initiative or recommendation	Impact of the issue on			
			Organisation of the process	Staff	Methodology	IT
NTPP/TPP						
4	Changing the structure of the IFRS department 03. IFRS department staffing	An IFRS department structure is proposed for target and transition periods (depending on the automation stage). Assignment of a separate tax accounting methodologist (qualified in tax and IFRS accounting differences analysis as well). Assign a separate IFRS methodological group to advise accounting staff and to resolve methodological issues (including automation issues) (see slides 56-57)	●			
5	Revision of the organisational structure 03. IFRS department staffing	Identify additional IFRS accounting responsibilities for accounting department staff. Assign an additional tax accounting specialist (methodological support on IFRS and Tax parallel accounting (ex. NAS)) (see slides 41, 58)	●			
6	Recruitment 03. IFRS department staffing	The IFRS department needs to be expanded (candidate requirements and possible search procedure are described in Chapter 2.2, slides 48-58)		●		
7	To reduce external involvement to the IFRS reporting process and increase TPP's involvement 04. Reducing external involvement	Conclude a contract (amend the current contract) with an external consultant that contains at least the following terms: The scope of work of the consultant should be reduced year by year. The Company should start performing separate calculations independently. All communication with an external auditor should be conducted by the Company (not external consultant). The external consultant should transfer all calculation files (with formulas) to the Company, and also assist the Company in a files' analysis (answer the questions)	●			

List of recommendations

N o.	Name	Description of initiative or recommendation	Impact of the issue on			
			Organisation of the process	Staff	Methodology	IT
NTPP/TPP						
8	Expansion of IFRS department functionality 03. IFRS department staffing 05. Professional development	The IFRS department should perform the functions performed in practice by employees responsible for preparing IFRS financial statements (for a full list see Chapter 2.2). The involvement of IFRS department employees in the process of preparing financial statements should be increased in order to transition gradually to the independent preparation of IFRS financial statements (see slides 50-57)	●	●		
9	Implementation of the automation of accounting and preparation of IFRS financial statements 06. QA for IT methodology 07. Project management for IT implementation	Develop options for organising the target IT architecture. Prepare a schedule for improving the system (should be agreed with the schedule for improving related IT tasks). Prepare functional requirements, as well as the terms of reference for implementation (see slides 85-86)				●
10	Regular training and competency expansion 05. Professional development	Training (in terms of improving the system and the procedure for IFRS accounting, if necessary). IFRS department employees should regularly upgrade their qualifications (see slide 48)		●		

Chapter 2

Recommendations



Chapter 2: Recommendations

2.1. Organisation of the process





Description of situation during the survey

The Navoi Thermal Power Plant prepared individual IFRS financial statements only annually. Interim statements were not prepared.

In order to comply with Uzbek law requirements, NTPP published individual IFRS financial statements on the unified corporate information portal of the Republic of Uzbekistan:

Individual IFRS financial statements of the Navoi Thermal Power Plant for the year 2020

http://openinfo.uz/ru/reports/msfo/annual?org_name=%22Navoiy+issiqlik+elektr+stansiyasi%22+aksiyadorlik+jamiyati&date_from=&date_to=

Individual IFRS financial statements of the Navoi Thermal Power Plant for the year 2021

http://openinfo.uz/ru/reports/msfo/annual?org_name=%22Navoiy+issiqlik+elektr+stansiyasi%22+aksiyadorlik+jamiyati&date_from=&date_to=



The preparation of IFRS financial statements by the Navoi Thermal Power Plant is carried out by the data transformation method from NAS accounting data, under IFRS (using a model in Excel). The Navoi Thermal Power Plant **does not independently prepare individual IFRS financial statements** (for neither 2020 nor 2021). The financial statements were prepared and audited by local audit firms (external local auditor NAZORAT-AUDIT for FS 2021, BALANS-INFORM-AUDIT for FS 2020).

NTPP **was not provided with the personnel** capable of independently preparing IFRS financial statements for 2020 and 2021 (for more details see Chapter 2.2). The search for employees for Navoi Thermal Power Plant was also suspended due to information about the start of the branching process of the Thermal Power Plant Group (for more details see slide 10). It is planned to develop the main competencies for IFRS accounting and reporting in JSC TPP.

The **recommendations made** to TPP based on the survey of the process of preparing the individual financial statements of Navoi Thermal Power Plant for 2020 **were not taken into account** when preparing the financial statements for 2021 (the recommendations are provided in Appendix 6 Point 3).

When concluding a contract with the advisor HLB on the preparation of IFRS consolidated financial statements for 2021, TPP included the task of **preparing individual financial statements for TPP companies** in order to have correct IFRS data for these companies under TPP's plans. The preparation of individual IFRS financial statements will be performed in a shortened format (four forms of financial statements without disclosures) in Excel. The preparation will be performed after the preparation of the Group's consolidated IFRS financial statements.



Description of situation during the survey

Due to exemption under IFRS, TPP does not prepare individual IFRS financial statements, it prepares consolidated IFRS financial statements only. Financial statements are prepared on an annual basis only, and interim financial statements are not prepared.

TPP has not prepared consolidated IFRS financial statements independently. The financial statements for both 2020 and 2021 were prepared by external **contractors**. The TPP consolidated financial statements for 2020 were prepared by Deloitte, and for 2021 by HLB.

The preliminary Group's consolidated financial statements for 2020 and the Group's consolidated financial statements for 2021 were audited by the Big-4 firm Deloitte.

The main function of TPP IFRS department employees was to **support the preparation and audit of consolidated IFRS financial statements**. TPP employees **participated in the calculation of certain adjustments** to the 2021 financial statements (for example, adjustments to Property, Plant and Equipment (later recalculated by the auditor)), however, the overall monitoring of reporting for 2020 and 2021 was carried out by external consultants. **Monitoring** the preparation of consolidated financial statements for 2021 by TPP has increased compared to the reporting for 2020, however, it remains **insufficient**.





Current TPP approach to IFRS reporting

Current approach of reporting under IFRS

Audit of financial statements

Auditor

The consultant :

- calculates transformational and consolidation adjustments
- prepares the consolidated IFRS financial statements of TPP

TPP JSC supports the consultant's work and furnishes the auditor with data

External consultant responsible for consolidated IFRS reporting (for 2021 HLB)

TPP JSC

Chief Accountant of TPP JSC

IFRS department of TPP JSC

Deputy Chief Accountant for IFRS

Specialists of the department

The accounting departments of subsidiaries/ branches:

- provide primary data for consolidation (accounting under NAS rules), data in Excel
- prepare individual IFRS financial statements

Companies of the Group

Accounting dep.
Sirdaryo TPP

Accounting dep.
Navoi TPP

Accounting dep.
Takhiatash TPP

Accounting dep.
Tashkent HPP

Accounting dep.
Muborek HPP

Accounting dep.
Tashkent TPP

Accounting dep.
Talimarjon TPP

Accounting dep.
Turakurgan TPP

Accounting dep.
Fergana HPP

Accounting dep.
Uzbekenergotamir

Accounting dep.
Uzenergotaminlash

Accounting dep.
Uzenergosozlash

Accounting depts
of other companies

In December 2022, 8 companies (including NTPP) became a branch of TPP.



External consultant responsible for IFRS FS preparation and the auditor

Company	Period of IFRS FS	Consultant responsible for IFRS FS preparation		Auditor
Navoi TPP	Individual FS for 2020	Local auditor - BALANS-INFORM-AUDIT		
	Individual FS for 2021	Local auditor - NAZORAT-AUDIT		
	Individual FS for 2022	not preparing FS for now because NTPP became a branch of TPP		
TPP	Conso FS for 2020	Big4 - Deloitte		
	Conso FS for 2021	HLB		Big4 - Deloitte
	Conso FS for 2022	unknown (tender now)		Big4 - Deloitte



Identified challenges

The Navoi Thermal Power Plant **does not have an IFRS accounting policy**, and the IFRS accounting policy for JSC TPP does not apply to the preparation of IFRS financial statements for NTPP. **There are also no regulations for IFRS financial statement preparation, and no obligations and deadlines for the tasks have been set. There is no system to monitor the correctness and completeness of IFRS accounting and reporting.**

The financial statements of NTPP were prepared and audited by local audit firms - NAZORAT-AUDIT for FS 2021, BALANS-INFORM-AUDIT for FS 2020.

The financial statements were prepared in **a simplified format** and contained the main four reporting forms only (balance sheet, income statement, cash flow statement, statement of changes in equity). The financial statements **do not comply with the accounting principles used by the Thermal Power Plant Group**. The data of individual **IFRS financial statements of the Navoi Thermal Power Plant were not used by the parent company (TPP) for the purposes of preparing consolidated IFRS financial statements**. When preparing the consolidated financial statements, the plant used non-transformed data from the Navoi Thermal Power Plant (a breakdown of the data under NAS), and then used the transformation corrections for these data (IFRS adjustments).

The current method of preparing the correct IFRS data of the individual financial statements of Group companies (preparation of financial statements based on the Group's consolidated financial statements) **does not allow its use for the purposes of individual IFRS reporting preparation** to be submitted and published in accordance with Uzbek law requirements.





Identified challenges

TPP's consolidated financial statements for 2020 were prepared by Deloitte, and for 2021 by HLB.

There are **no regulations** in place at the Thermal Power Plant for IFRS financial statement preparation, and **no established responsibilities and deadlines for tasks**. Reporting deadlines have been rescheduled a number of times. Thus, the preliminary financial statements for 2020 were signed in June 2022, and FS for 2021 in October 2022.

Monitoring the process of preparing financial statements by Thermal Power Plant has been substantially reduced. The procedure for data collection and calculating transformation adjustments for 2020 **was developed by the consultant**.

Despite the greater involvement of Thermal Power Plant in the process of preparing financial statements for 2021, **control over the correctness and completeness of IFRS accounting and reporting remains insufficient**. Therefore the exchange of transformation files and additional files for calculating transformation adjustments and disclosures for reporting was carried out directly between the HLB consultant and Deloitte auditor. Often TPP did not participate in the exchange of information.

After the preparation of the financial statements for 2020, the Thermal Power Plant spent a long time **obtaining all IFRS calculation files** for the transformation table and the notes to the financial statements from their IFRS auditor Deloitte. Deloitte provided final IFRS calculations partially. In addition, some files contained no references to data and the formulas used for calculations, or at least some comments on the calculation approaches applied. The legal wording of the contract signed by Deloitte and the Thermal Power Plant was given as grounds for the non-provision of information.





Identified challenges

Based on the analysis of the process of preparing the consolidated IFRS financial statements of TPP for 2021, the following issues were identified (information is given at the time of preparing the current report):

- **TPP did not receive all IFRS calculation files for the transformation model and collection of notes** to the consolidated IFRS financial statements from the consultant.

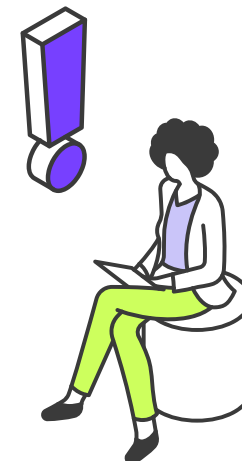
However, according to TPP's comments, the HLB consultant does not refuse to provide the files; there are delays in the process. The status of submitting additional settlement files is given in Appendix 6 p.7.

TPP specialists did not have full access to IFRS calculation files during the process of IFRS reporting preparation, which means they had no chance to be involved in the process and learn related approaches and tools.

- In the received files, some adjustments and collections of notes **do not contain references to calculations or detailed comments on the calculation procedure**. Information on adjustments and tabular notes that do not contain a reference to calculations is given in Appendix 6 p.7.

- The bulk of the files received **do not include the collection of numerical information presented in the textual part** of TPP's consolidated IFRS financial statements for 2021. There is a partial collection of numerical information for Note 6 «First-time Adoption of IFRS» only.

- **TPP does not have a structured list of files used in the preparation of IFRS consolidated financial statements** for 2021. There is also no single repository of final versions of settlement files; files are stored in various folders on the server or in «sent folder» messages from the auditor (Deloitte) and the third-party consultant that prepared the transformation for 2021 (HLB).





Further project observations

As part of our survey of the process of preparing the individual financial statements of the Navoi Thermal Power Plant for 2020, we prepared **comments on IFRS adjustments for financial statements and recommendations** that the company could have taken into account when preparing the financial statements for 2021 (for more details see Appendix 6 Point 3).

The most significant adjustments that were not taken into account or taken into account incorrectly in the individual IFRS financial statements prepared by the Navoi Thermal Power Plant (the adjustments were made in the consolidated financial statements of the Thermal Power Plant):

- revaluation of Property, Plant and Equipment upon the first-time adoption of IFRS
- restatement of assets due to differences in the procedure for the revaluation of foreign-currency advances in NAS compared to IFRS
- discounting of long-term debt

Based on our survey of the process of preparing individual financial statements of the Navoi Thermal Power Plant, we **prepared and sent recommendations** on necessary initiatives regarding the implementation of IFRS accounting and reporting software, recommendations on the processes necessary for the preparation of IFRS-based financial statements, and on the preparation of a roadmap for the personnel development process (the report was submitted in March 2022).

Initiatives and recommendations regarding personnel are given in [Chapter 2.2](#).





Further project observations

In the course of surveying the process of preparing the 2020 financial statements, we **prepared an explanation of the methodology and a request for a necessary drill-down for calculating particular adjustments** reflected in the Group's transformation table (for more details see Appendix 6 Point 4).

As TPP had significant issues in obtaining IFRS calculation files and made comments on the adjustments made during the transformation in 2020, we **supported the TPP in the process of communicating with the auditor (Deloitte)**.

Since the auditor referred to the legal wording of the signed contract as the main reason behind the non-provision of information, it was proposed to launch a **separate tender for selecting a consultant that could** assist in preparing consolidated financial statements for 2021. As a result, the Thermal Power Plant engaged a separate consultant, HLB. Based on the results of the analysis of the 2021 transformation model and the related settlement files, there was an improvement in the quality of information collection. For example, some IFRS calculations contained detailed comments on their approach, some files also contained detailed breakdowns by counterparties, etc.

In addition, combining the functions of IFRS reporting preparation and its audit cannot be viewed as constituting best practice, as a risk of self review arises.

Due to shortcomings in the process of planning the preparation of financial statements and the repeated postponement of the deadlines for the issue of financial statements, we made recommendations on the structure of **the schedule for preparing the consolidated financial statements of the TPP** (see Appendix 6, point 1).



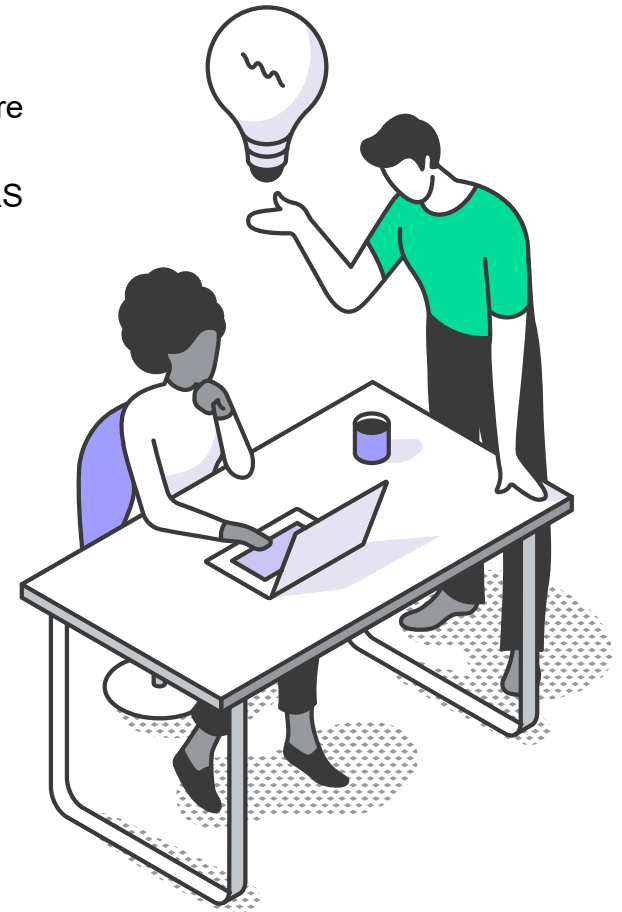


Further project observations

We analysed TPP's consolidated financial statements for 2021 and the transformation model and additional calculation files provided by the advisor. Based on the results of our analysis, we compiled **a list of files used by the consultant (HLB) to calculate individual IFRS adjustments and to collect disclosures** (see Appendix 6 p. 7).

The list can be used by TPP:

- In order to ensure that the final versions of all IFRS calculation files for 2021 were provided to TPP by HLB (not all the files had been provided as at the date of report)
- For the purposes of preparing the 2022 transformation, as an example for IFRS calculations that may be used for 2022 calculations





Further project observations

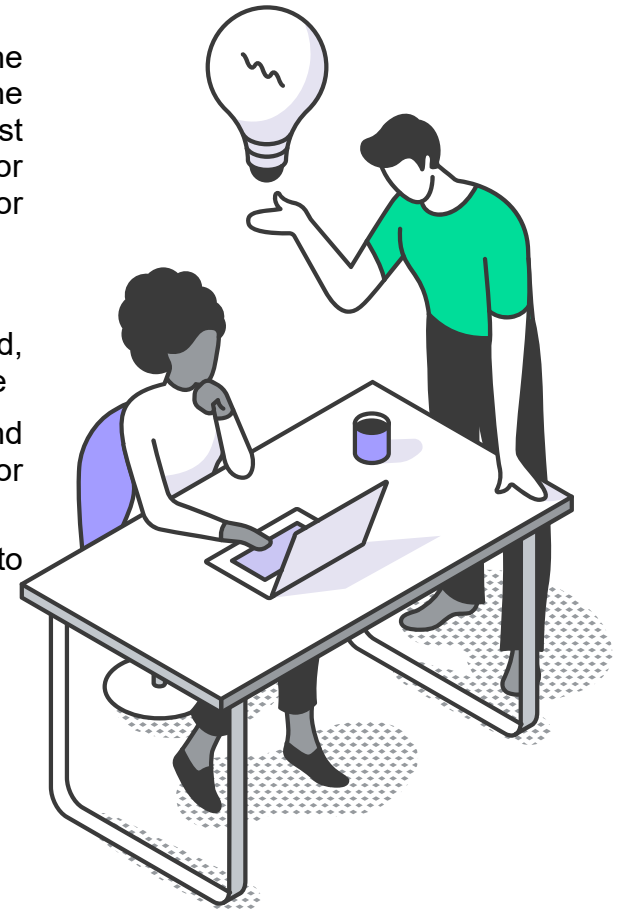
Based on the data of the 2021 transformation model, the IFRS calculation files for the transformation model, and notes to IFRS financial statements, we prepared an **additional training** on IFRS financial statement preparation using the transformation method from NAS to IFRS using an Excel model.

The main aim of the training was to explain how to use the Excel tools provided by the advisor in order to perform IFRS calculations and prepare IFRS reporting. As a result the employees of TPP Group companies could boost their involvement in IFRS reporting. Most of the time was devoted to practical examples of preparing Excel-based transformations for 2021. The training was held on a face-to-face basis for TPP employees and remotely for other participants. In addition, recordings were made.

The following issues featured in the training:

- **the process of preparing IFRS financial statements** using the transformation method, in terms of planning, segregation of duties, collection of information, and audit assistance
- **IFRS theoretical issues.** The training provided brief IFRS theoretical aspects and contained references to the detailed training IFRS Fundamentals previously held for employees. We also referred to differences between NAS and IFRS
- **practical issues** pertaining to calculating certain adjustments and collecting notes to IFRS financial statements

A full list of training topics is provided in Appendix 7.





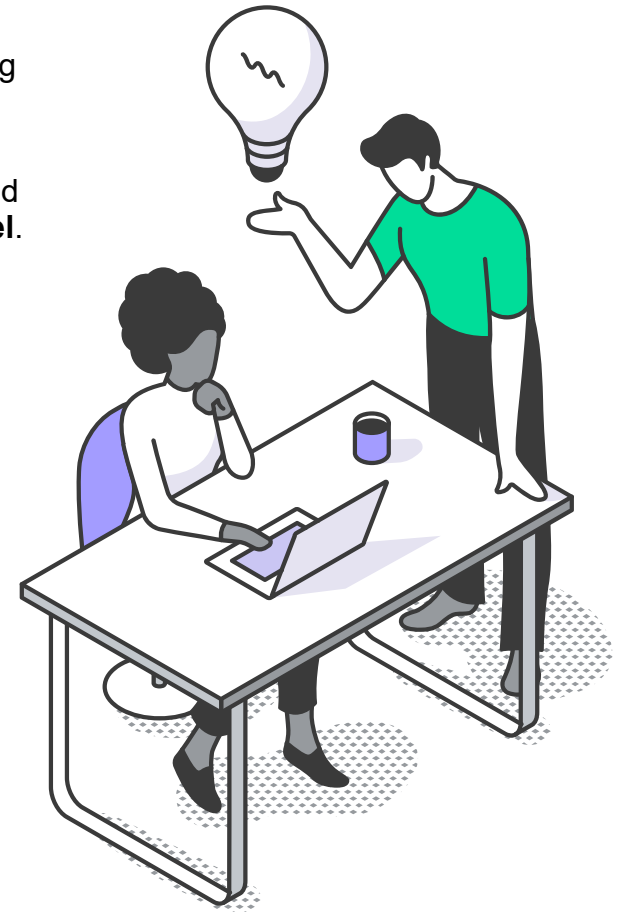
Further project observations

During the training we noted that some employees were involved in preparing information for 2021 financial statements. We also noted that some employees (especially from the IFRS department) demonstrated a basic knowledge of IFRS and recalled the materials presented in the training course IFRS Fundamentals.

47 participants took part in the training. Only 61% successfully completed the course. During the training, attendance figures were tracked, as well as the successful completion of tests and assignments (for the figures see Appendix 6 point 9).

However, it was also noted that employees have little knowledge of MS Excel tools. TPP and Navoi TPP employees need to **develop related competencies for working with MS Excel**.

In order to assist TPP and Navoi TPP employees in mastering MS Excel skills during the course, we also developed and gave presentations, practical examples of using relevant functions and formulas, and practical exercises for the participants based on applying formulas.



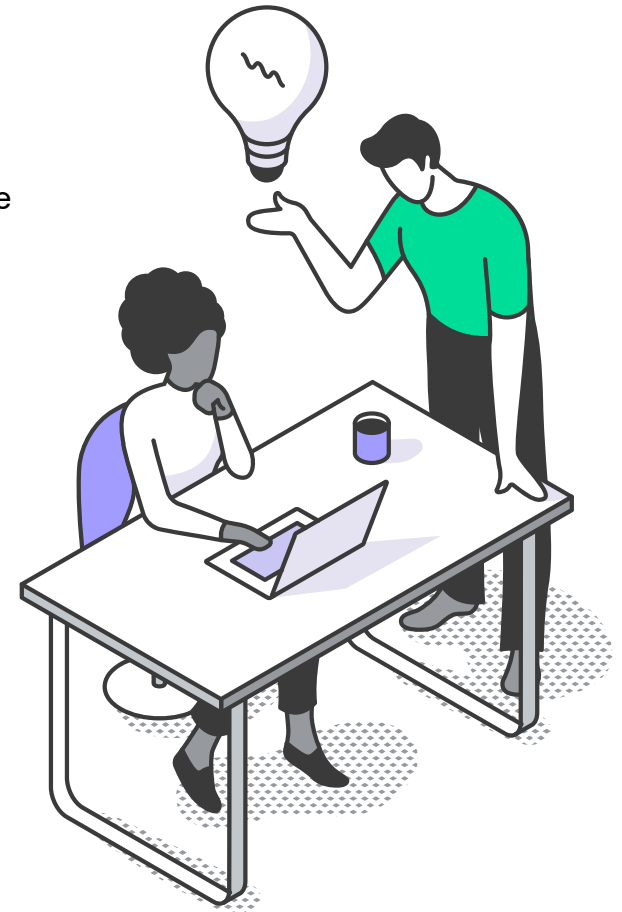


Further project observations

To assist TPP and Navoi TPP employees in the process of preparing the 2022 transformation, we prepared a **detailed description of the step-by-step process of preparing IFRS financial statements**, covering:

- the process of preparing IFRS financial statements
- interrelations between files used in preparing the transformation
- the structure of a transformation model and the information presented in each column
- the process of calculating key adjustments using print-screens from files used to calculate adjustments in 2021

The document is given in Appendix 6, p.6 "Description of the procedure for preparing IFRS financial statements using the method of transformation from NAS" (a separate Word file in Russian)





Our recommendations

Recommendations

In order to achieve the goals set for Thermal Power Plant in terms of the accounting and preparation of IFRS financial statements, the Company will need to achieve the following objectives:

Organisational aspects

Transitional

- Greater involvement from the IFRS department in preparing IFRS reporting*;
- Redistribution of tasks among the NAS accounting departments of companies and TPP's IFRS department (assistance from the IFRS department in transitioning to IFRS in accounting)
- Creation of a working group to assist in implementing current changes (negotiating approaches, analysing consequences, calculating balances, testing improvements, etc.)
- TPP's IFRS department should be increased

Target

- Revising the organisational structure of the company and redistributing tasks among divisions (see the next slide)
- Creation of a methodological group aimed at*:
 - ✓ current support and preparation of new accounting changes
 - ✓ providing comments/clarifications on/to the accounting procedure;#
- Preparation of regulations documents**:
 - ✓ preparing regulations on inter-divisional interactions and information-delivery procedures (deadlines, frequency, format)
 - ✓ preparing period-end closing regulations (including monitoring closing procedures)
 - ✓ determining the procedure for presenting data on accounts and those responsible for entering data in the accounting system and for verifying the correctness of entering data from IFRS and Tax perspectives (ex. NAS)
- Creation of a control-based environment (regular automatic / analytical reviews)

* The tasks are closely related to the task of developing the Company's personnel. A detailed description will be provided in Chapter 2.2.

** The tasks are closely related to the Company's methodological objectives. A detailed description will be provided in chapter 2.3.

Also, see slide 20-21 «Key steps to ensure progress (initiatives)»



Our recommendations

Target IFRS accounting and reporting approach

Audit of financial statements

Auditor

Performs:

- a general check of the correctness of parallel accounting of IFRS and Tax transactions
- methodological support for Group companies
- consolidations (calculates adjustments)
- Prepares the consolidated IFRS financial statements of TPP

TPP JSC

Chief Accountant of
TPP JSC

IFRS department of TPP JSC

Deputy Chief Accountant for IFRS*

Reporting group

Methodology group

Tax accounting
methodologist*

The accounting departments of subsidiaries keep records under the principle of the parallel accounting of IFRS and Tax transactions in 1C

Preparing individual IFRS financial statements of the companies

Companies / branches of the Group

Accounting dep.
Sirdaryo TPP

Accounting dep.
Navoi TPP

Accounting dep.
Takhiatash TPP

Accounting dep.
Tashkent HPP

Accounting dep.
Muborek HPP

Accounting dep.
Tashkent TPP

Accounting dep.
Talimarjon TPP

Accounting dep.
Turakurgan TPP

Accounting dep.
Fergana HPP

Accounting dep.
Uzbekenergotamir

Accounting dep.
Uzenergotaminlash

Accounting dep.
Uzenergosozlash

Accounting deps
of other companies

Tax issues did not fall within the scope of the project, however, we believe taxation questions are important in view of the company's plans to implement parallel IFRS / Tax accounting in 1C

Chapter 2

Recommendations

2.2. Improving the competences of staff responsible for preparing IFRS FS





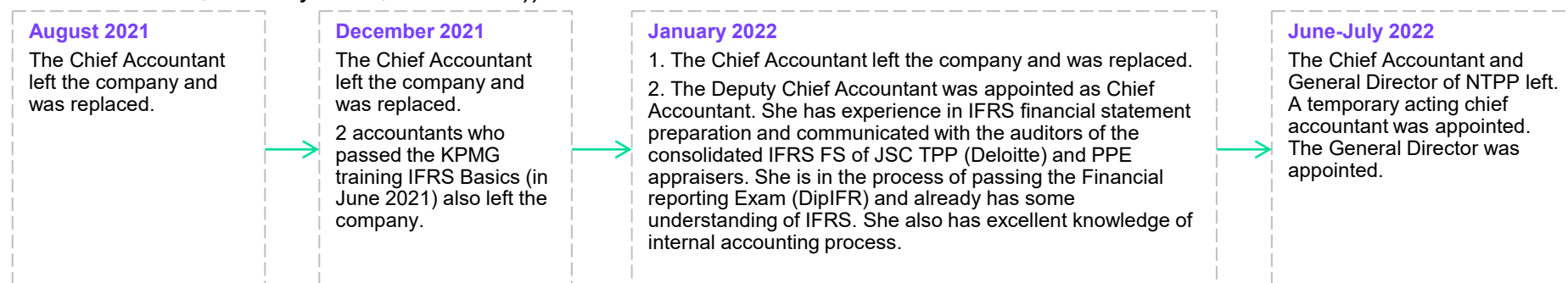
Description of situation during the survey

The preparation of individual (standalone) IFRS FS for 2020 and 2021 was carried out by a third-party organisation. A tender was held to find an external specialist (not Big-4) for the IFRS FS 2021 preparation, however, there was no winner and the tender was closed. Later, NTPP standalone IFRS financial statements for 2021 were created in a simplified format only for disclosure on the website (also see slides 30 and 33) by external local auditor NAZORAT-AUDIT.

The management of Navoi TPP was trying to find among local accountants employees (3-4) to be involved in and responsible for IFRS FS preparation. Although Navoi is a regional and major industrial centre, there is a significant lack of IFRS experienced professionals.

The decision to implement an automated accounting system under IFRS with parallel accounting for tax was adopted at TPP Group level. Under respective law requirements the company should begin applying IFRS from 2021. Accounting staff will have to apply accounting rules under IFRS in primary accounting. Within the framework of the project, trainings on IFRS Basics were conducted for the accounting service in June 2021, however, these employees do not have sufficient experience to prepare IFRS reports.

There were frequent personnel changes over 2020-2011 at JSC NTPP (the chief accountant was replaced four times (August 2021, December 2021, January 2022, June 2022)):



No other steps were made in the process of IFRS FS preparations.

In addition, external experts (Deloitte) were engaged by JSC TPP to prepare transformations from national NSBU to IFRS (for the year 2020 and 2021) for the purpose of TPP consolidated FS. NTPP does not monitor the process of preparing IFRS reporting; communicating with consultants and the group auditor is carried out only at the level of providing information.

NTPP now (since NTPP became a branch in Dec 2022) has no official obligation (regulated by Uzbek law) to prepare IFRS statements (however, reporting may still be required for internal purposes)



Description of situation during the survey

TPP has not prepared IFRS financial statements independently (2020 and 2021). External experts were engaged by JSC TPP to prepare a transformation from NAS to IFRS (Deloitte for 2020, HLB for 2021) for the consolidated FS of TPP.

The TPP IFRS team provides information to auditors and external experts, with no supervision of the whole FS preparation process. The deadlines for the issue of audited consolidated financial statements for 2020 and for 2021 were rescheduled.

TPP set up an IFRS reporting department in 2021. In 2022 the department consisted of three employees. Currently, TPP has a Deputy Chief Accountant for IFRS, who manages the IFRS function. Two members of staff work under her.

Main IFRS department achievements in 2021 and 2022:

- providing information to auditors and external experts during the reporting process (IFRS FS for 2020 and 2021)
- preparing separate calculations for adjustments for the IFRS FS for 2021 transformation (for example, adjustments for fixed assets) which were recalculated by the auditor (Deloitte)
- participation in projects to develop the IFRS accounting methodology. The most significant projects:
 - ✓ implementing unified (for all group companies) accounting software 1C Enterprise
 - ✓ preparing an accounting policy for TPP and a consolidation methodology in accordance with IFRS
 - ✓ developing an IFRS chart of accounts
 - ✓ Preparing a roadmap for implementing IFRS
 - ✓ Approving a report on a comparative analysis of differences between IFRS and NAS
 - ✓ assistance in automating IFRS accounting and reporting

There is a high likelihood that engaging external experts would be required for the preparation of the transformation for the year 2022, as internal resources would not be sufficient.



Identified challenges

A lack of staff to prepare individual IFRS financial statements in 2021 and 2022 at Navoi Thermal Power Plant

Currently NTPP does not apply JSC TPP's IFRS-prepared accounting policy when preparing IFRS financial statements.

Necessary competencies have not been created within the company. The search for Navoi Thermal Power Plant employees has also been suspended due to information about the expansion of the Thermal Power Plant Group (for more details see slide 10). It is planned to develop the main competencies for IFRS accounting and reporting in JSC TPP.

Due to tasks related to the automation of IFRS accounting and fast close, **IFRS department responsibilities will be expanded** during the implementation of new initiatives, which will **increase the staff workload**.

Since during 2021 and 2022, TPP IFRS department employees have not independently prepared IFRS financial statements, and it is highly likely that **the current staff of the IFRS department will not be able to perform this function**.





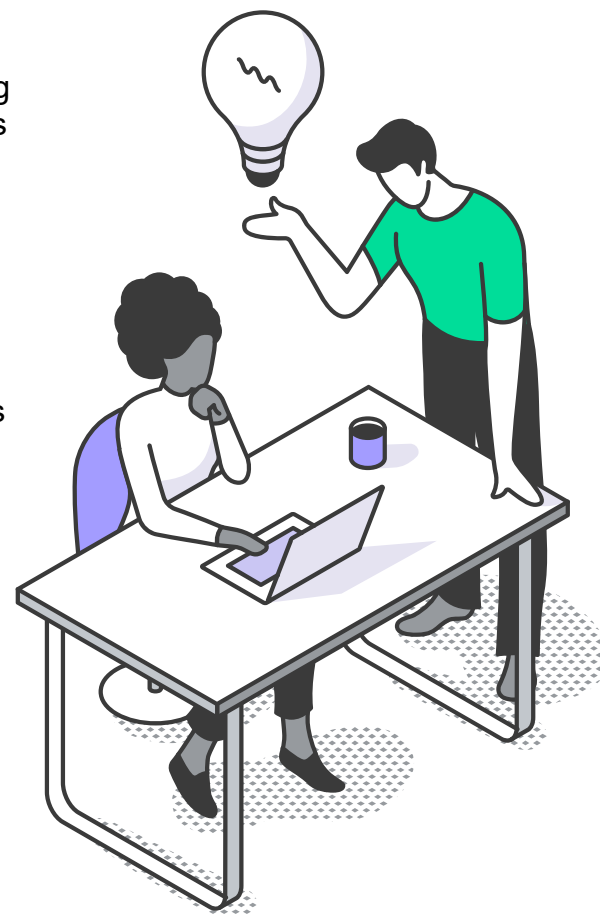
Further project observations

In order to upgrade the qualifications of TPP Group employees in June-July 2021, we **conducted the training** IFRS Fundamentals, on a face-to-face basis* for 10 days. The training covered all key IFRS accounting issues. The content of the training is provided in Appendix 1.

36 participants took part in the training. Only 47% successfully completed the course. During the training, attendance statistics were tracked, as well as the successful completion of tests and assignments (the figures are provided in Appendix 6 point 2).

As part of our survey of the process of preparing the individual financial statements of the Navoi Thermal Power Plant for 2020, we prepared **comments on the financial statements** and recommendations that the company should have taken into account when preparing the financial statements for 2021 (the figures are provided in Appendix 6 Point 3).

As part of our survey of the reporting process, we **organised joint calls** with the employees responsible for preparing the IFRS financial statements of JSC TPP. During these calls we analysed the procedure for calculating transformation adjustments. Based on the results of the discussion, we **prepared an explanation of the respective methodology and requests for necessary drill-downs for calculating particular adjustments** reflected in the Group's transformation table (for more details see Appendix 6 Point 4).



* The personnel of other companies of the group were connected to the training remotely



Further project observations

Since the automation of the process of accounting and preparing IFRS financial statements has not yet been completed, we assume that the IFRS financial statements for 2023 will be prepared using Excel. In order to dive into the detailed process of preparing IFRS financial statements for the employees of Thermal Power Plant, we prepared **additional training** based on the calculation files used in preparation of the consolidated financial statements for 2021 (see slides 37-38).

In addition, we prepared a detailed **description of the step-by-step process of preparing IFRS financial statements** (see slides 39).

The responsibilities of the IFRS department of JSC TPP should be expanded in order to achieve the goals of independent reporting and shortening the time for preparing financial statements.

In addition, during the implementation of an automated accounting system, IFRS department employees will have additional tasks. We **analysed the tasks** performed in practice by the employees responsible for preparing IFRS financial statements (the results of the analysis are presented on slides 51-54).

We also **analysed the need for personnel responsible** for preparing IFRS financial statements. The analysis was performed taking into account the expansion of the tasks to be performed by the IFRS department (for more details see slides 56-58).





Our recommendations

We recommend structuring the work of the IFRS department in such a way that **the department performs functions** that are actually performed by the employees responsible for preparing IFRS financial statements (for details see slides 51-54). The main goal of developing the IFRS department should be the independent preparation of IFRS reporting.

Starting from the FS for 2022, the preparation of **individual IFRS FS** of the Group's companies should be carried out under the **supervision of TPP's IFRS department**. These statements should be prepared according to the accounting policy of the Group and take into account the adjustments applied in the consolidated IFRS financial statements of the Group.

Based on our experience in accounting and preparing IFRS financial statements of companies (given in Appendix 2), we recommend **increasing the number** of IFRS department employees (see slide 58 «IFRS department structure and FTE requirements»). **The proposed structure of the department** is given on slides 56-57. In addition, it is necessary to expand the **methodological function of tax accounting** in terms of parallel accounting (see slide 59).

When hiring **new employees**, we recommend paying attention to the **presence of a DiplIFR certificate and experience in preparing IFRS financial statements**. IFRS department staff should have deeper IFRS knowledge than in-house accounting staff.

To search for new employees, we recommend **contacting a specialised HR agency** or engaging **external qualified IFRS consultants to test candidates** for professional abilities.

In order to achieve the goal of independently preparing IFRS financial statements, TPP should ensure that the consultant (HLB) provides **all final settlement files** for the 2021 financial statements.

It is recommended to determine the areas of IFRS accounting and reporting that should be **prioritized for setting up**. During the priority analysis, we recommend to focus on the current calculations of transformation adjustments and the IFRS disclosures, and develop them first in the system. Recommendations on implementation are also given on the slides 75-78.

Department employees should regularly **improve their qualifications**, participate in trainings in IFRS and the automation of accounting, and monitor legislative changes.

Employees of the accounting department of Group **should undergo regular trainings in the main principles of IFRS accounting**, as well as **in the principles of working in a customisable 1C system**.



Our recommendations

Prerequisites for developing the accounting function

When analysing the need for personnel responsible for preparing IFRS financial statements, we took into account the following prerequisites for developing the accounting function:

- A dynamic environment: major changes in Uzbekistan, constantly changing requirements, including those related to reporting, automated provision of operating information, etc.
- Major changes in tax regulations, in addition to those already introduced. Additional amendments are planned, for example, pricing control between the Group's related companies (transfer pricing controls) (which entails the creation of a fully fledged process within the Company)
- Greater demand for accounting and reporting experts in Uzbekistan, for example, it may be a tendency to increase the number of employees who decide to leave the company due to the proposals of competitors on more competitive remuneration or lower workloads for employees (currently there are regular increased workloads on key accounting function specialists)
- Fast close requirement: the need to optimise and accelerate all processes related to accounting and the closing process
- The need to organise two types of accounting (including automation): parallel accounting on a unified IFRS and Tax (NAS) chart of accounts, previously there was only one type of accounting under NAS
- A change in accounting principals: initial IFRS accounting (not NAS) involves recording a large volume of transactions and collecting additional data (for example, impairment, discounting)
- Additional expertise in terms of tax accounting will be required. So TPP will need to analyze the differences between accounting in IFRS and Tax (NAS)



Our recommendations

Main reasons for independent IFRS FS preparation

In practice, there are various options for organising the IFRS reporting process:

- outsourcing accounting and reporting under IFRS
- independent accounting and reporting under IFRS

It is also possible to combine these options, for example, independent accounting under NAS and preparing financial statements for IFRS purposes by an external consultant (the current situation at NTPP and TPP).

In our opinion, TPP should set up its own IFRS Department and monitor the IFRS reporting process for the following reasons:

01. Monitoring financial reporting indicators in accordance with IFRS

TPP must be independently **responsible for financial results under IFRS**. The Company must understand that figures in IFRS financial statements are based on NAS operations and adjustments to IFRS. TPP should be ready to provide additional information on IFRS FS, which may be requested by external users – additional analytical transcripts for banks, the auditor of future accounting periods, etc.

02. Improving IFRS accounting

In future periods, the need for IFRS accounting increases. Under Uzbek law, IFRS accounting must be organised and at least three of the TPP employees must be DipIFR certified. It is necessary to establish and develop IFRS accounting competencies within the company.

The consolidated IFRS financial statements demonstrate uniform business performance indicators, and hence can also be used for business management purposes.

03. Automation of IFRS accounting

TPP must provide comments on the configuration of system algorithms in the automation process; the comments should be based on the approaches selected during the preparation of IFRS financial statements from previous reporting periods.

04. Monitoring the preparation of IFRS financial statements

TPP must understand how the indicators of IFRS financial statements are formed and what financial results depend on. The Company must monitor the preparation of IFRS financial statements so that it can influence the reporting indicators, as well as control the timing of reporting.

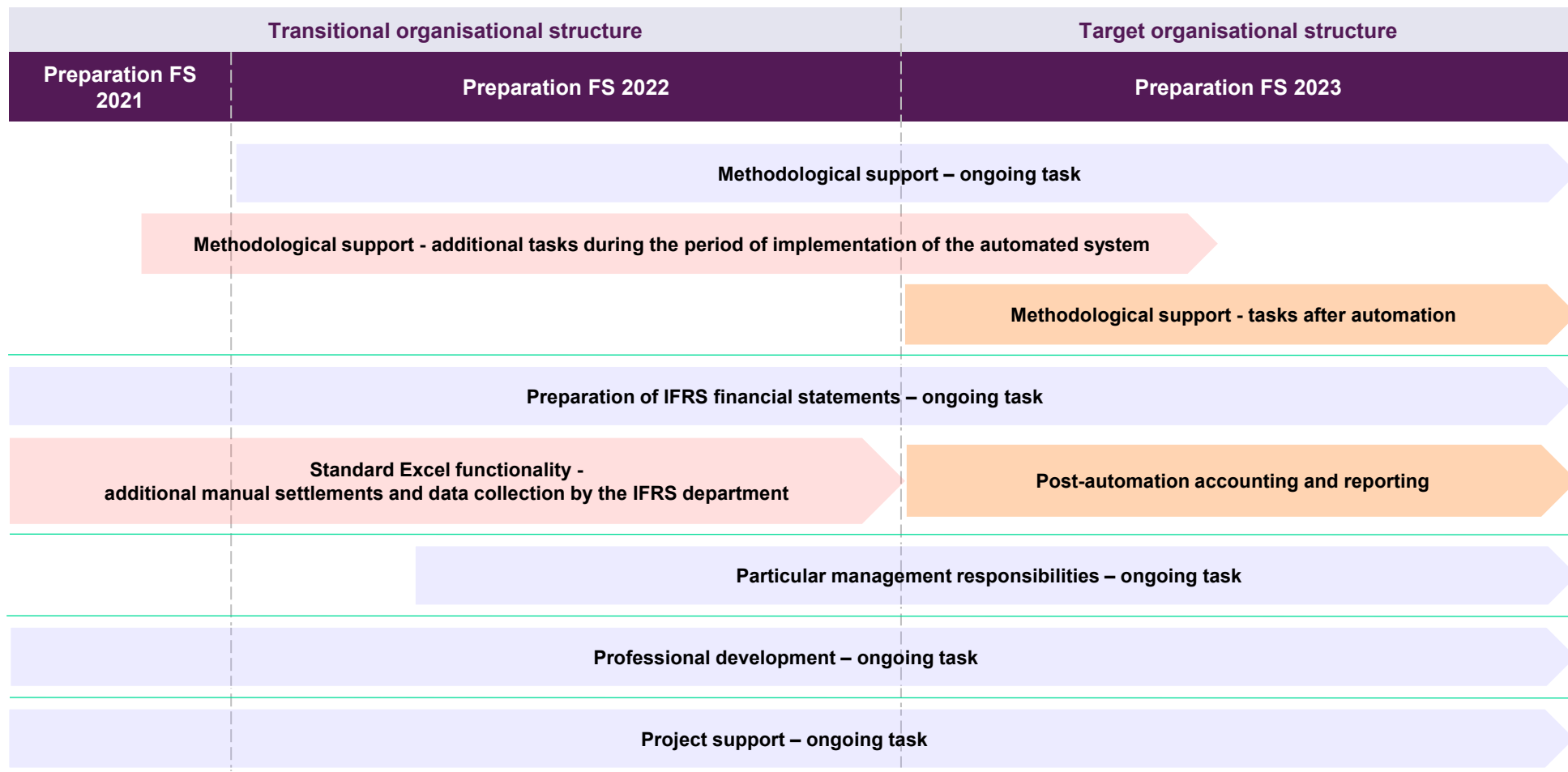


Staff

TPP

Our recommendations

IFRS department functions



Also see slide 91 «IFRS preparation roadmap».



Our recommendations

IFRS department functions

Function	Main tasks/responsibilities
Methodological support - permanent	<ul style="list-style-type: none"> • Developing the Group's IFRS accounting policy • Developing a chart of accounts in accordance with IFRS • Monitoring changes to IFRS and the Group's operations and making related changes to the accounting policy and chart of accounts • Analysing initiatives proposed by other divisions and proposed transactions in terms of their impact on IFRS financial statements • Monitoring the execution of changes • Methodological support of accountants in the implementation of IFRS
Methodological support – add. automation	Additional methodological tasks during the automation development and implementation <ul style="list-style-type: none"> • Developing and approving the accounting methodology in 1C (see slides 66-79, 83) • Answers to the integrator's questions during the implementation period • Testing the implemented functionality • Participation in a pilot launch of 1C functionality
Methodological support – add. after automation	Additional methodological tasks after automation <ul style="list-style-type: none"> • Methodological support for accountants in the IFRS implementation



Staff

TPP

Our recommendations

IFRS department functions

Function	Main tasks/responsibilities
Preparation of IFRS financial statements	<ul style="list-style-type: none"> • Analysing the correctness of accounting and identifying adjustments that need to be made in IFRS • Eliminating intra-group turnover and balances (if necessary) • Preparing consolidated IFRS financial statements (for each reporting period) • Supporting the audit of consolidated IFRS financial statements (including organising communications between auditors and subsidiaries/divisions, answering queries, and discussing disputed accounting issues) • Working with appraisers of fixed assets and the business, as well as actuaries (including providing information and discussing disputed issues). <p>Prior to the introduction of automation, calculations and data collection are carried out using Excel and Word</p>



Our recommendations

IFRS department functions

Function	Main tasks/responsibilities
Separate management accounting functions	<ul style="list-style-type: none"> • Analysing the generated results according to IFRS • Preparing a presentation of financial results for management • Providing information for the preparation of other management reports • Preparing various reports, analyses, and presentations
Professional development	<ul style="list-style-type: none"> • Analysing professional development needs • Participation in professional development trainings
Project activity support*	<ul style="list-style-type: none"> • Project support on implementing accounting automation • Support in other possible accounting and reporting projects

* Currently the main project the IFRS Reporting department needs to support is to implement the 1C system for IFRS accounting. Our recommendations on the tasks to be solved within the framework of this project are presented in a separate report «Accounting software necessary for future IFRS accounting operations and system development».



Our recommendations

Structure of IFRS department

Based on the functions to be performed by the IFRS department and the competencies of the employees required to perform their functions, we recommend that two groups of specialists be formed: **Reporting Group and Methodology Group**.

The main function of **the Reporting Group** is the preparation of financial data and IFRS financial statements.

The Methodology Group provides expert support during the process of accounting and preparation of IFRS financial statements, the development of methodological approaches, and updating all methodological documents. The Methodology Group should consist solely of highly qualified professionals with solid knowledge of IFRS accounting and automated accounting.

When assessing the Company's need for staff responsible for preparing IFRS financial statements, we proceeded from the following assumptions:

- the main methodology competencies related to the accounting and preparation of IFRS financial statements are developed in Thermal Power Plant
- accounting is performed in an automated accounting system in accordance with IFRS by the accounting department of Group companies. Unified accounting approaches are used for accounting transactions (a single IFRS Accounting Policy is applied)
- employees of the Thermal Power Plant IFRS department perform the functions described in the recommendations above, including:
 - the accounting methodology is developed and updated centrally by Thermal Power Plant IFRS department employees
 - Thermal Power Plant IFRS department employees make a general check of the correctness of IFRS accounting of Group companies
 - The TPP IFRS department provides accounting advisory support to accounting staff
 - The Group's consolidated financial statements are prepared by Thermal Power Plant IFRS department employees
- When assessing the need for personnel, we proceeded from the assessment of the size of Group companies, and the current level of knowledge and capabilities. The valuation was based on a comparison: the amount of Property, Plant and Equipment (including capital investments), the amount of revenue for the reporting period, and the number of transformation adjustments.



Staff

NTPP/
TPP

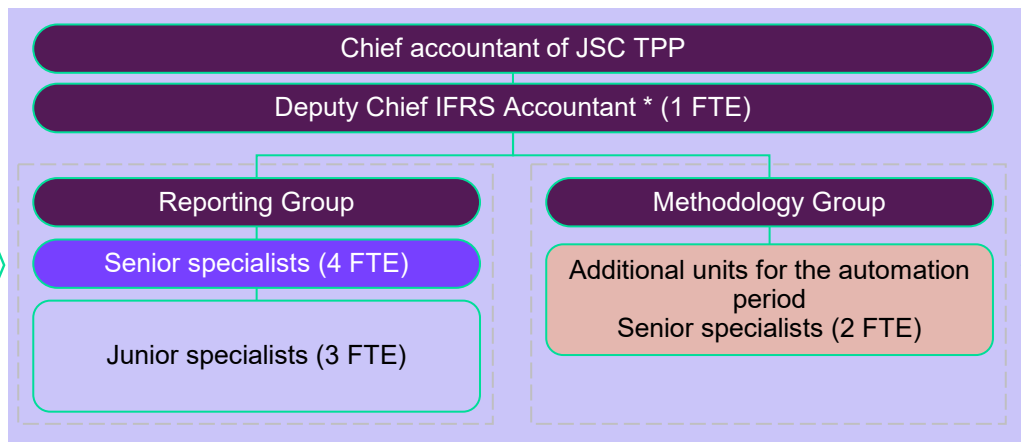
Our recommendations

Transition structure of IFRS department (before automation)

We propose the following segregation of duties:

- **1 senior specialist** - should be responsible for calculating adjustments and disclosing information on Property, Plant and Equipment, calculating adjustments for intragroup transactions and the investments of the Group, and should also perform a high-level monitoring of the work of junior specialists.
- **Other specialists** - should be responsible for calculating adjustments and preparing disclosures for the remaining accounting areas.

In this regard, the segregation of duties between senior and junior specialists should be performed according to the level of complexity of the adjustment.



The accounting departments of subsidiaries/ branches – providing primary data (IFRS accounting):

Thermal power plants

Heat and power plant

Other construction,
repair, and service
companies

NTPP now (since it became a branch in Dec 2023) has no official obligation (regulated by Uzbek law) to prepare IFRS statements (however, reporting may still be required for internal purposes)

For the period of methodological support for implementing automatic accounting and preparing IFRS financial statements, we recommend increasing the number of staff by **two senior specialists**, due to the large methodological burden



*Acts as Head of IFRS department



Staff

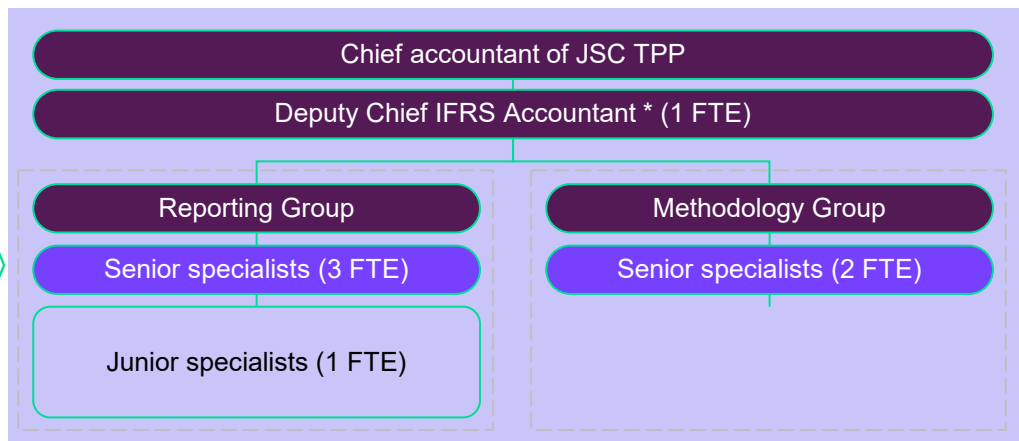
NTPP/
TPP

Our recommendations

Target structure of IFRS department (after automation)

We propose the following segregation of duties:

- **1 senior specialist** - should be responsible for monitoring the accounting and disclosure of information on Property, Plant and Equipment and Group investments, and should also provide high-level monitoring of the work of junior specialists.
- **2 senior specialists** - should be responsible for monitoring the accounting and reporting of thermal power plants. The monitoring of certain accounting areas may be transferred to junior specialists (for example, monitoring the translation of foreign-currency cash balances)
- **junior specialist** - should be responsible for monitoring the preparation of financial statements for the remaining companies, and should also monitor particular areas of accounting.



Accounting departments of subsidiaries/ branches - provision of primary data (IFRS accounting):

Thermal power plants

Heat and power plant

Other construction,
repair, and service
companies

NTPP now (since it became a branch in Dec 2023) has no official obligation (regulated by Uzbek law) to prepare IFRS statements (however, reporting may still be required for internal purposes)

The target structure of the IFRS department requires **2 senior specialist** to implement constant methodological support. Tasks are performed under the direct supervision of the Head of the IFRS department.



*Acts as Head of IFRS department.



Staff

TPP

IFRS department structure and FTE requirements



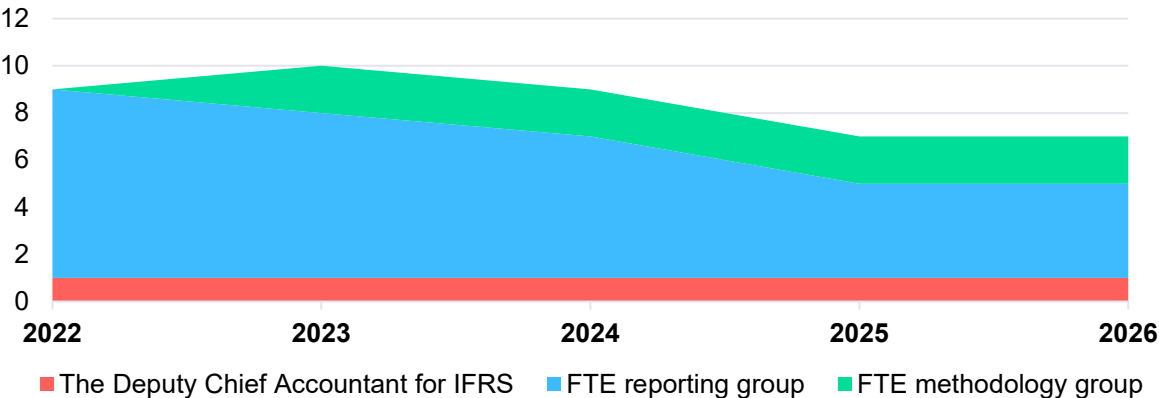
The reporting group is responsible for preparing annual and quarterly IFRS financial statements, including data collection, transformation, consolidation and preparation of final reporting in MS Word and supporting auditors. The FTEs of this group will decline during the implementation of parallel accounting in 1C. In 2025-2026, as a result of implementing the system, the FTE requirement in the reporting group is 4 FTE.

We recommended hiring two methodology specialists to support the implementation of the system over 2023-2024, support accountants working with the implemented system, and analyse methodological issues in subsequent years.

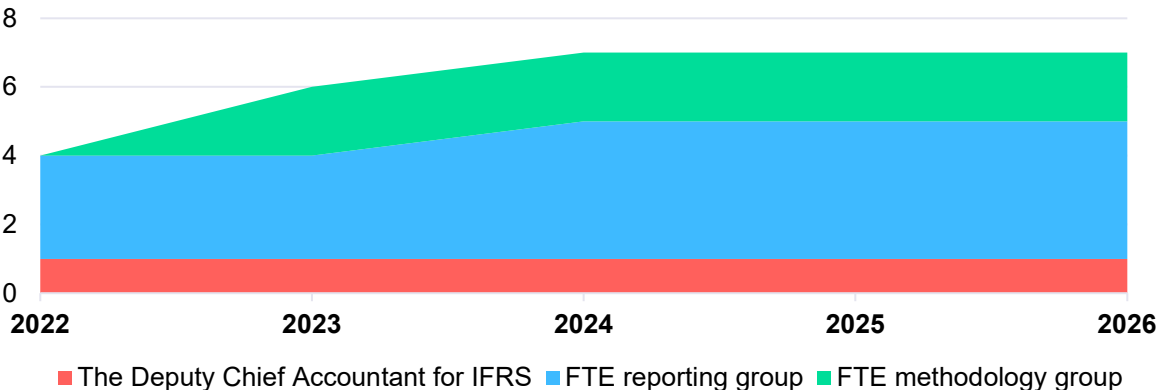
The first diagram depicts total FTE requirements for the IFRS department of TPP.

Engaging an external consultant will alter the company's resource requirements, hence the second diagram depicts adjusted FTE requirements.

Total FTE requirements



FTE requirements taking into account engaging an external consultant

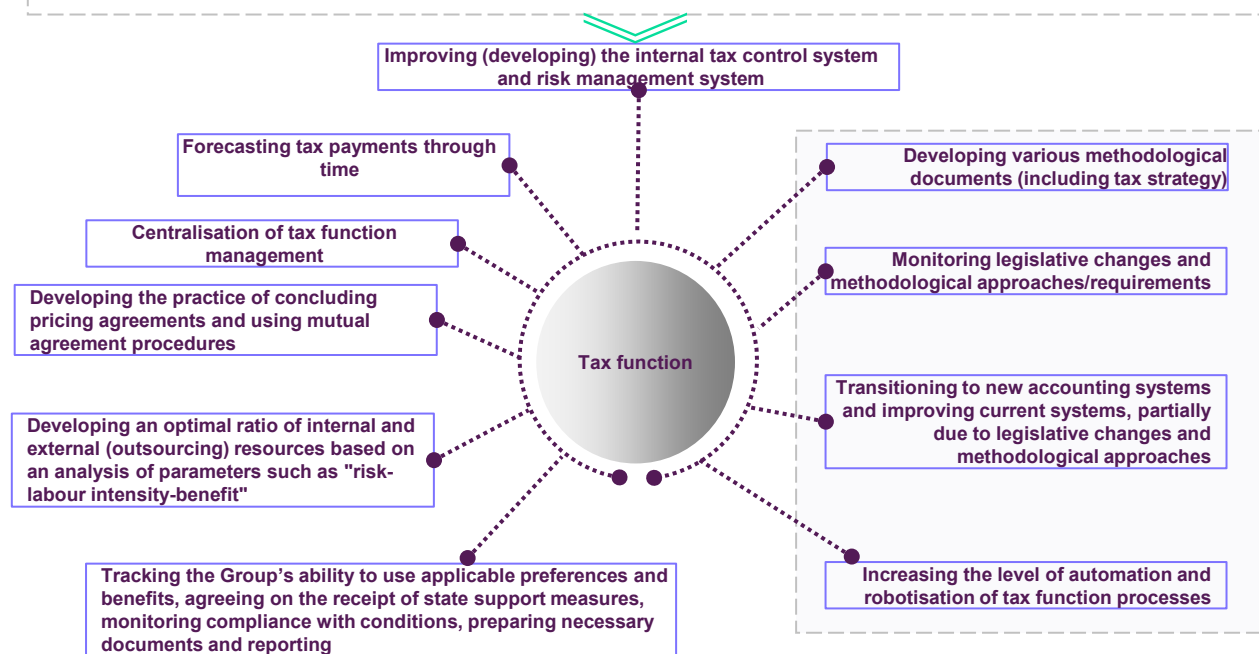




Our recommendations

Further recruitment recommendations

When organising a tax function, modern practice requires a strategic approach that includes the implementation of certain steps:



Taxation does not fall within the project scope,, however, we believe taxation questions are important, in view of the company's plans to implement parallel IFRS / Tax accounting in 1C

Due to the fact that when introducing the automation of IFRS accounting and reporting the principle of parallel accounting of IFRS and Tax transactions (ex. NAS) will be applied, a large number of methodological issues in terms of Tax will need to be resolved during the implementation of the 1C System.

After the implementation of the system, methodological approaches will need to be continuously updated due to the appearance of new transactions or changes to legislation; also, supporting accounting employees on methodological issues will be required.

We recommend appointing **separate Tax specialists** who will be responsible for the Tax accounting methodology in parallel accounting with IFRS.



Chapter 2

Recommendations

2.3. Methodology

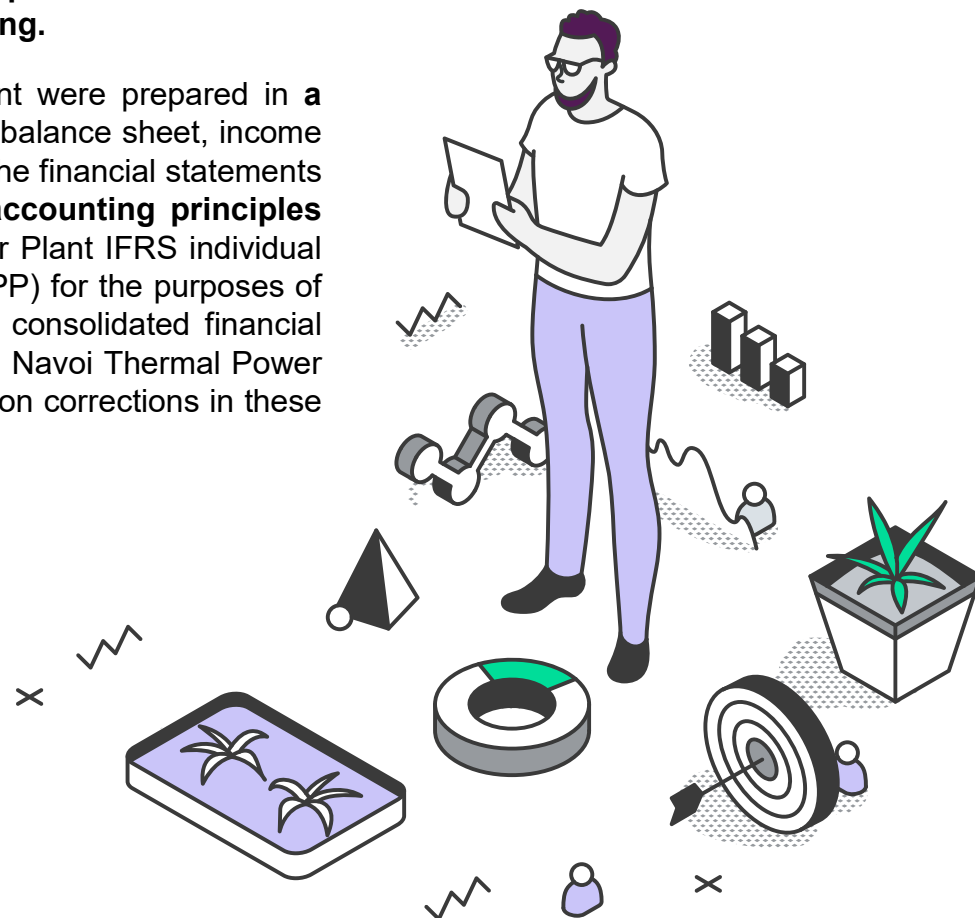




Description of situation during the survey

The Navoi Thermal Power Plant **does not have an IFRS accounting policy**. The IFRS accounting policy prepared for JSC TPP does not apply to the preparation of IFRS financial statements for NTPP. There is also **no system in place to check the correctness and completeness of IFRS accounting and reporting**.

The individual financial statements of Navoi Thermal Power Plant were prepared in a **simplified format** and contain the main four reporting forms only (balance sheet, income statement, cash flow statement, statement of changes in equity). The financial statements **did not comply with the IFRS accounting approaches and accounting principles used by the Thermal Power Plant Group**. Navoi Thermal Power Plant IFRS individual financial statement data were not used by the parent company (TPP) for the purposes of preparing consolidated financial statements. When preparing the consolidated financial statements, Thermal Power Plant used non-transformed data from Navoi Thermal Power Plant (a breakdown of NAS data) and then used IFRS transformation corrections in these data.





Description of situation during the survey

In 2021 TPP **developed and adopted the IFRS Accounting Policy** for JSC TPP and the **Consolidation Methodology** for the TPP Group.

In 2021 KPMG, as an external advisor, **made recommendations** on the structure of the **IFRS chart of accounts**, prepared a **comparative analysis** report on the **differences between IFRS and NAS**, and created a **roadmap for the IFRS implementation process** as part of a separate project for JSC TPP.

Also in 2021, as part of a discussion of accounting recommendations made by us under the current project, the Thermal Power Plant decided **to apply the principles of parallel IFRS accounting and Tax (ex. NAS) in a unified chart of accounts** (when introducing the automation of IFRS accounting and reporting).

In mid-2022, Thermal Power Plant signed a contract with Grant Thornton to **provide methodological support on the automation of accounting processes** for the purposes of preparing:

- standalone IFRS reporting
- consolidated IFRS reporting
- tax reporting.

Under the terms of the agreement, Grant Thornton will provide "methodological support for the preparation of consolidated financial statements under IFRS for 2022". According to the Company, Grant Thornton will test the collection of reports for 2022 in 1C, and compare the collection results for the IFRS FS for 2022 in 1C with IFRS FS for 2022, which will be prepared by the external consultant in Excel.

The automation of IFRS / Tax accounting and reporting is performed for all Group companies.

The integrator for implementing the automation is local company ZAYD GROUP.

The automation process is currently at the stage of methodological development of «to be» methodology approaches to be applied in the 1C system.





Identified challenges

Regarding IFRS process automation in 1C, TPP is currently in the process of developing a basic methodology.

TPP has a list of key issues that need to be resolved so that detailed methodology documents can be developed (we assisted with providing the list).

The Company does not **currently have a clear system of regulations** and descriptions of current processes.

The **TPP IFRS accounting policy is insufficient** in terms of it being able to be used as instructions for the IFRS accounting procedure (instructions for accounting department employees), or for use in the process of implementing the automation of IFRS accounting in 1C.

The current **deadlines for closing** individual IFRS financial statements of Group companies and the consolidated IFRS financial statements of the Group **do not correspond to the Company's goals**.





Further project observations

We analysed **the current regulation of accounting and IFRS financial statement preparation procedures in Uzbekistan**. Based on the results of the analysis, the list of requirements for the composition and procedure for reporting under IFRS of Group companies was determined (for the analysis see Appendix 3).

We made recommendations **on the organisation of parallel IFRS accounting in 1C**. Based on a discussion of recommendations with the Company, the Thermal Power Plant decided to apply the principles of parallel IFRS accounting and Tax (ex. NAS) on a unified chart of accounts (the analysis is presented in Appendix 4). Based on the results of the discussion with the Company, TPP decided to apply the principles of parallel accounting on a universal chart of accounts under IFRS and Tax (ex. NAS) using transformation approach for some differences between IFRS and Tax.

In relation to the parallel accounting of Property, Plant and Equipment, we made **detailed recommendations on the possible procedure for accounting reports in 1C**. Since the 1C system has not yet been set up, these recommendations also apply to the current report (see Appendix 5).

Based on the practice of implementing the automation of IFRS accounting and reporting, we analysed **the tasks to be addressed** within the methodology (the results are given on the next slide). We recommend that Thermal Power Plant plan its work in terms of methodology in such a way that the deadlines for implementing accounting automation are not violated.

As part of our survey of the process of preparing the individual financial statements of Navoi Thermal Power Plant for 2020, we made **comments on the financial statements and recommendations** that the company could have taken into account when preparing the financial statements for 2021 (for more details see Appendix 6 Point 3).

As part of our survey of the reporting process, we **organised joint calls** with the employees responsible for preparing the IFRS financial statements of JSC TPP. During the calls we analysed the procedure for calculating transformation adjustments. Based on the results of the discussion, lists of **comments on the financial statements** were compiled and sent to TPP (Appendix 6 Point 4).



Further project observations

After receiving the preliminary version of our recommendations, TPP asked for **detailed comments on the revision of the Accounting Policy** (the recommendations are presented on slides 68-69; as the recommendations are not yet implemented, a detailed description is given in the current report).

We analysed the draft of the Accounting Policy for the TPP group of companies, which was prepared by an external consultant as part of the automation project. Detailed comments provided by us related to the following:

- adding a chart of accounts
- adding a standard journal of entries to the accounting policy sections:
 - putting the accounts in each accounting section under the subsection "Procedure for accounting"
 - putting the correspondence of accounts (journal of entries) for accountants in each accounting section under the sub-sections "Initial recognition," "Subsequent accounting," "Derecognition"

Examples are provided in the document for TPP

- Using simplifications that can be implemented for the accounting of low-value fixed assets
- Revising the sub-sections "Disclosures in Financial Statements" of the accounting sections, taking into account the disclosures made in the IFRS financial statements for 2021
- General adjustments of the document's terminology. We made corrections and comments about the correct application of the terms in the document.



Our recommendations

As part of the automation of accounting and the preparation of IFRS financial statements, the company will need to perform the following tasks:

Methodological aspects

Transitional

- Identify differences in Tax (ex. NAS) and IFRS accounting
- Making a decision on the transition procedure in respect of each change
- Developing an approach (methodology) to creating opening balances in the system (additional calculations, reclassifications)
- Calculating opening balances for each account

Target

- Approval of the IFRS chart of accounts
- The accounting policy under IFRS (detailed to the level of instructions for the accountant, with an attached journal of entries) – the recommendations are presented in Appendix 6, p.8;
- Developing the procedure for preparing IFRS financial statements (in accordance with group forms or forms governed by tax accounting)
- Analysing the tax implications of changes
- Decision on the target accounting procedure in tax accounting
- The accounting policy for tax accounting (taking into account changes in accounting procedures)
- Algorithms for tax report calculations (mapping)
- Preparing regulations on inter-divisional interactions and information-delivery procedures (deadlines, frequency, format)*
- Preparing period-end closing regulations (including monitoring the closing)*
- Developing control procedures for checking primary data and reporting
- Identifying centralised directories and main requirements related to composition and details*

- Tasks are closely related to the Company's organisational objectives



Our recommendations

Approval of the IFRS chart of accounts

The Company has not approved the final version of the IFRS chart of accounts, which will be used in the implementation of an automated accounting and reporting system.

Based on the analysis performed as part of the current project and recommendations on the IFRS chart of accounts provided to the Company as part of a separate KPMG project, we recommend that the Company **develop and approve the IFRS chart of accounts based on the NAS chart of accounts** (the advantages are described in Appendix 4).





Our recommendations

IFRS accounting policy

TPP currently has an IFRS Accounting Policy elaborated as part of a separate project by an external consultant. This document considers the accounting procedure for most transactions, but does not contain a correspondence of accounts or journal of entries.

Since, as part of the transition to independent reporting under IFRS, it was decided to keep accounting in accordance with IFRS in primary accounting, staff from the accounting departments of TPP Group companies will be obliged to record transactions in accordance with IFRS requirements. Thus, the Group needs to have regulatory documents in place to govern accounting for IFRS transactions.

We recommend that TPP considers amending the current **IFRS Accounting Policy** in terms of:

- **adding** accounting specifics related to the operations of **TPP Group companies** to the Accounting Policy
- **expanding** the description in terms of **specifying correspondence of accounts**
- **adding a journal of entries**

Refining the IFRS Accounting Policy will significantly facilitate the process of transitioning to IFRS in primary accounting. In addition, the detailing of the IFRS Accounting Policy will allow the IFRS Accounting Policy to be used in implementing the automation of IFRS accounting and reporting in 1C.

The development of the IFRS Accounting Policy is indicated as being a deliverable to be provided by Grand Thornton. Since TPP already has an IFRS Accounting Policy, we recommend that TPP consider clarifying the task for Grant Thornton in terms of replacing the contract clause about developing the IFRS Accounting Policy with a contract clause about amending the IFRS Accounting Policy in terms of adding a description of transactions and compiling a journal of entries.

See the next slide for examples of a possible list of journal of entries.



Our recommendations

Journal of entries

Раздел (подраздел) КУП, наименование	Хозяйственная операция (проводка), код	Хозяйственная операция (проводка), наименование	Дебет Дт_баланс ого счета, код	Дебет Дт_балансового счета, наименование	Кредит Кт_балансового счета, код	Кредит Кт_балансового счета, наименование	Вид учета РСБУ, НУ, МСФО
4	5	6	7	8	9	10	
оценка/Амортизация нематериальных активов/Признание амортизации	02.001	Начисление амор. искл. права патентообл. на изобр., пром. обр. пол. модель - основная деятельность	3420000000	Амортизация НМА	0511100000	Амор. искл. права патентообл. на изобр., пром. обр. пол. модель	РСБУ НУ см. п.2.10 КУП РСБУ = МСФО
оценка/Амортизация нематериальных активов/Признание амортизации	02.002	влад. на тов. знак и знак обслуж., наим. места происхождения товаров - основная деятельность	3420000000	Амортизация НМА	0511200000	Амор. искл. прав влад. на тов. знак и знак обслуж., наим. места происхождения товаров	РСБУ НУ см. п.2.10 КУП РСБУ = МСФО

EXAMPLE

Раздел 3.1. Учет запасов

№	Описание операции МСФО	Счет Дт	Дт счета (наименование)	Счет Кт	Кт счета (наименование)	Признак сторны	Сумма (описание формирования)	Сумма (алгоритм формирования)
3.1. Учет запасов								
3.1.1. Покупные запасы: материалы и товары								
3.1.1.1. Первоначальное признание								
3.1.1.1.1. Приобретение за плату								
3.1.1.1.1.1. Приобретение сырья и материалов у поставщика	10.01.01	Сырье и материалы	60.01.01	Счета к оплате поставщикам и подрядчикам за приобре	Сумма первичного документа			
3.1.1.1.1.2. Приобретение сырья и материалов у поставщика	10.01.01	Сырье и материалы	60.01.02	Счета к оплате поставщикам и подрядчикам за приобре	Сумма первичного документа			
3.1.1.1.1.3. Приобретение сырья и материалов через подотчет	10.01.01	Сырье и материалы	69.02.01	Задолженность подотчетным лицам по приобретению	Сумма первичного документа			
3.1.1.1.1.4. Приобретение сырья и материалов через подотчет	10.01.01	Сырье и материалы	69.02.02	Задолженность подотчетным лицам по приобретению	Сумма первичного документа			
3.1.1.1.1.5. Приобретение покупных полуфабрикатов и комплектующих	10.02.01	Покупные полуфабрикаты и комплектующие	60.01.01	Счета к оплате поставщикам и подрядчикам за приобре	Сумма первичного документа			
3.1.1.1.1.6. Приобретение покупных полуфабрикатов и комплектующих	10.02.01	Покупные полуфабрикаты и комплектующие	60.01.02	Счета к оплате поставщикам и подрядчикам за приобре	Сумма первичного документа			
3.1.1.1.1.7. Приобретение покупных полуфабрикатов и комплектующих	10.02.01	Покупные полуфабрикаты и комплектующие	69.02.01	Задолженность подотчетным лицам по приобретению	Сумма первичного документа			
3.1.1.1.1.8. Приобретение покупных полуфабрикатов и комплектующих	10.02.01	Покупные полуфабрикаты и комплектующие	69.02.02	Задолженность подотчетным лицам по приобретению	Сумма первичного документа			
3.1.1.1.1.9. Приобретение топлива у поставщиков и подрядчиков	10.03.01	Топливо	60.01.01	Счета к оплате поставщикам и подрядчикам за приобре	Сумма первичного документа			
3.1.1.1.1.10. Приобретение топлива у поставщиков и подрядчиков	10.03.01	Топливо	60.01.02	Счета к оплате поставщикам и подрядчикам за приобре	Сумма первичного документа			

EXAMPLE



Our recommendations

Developing a procedure for preparing IFRS financial statements

The Company should develop and approve:

- forms for preparing IFRS financial statements (individual and consolidated)
- IFRS financial statement forms to be submitted to the supervisory authorities in Uzbekistan
- a procedure for preparing IFRS financial statement forms based on a chart of accounts (mapping the forms of financial statements using the chart of accounts)
- a procedure for preparing tax reporting forms





Our recommendations

Development of process regulations

Number	Regulations/ Document	Target state
1	Document flow regulations	<p>Regulations should be elaborated for all internal and external document flows:</p> <ul style="list-style-type: none"> • between the Company's divisions (internal documents) • with third parties (external documents). <p>The document should include: a list of documents, document forms, respective deadlines, and responsible employees.</p>
2	Period-end closing regulations (IFRS and Tax)	<p>Taking into account the Company's goals on fast close, the following are required:</p> <ul style="list-style-type: none"> • establishing target period-end closing dates • developing a target schedule for closing a period (by days) • developing target regulations for closing a period, indicating the process participants, tasks, and the people responsible for implementation and deadlines • developing criteria for assessing the effectiveness of the period-end closing schedule compliance, including indicators, approaches to assessment, the procedure for monitoring the implementation of an indicator, and target values
3	Regulations on the directories used in 1C system	<p>Develop regulations for managing directories, indicating the owners for each directory and the process of initiating and approving amendments to directories</p> <p>During the initial set up and normalisation of directories.</p>

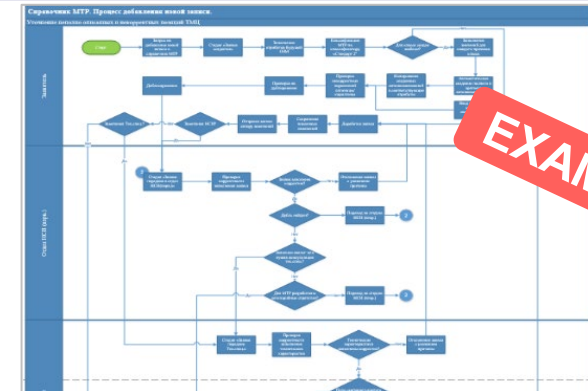
Below are examples of these documents.

Код первичного документа	№	Наименование первичного документа	Ссылка на первичный документ	Участует в налоговой проверке	Стоимостная оценка в документе	Необходимость включения в электронный архив	Срок предоставления в бухгалтерию	Тип документа	Включается в альбом документов	Регистрируемая операция	Предоставление (формирование) документов	Получатель
											Ответственное лицо	Ответственное лицо
1	2	3	4	5	6	7	8	9	10	11	12	13
Документооборот												
1. Операции с основными средствами												
1.1. Учет основных средств												
ОС-1	1	Акт о приеме-передаче объекта основных средств (кроме зданий, сооружений)	»	x	да	да	В день передачи (приемки) при покупке или продаже ОС, но не позднее последнего числа отчетного месяца	Внутренний документ	да	Применяются для оформления и учета операций приема, приема-передачи объектов основных средств в организации или между	Сотрудник функционального подразделения	Отдел бухгалтерии
ОС-1а	2	Акт о приеме-передаче здания (сооружения)	»	x	да	да	В день передачи (приемки) при покупке или продаже ОС, но не позднее последнего числа отчетного месяца	Внутренний документ	да	Применяются для оформления и учета операций приема, приема-передачи здания (сооружения) в организации или между организациями	Сотрудник функционального подразделения	Отдел бухг
ОС-1б	3	Акт о приеме-передаче групп объектов основных средств (кроме зданий, сооружений)	»	x	да	да	В день передачи (приемки) при покупке или продаже ОС, но не позднее последнего числа отчетного месяца	Внутренний документ	да	Применяются для оформления и учета операций приема, приема-передачи групп объектов основных средств (кроме зданий и сооружений) в	Сотрудник функционального подразделения	Отдел бухгалтерии

EXAMPLE



EXAMPLE



EXAMPLE



Our recommendations

Period-end closing regulations

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EXAMPLE

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EXAMPLE



Our recommendations

Develop control procedures for validating primary data and reporting

The company should develop a system of controls necessary for key checks within reporting forms and between forms of financial statements, reconciliations with particular indicators of financial statements (if possible), as well as reconciliations between the amounts shown on the accounts and the amounts in the financial statements.

The result should be a list of controls that includes:

- the type of control
- a control algorithm in relation to those controls where algorithms can be described, for instance, financial ratios (for example, balance sheet balances, positive values, indicator ratios), checks on the completeness and correctness of data (for example, the mandatory filing of certain analytics in the documents)
- the frequency of a control
- details about the procedure (where applicable) and proposals on the automation of control (where necessary)

Develop an approach (methodology) to creating opening balances in 1C

An analysis is performed concerning the approach to opening balance calculations for each account, including non-current assets (identifying sources, for example, the register of Property, Plant and Equipment (PPE) revalued in accordance with IFRS, the register of PPE estimated according to NAS for Tax (ex. NAS), data in the current systems, additional breakdowns), including developing simplifications to fill-in analytics (where acceptable and required), as well as the sources for additional analytics fill-in necessary for data transfer to the system.

When developing an approach to creating opening balances, it is necessary to take into account all adjustments made in consolidated TPP IFRS financial statements for 2021.



Our recommendations

Detailed analysis of accounting approach to certain transactions accounting to meet Tax (ex. NAS) requirements

The Company should perform an analysis of the main differences in accounting principles between IFRS and Tax (ex. NAS).

In some cases, the differences in the accounting method can be eliminated by choosing permitted accounting principles, in other cases the convergence of accounting rules leads to a violation of rules that does not cause significant errors in the financial statement. At the moment, the TPP has already started the process of analyzing the differences between IFRS and Tax. It was decided to unify accounting principles under IFRS and Tax (ex. NAS) where it is possible according to the Tax Code and IFRS standards. IFRS accounting data will be used for calculation of income tax, with the exception of differences in depreciation of fixed assets and differences in certain types of income and expenses fixed in the Tax Code.

The Company should chose and formalise a target procedure for tax accounting.

Based on the analysis of transformational adjustments performed in the consolidated financial statements of TPP for 2020 and 2021, three groups of adjustments can be identified that significantly impact the reporting:

- 1) The accounting of PPE
- 2) The accounting of assets and obligations in accordance with IFRS revaluation rules (recognition of exchange differences);
- 3) The accounting of financial instruments.

During implementation process **various options for accounting and reporting under IFRS and tax** reporting can be implemented. It is possible to **organize parallel accounting for all** transactions and balances, or to organize partial parallel accounting for major objects using transformation elements for individual differences between IFRS and Tax (ex. NAS) (**combined approach**).

When using **combined approach** it is necessary to consider **separate accounts or analytics on the chart of accounts**, which will be the basis of possible allocation of transactions that are not taken into account for the purposes of calculating income tax. In particular, an attribute of the directory of cost items and other income and expenses can be configured, indicating whether these income and expenses are accepted for income taxable base or not.

The above approaches will allow to calculate IFRS data and at the same time calculate income tax in the 1C System.



Our recommendations

Detailed recommendations for PPE parallel accounting

- **1 January 2020 is the date of transition to IFRS. For this purpose a revaluation of Property, Plant and Equipment (PPE) was performed.**
- **There are two PPE estimates: for tax (according to NAS) and IFRS accounting. There should be two accounting estimates (area of accounting).**

General concept of parallel accounting for assets:

All events with fixed assets (FA), are reflected simultaneously in two areas and on two charts of accounts, in IFRS and Tax (ex. NAS).

There may be differences in accounting principles, for example:

- Different initial cost: in Tax (ex. NAS) historical cost is used, in IFRS the fair value from the appraiser's report
- Various useful life (UL): in Tax (ex. NAS) the initial assessment of UL is used, in IFRS UL from the appraiser's report
- Impairment of FA: in Tax (ex. NAS) impairment may not be reflected, in IFRS one should regularly test for impairment and reflect its effect
- Other differences (depreciation methods, interest on loan capitalisation methods, asset conservation etc.)

Thus, each PPE item must contain two estimates: IFRS and Tax (ex. NAS) (for example, initial cost amounts and the useful life may differ).

When the PPE is put into operation, transactions are reflected simultaneously on the IFRS and Tax (ex. NAS) chart of accounts (they may be in different amounts). In the future, when reflecting any other events of PPE items, transactions are simultaneously reflected both on the Tax (ex. NAS) and IFRS chart of accounts. For example, when disposing PPE, the movement is reflected immediately in estimates of the Tax (ex. NAS) and IFRS. When calculating depreciation, the calculation and reflection of transactions are carried out in two estimates at once: Tax (ex. NAS) and IFRS.

At the same time, some events may be created only for one type of accounting, for example, the impairment of PPE items may be reflected only in the IFRS assessment. Recommendations for reflecting transactions in the system are presented in Appendix 5.

To create opening balances in 1C, it is necessary to use the data of the IFRS consolidated financial statements of TPP (the register of PPE and calculation of adjustments in the transformation file).



Our recommendations

Detailed recommendations on the accounting of non-monetary items in accordance with IAS 21

In accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, the non-monetary assets and liabilities of the company are carried at historical cost and should be reported using the exchange rate on the date of the transaction.

Earlier in accordance with Tax (ex. NAS), advances received and issued are subject to revaluation on the last day of each reporting month and on the date of transaction at the exchange rate of the Central Bank.

Due to the change in the legislation of Uzbekistan, the Company needs to take this issue into account when analyzing the possibility of convergence of accounting principles under IFRS and Tax (ex. NAS).

Recommendations

- In the accounting system for the preparation of separate and the Group's consolidated financial statements it is necessary to set up an automated algorithm that accounts advances received and issued at historical exchange rates and does not recalculate them*.
- When preparing opening balances, adjust the effect of recalculations of non-monetary items on the opening balance sheet date. To analyse the impact on the financial statements as of 1 January 2022, use data related to **adjustments** to the IFRS consolidated financial statements of TPP for 2021.

** If it is not possible to eliminate the difference*



Our recommendations

Detailed recommendations for financial instrument parallel accounting*

General concept of parallel accounting

All events with financial instruments are reflected simultaneously in two areas and in two charts of accounts: IFRS and Tax (ex. NAS).

There may be differences in accounting principles such as:

- Different initial cost: in Tax (ex. NAS) the historical cost is used, in IFRS the fair value from the appraiser's report
- Measurement after recognition: in IFRS financial instruments may be recognised at amortised cost (with discounting), in Tax (ex. NAS) there are no discounting operations
- Impairment: in Tax (ex. NAS) impairments may not be reflected or impairments are calculated according to other rules (in other amounts); in IFRS one should regularly test for impairment and reflect the effect
- Other differences: there are other differences in the recognition of financial Instruments; the full list is subject to analysis by the Company.

Thus, each financial instrument object must contain two estimates: IFRS and Tax (ex. NAS).

Recommendations

Setting up the correct calculation procedure in the 1C System of the reserve of expected credit losses for financial assets may entail significant labour costs.

If the calculation of the reserve is not implemented in the first wave of implementation, we recommend that the company provide an intermediate mechanism for entering reserve data into 1C. The reserve calculation itself can be in Excel. In order to facilitate the collection of information necessary for calculating the reserve, we recommend providing a form for uploading data from 1C.

**As indicated on slide 75, the company may choose different automation decisions during implementation of tax accounting and reporting.*



Our recommendations

Detailed recommendations for the parallel accounting of financial instruments

General concept of parallel accounting (cont.)

Parallel accounting is similar to the parallel accounting of fixed assets (see above) – initial recognition, subsequent accounting operations, and disposal transactions are reflected simultaneously in the IFRS and Tax (ex. NAS) chart of accounts (they may be in different amounts). At the same time, some events may be created for one type of accounting only, for example, impairments or discounting operations may be reflected only in the IFRS assessment.

The company must analyse all transactions carried out with financial instruments and determine the accounting principles and transaction card for IFRS and Taxes for each transaction.

When setting up the 1C system for the purposes of accounting for financial instruments, the following should be considered:

- discounting at initial recognition
- entering information about the discount rate
- recognition of the discount in subsequent accounting
- modifying the recognition of the contract of a financial instrument
- changes in the calculation when the recognition conditions change; for example, changes to the payment schedule
- the procedure for calculating (or entering information necessary for the calculation) the reserve of the expected credit loss

Chapter 2

Recommendations

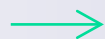
2.4. Automation of IFRS accounting and reporting





Description of situation during the survey

New requirements



Software implementation

In accordance with Resolution No. 4611 of 24 February 2020 “On additional measures for the transition to International Financial Reporting Standards” and for the purpose of providing necessary information for foreign investors and to expand opportunities for access to international financial markets, TPP must **set up relevant IFRS accounting systems**.

The changes in the requirements are as follows:

1. Previously, a company needed to have NAS accounting, now it is necessary to have IFRS accounting.
2. The Company should determine the approach to tax accounting as it is not yet formalised. JSC Navoi TPP decided to use previous NAS accounting for tax calculations.
3. Currently NAS accounting is organised in 1C, with additional tax calculations outside the system. The new requirement is to keep IFRS accounting in the system and continue to calculate taxes.








- TPP planned to start keeping IFRS accounting records for all subsidiaries and perform consolidations in the accounting software 1C Enterprise from 1 January 2022. However, the deadline was optimistic. 1C is currently not implemented.
- In 2021 TPP group began implementing for all group companies the accounting software 1C Enterprise. This system includes a module for IFRS accounting and consolidation.
- All subsidiaries (including NTPP) currently use 1C for NAS accounting only.
- In mid-2022, TPP signed a contract on methodological support of automating accounting approaches for the purposes of preparing individual (for all subsidiaries) and consolidated IFRS financial statements.
- It is planned to set up automatic IFRS accounting and calculation of income tax based on IFRS data in the 1C System. However, the system has not yet been adjusted to the new requirements.
- Also, the 1C system has not yet been adjusted to account for IFRS-specific transactions.

*An analysis of accounting requirements under IFRS is provided in the Appendix 3.



Description of situation during the survey

Current structure of reporting under IFRS (tools)

Function	Performer	Tool
Preparation of IFRS financial statements in Word	Consultant	 Word
Preparation of disclosures for IFRS FS	Consultant, partially TPP	 Excel
Calculation of consolidation adjustments	Consultant, partially TPP	 Excel
Calculation of transformational adjustments	Consultant, partially TPP	 Excel
Collection of primary accounting data of transformation accounts	Consultant, partially TPP	 Excel
Provision of NAS interpretation if necessary	Accounting departments of the companies	 Excel
Accounting under NAS	Accounting departments of the companies	

Consultant

Performs the main functions of preparing financial statements

TPP JSC

Supports the preparation of financial statements, calculations of individual adjustments, and the preparation of individual disclosures

Group companies

*Keep records in 1C in accordance with **NAS** and provide additional data*



Identified challenges

TPP does not have an **automated IFRS accounting and reporting system**. As mentioned above, the Company has decided to keep records in a single accounting system under the rules of parallel accounting in unified IFRS and Tax (ex. NAS) charts of accounts.

During the implementation of IFRS accounting and the reporting automation project, the Company needs to **resolve methodological, organisational, personnel, and IT issues**.

A description of methodological, organisational, and personnel-related tasks is given in chapters 2.1 – 2.3. Before implementing the 1C system the Company should resolve methodology issues and elaborate comprehensive methodology approaches.

Therefore, prior to the resolving the automation issue, the Company should approve (see slides 66-79):

- unified IFRS charts of accounts
- the procedure for implementing parallel accounting for all accounting sections
- the forms of IFRS financial statements (individual and consolidated)
- the forms of IFRS financial statements to be submitted to the supervisory authorities in Uzbekistan



Further project observations

During the project we conducted a **survey of the current NAS and IFRS accounting and reporting process**. The processes are also reviewed from the standpoint of software application.

Based on the analysis we made **recommendations on priority tasks** that need to be solved to begin the process of IFRS accounting and reporting automation (the report was submitted in March 2022).

During the survey we identified as priorities the choice of the IFRS chart of accounts and the setting up of PPE parallel accounting in the system.

We discussed with the Company possible implementation options for chart of accounts in the system and **recommendations to apply the most frequently used version of the IFRS chart of accounts** (also see slide 67).

Regarding the parallel accounting of PPE, we made **detailed recommendations on the possible order of organising documents and reports in the 1C system**. As 1C has not yet been set up, these recommendations are also applicable for the current report (given in Appendix 5).

Based on the practice of introducing the automation of IFRS accounting and reporting, we conducted an analysis of **tasks to be solved** within the automation project (the results are shown on the next slide). We recommend that TPP plans the work concerning the methodology in such a way that the deadlines for implementing accounting automation are not violated.

During automation process, it was decided to create a specialized 1C configuration for TPP's purposes of accounting and reporting under IFRS and tax reporting. A specialized configuration is created based on the "1C: Enterprise 8.3" platform.



Our recommendations

As part of the automation of accounting and preparation of IFRS financial statements, the company will need to perform the following tasks:

IT aspects (automation)

Primary accounting objectives

- Developing **options for organising the target IT architecture**
- Grouping required changes, based on the results of solving methodological issues*:
 - implementation of **the IFRS chart of accounts**
 - setting up **parallel accounting by accounting sections**
 - setting up the procedure for **preparing IFRS financial statements and Tax (ex. NAS) reporting**
- Preparing **a schedule for system set-up** (to be agreed with the schedule for improving related IT tasks),
- Preparing **methodological and user requirements for the system set-up**
- Preparing **terms of reference** (detailed elaboration of changes in the terms of system improvement, approval with IT)
- **System set-up** (resource planning, development, testing (internal and user), system updates)

Related IT tasks: consolidation, organisational changes (intragroup transactions, period-end monitoring, etc.)








- Linking work on the automation of primary accounting with work on automation **for the purposes of consolidation, reconciling intragroup balances**, and setting up period-end monitoring as part of organisational changes (plan of improvements, allocation of resources)
- Preparing a **schedule for the revision of other IFRS adjustments** (the schedule should be agreed with the schedule for the **IFRS adjustments** of primary accounting, as well as all the improvements indicated above)
- **System set-up** (resource planning, development, internal and user testing, system updates)

* Tasks are closely related to the Company's methodological objectives. A detailed description will be provided in chapter 2.3.



Our recommendations

Target structure of reporting under IFRS (tools)

Function	Performer	Tool
Preparation of IFRS financial statements in Word	IFRS department of TPP JSC	 
Preparation of disclosures for IFRS FS	IFRS department of TPP JSC	
Cons. IFRS adjustments calculation	IFRS department of TPP JSC	  Excel
Control of primary accounting data	IFRS department of TPP JSC	
Accounting under IFRS and Tax	Accounting departments of the companies	

TPP JSC

Performs the main functions of preparing consolidated financial statements.

Consultant

Possible preparation of separate calculations (such as fair value)

Companies of the Group

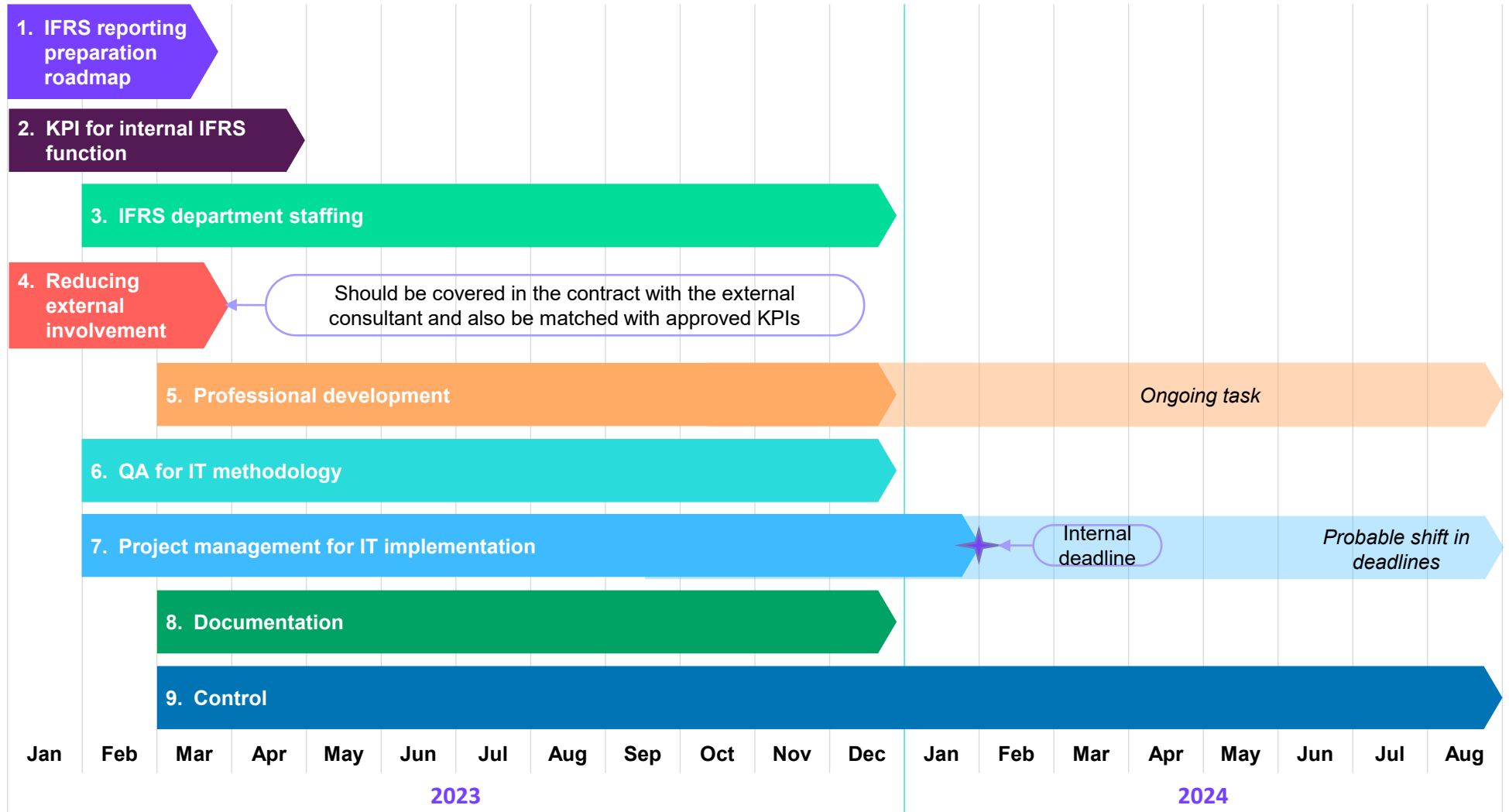
*Keep records in the 1C system in accordance with **IFRS and Tax** and provide additional data*

Chapter 3

Recommendations for the recommendation implementation roadmap



IFRS function development roadmap



“As is” and “to be” IFRS reporting process (1/2)

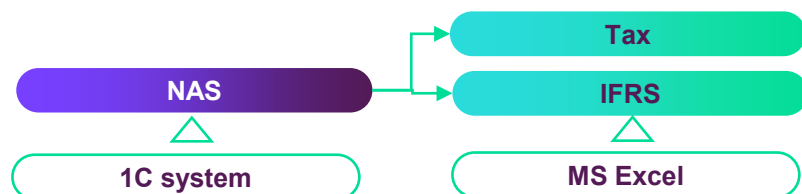


Transformation using MS Excel

IFRS reporting is based on national accounting data (FAR/NAS), to which calculated IFRS adjustments calculated using MS Excel are added:

- Filling out data collection forms in MS Excel – balances on balance sheet accounts, turnover on profit and loss accounts
- Calculation of IFRS adjustments using MS Excel
- Filling in the transformation model using MS Excel (calculation of final IFRS figures), preparing IFRS numerical disclosures (MS Excel)
- Preparing complete IFRS reporting using MS Word

For consolidated IFRS reporting, additional consolidation IFRS adjustments are calculated

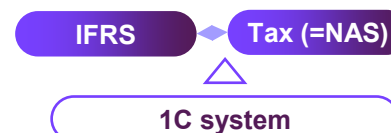


IFRS accounting in 1C

The accounting of all transactions in the IFRS assessment is carried out in 1C in parallel with accounting under national standards (tax accounting):

- Accounting under FAS (tax accounting) is conducted under the same rules in all companies of the group in a single 1C configuration
- For some sections (fixed assets, investments, cost of sales), for which the assessment and the period of reflection differ (in FAS/ IFRS), automated parallel accounting is conducted
- Standard consolidation IFRS adjustments are calculated in 1C automatically (one-off adjustments are calculated using MS Excel)
- Automated preparation of IFRS numerical disclosures in 1C

Preparing IFRS reporting may still be conducted manually using MS Word



Current approach

(standard approach among companies with insufficient automation)



Transition period

Some calculations are automated in 1C (e.g. fixed asset calculations); remaining calculations are performed manually



Target process – maximum automation

Today – Dec 2023 (IFRS reporting for 2022, 2023)


Jan 2024 – Dec 2024 (IFRS reporting 2024)


Starting Jan 2025 (IFRS reporting 2025 etc.)

“As is” and “to be” IFRS reporting process (2/2)


Transformation using MS Excel



 Relatively low costs for automation, since it does not involve the organisation of full-fledged analytical accounting according to IFRS

 Does not require appropriately qualified accounting staff to create transactions under IFRS


 More FTE required for IFRS calculations

 High risk of errors when filling out transcript forms, IFRS calculations


 Less analytical / accurate reporting


IFRS accounting in 1C




 High quality and analysis of the data provided

 Fewer FTE required for IFRS calculations as accountants are responsible for IFRS data preparation

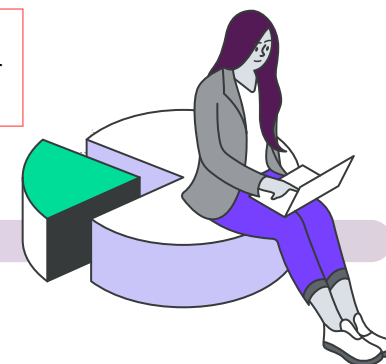
 IFRS specialists concentrate on preparing correct reporting, developing methodological approaches, and analysing financial results (instead of performing a large number of technical calculations)

 Requires appropriately qualified accounting staff to create transactions under IFRS

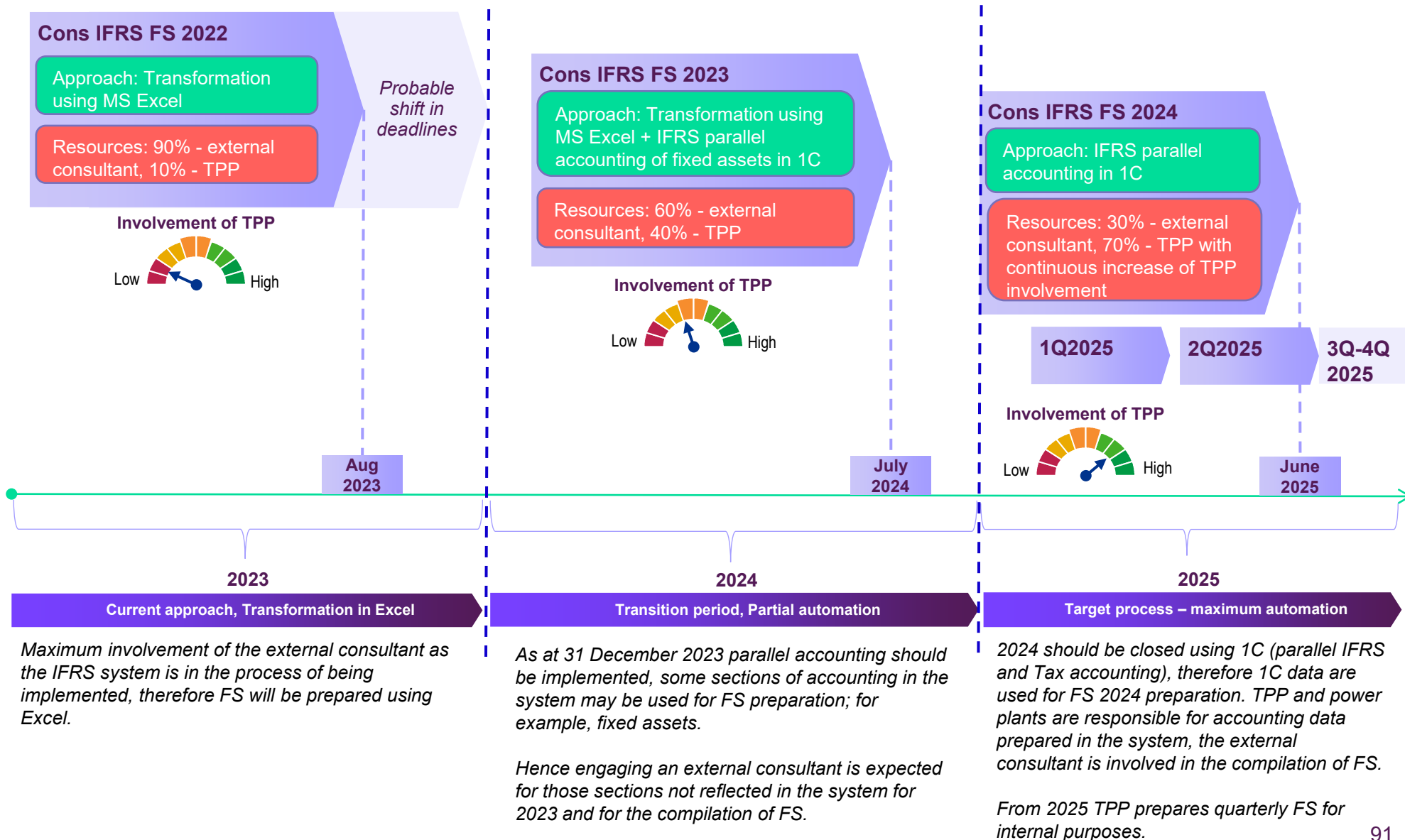
 Requires a clear documentation of IFRS methodology and processes for accounting staff

The success of 1C automation depends on:

1. The correctness of the developed automation methodology.
2. Managing the timing and scope of the automation project.



IFRS preparation roadmap



Appendix 1

Contents of IFRS Fundamentals training conducted for the Company's employees



Contents of IFRS Fundamentals training

Day	Training topic
Day 1	IFRS reporting worldwide and in the Republic of Uzbekistan
Day 1	IFRS framework and first-time adoption of IFRS
Day 1	Presentation of annual and interim financial statements
Day 2	Concept of the time value of money. Discounting in IFRS
Day 2	Property, plant and equipment and investment property
Day 2	IAS 23 Borrowing Costs
Day 2	IAS 36 Impairment of Assets
Day 3	IAS 38 Intangible Assets
Day 3	IAS 2 Inventories
Day 3	IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
Day 4	IFRS 9 Financial Instruments
Day 5	Accounting of interest-free loans to employees
Day 5	IFRS 7 Financial Instruments: Disclosures

Contents of IFRS Fundamentals training

Day	Training topic
Day 5	IAS 7 Statement of Cash Flows
Day 5	IAS 37 Provisions Contingent Liabilities and Contingent Assets
Day 5	Other assets and liabilities
Day 6	IAS 19 Employee Benefits
Day 6	Capital
Day 6	IAS 33 Earnings per Share
Day 7	IFRS 15 Revenue from Contracts with Customers
Day 7	IFRS 16 Leases
Day 8	IAS 12 Income Taxes
Day 8	IAS 21 The Effects of Changes in Foreign Exchange Rates
Day 9	Business combinations and consolidation
Day 10	Specifics of disclosures in IFRS notes
Day 10	Analysing financial statements

Appendix 2

The organisation of IFRS departments in other companies



The organisation of IFRS departments in other companies

Line of business	Large air carrier	Large gold mining company
Country	Russia	Russia
Annual revenue	7 billion USD	2.9 billion USD
Number of employees in IFRS Reporting Department	~15-16 employees	~10-12 employees
Functions	Preparation of IFRS financial statements, IFRS budgeting, Provision of information to the state authorities	Preparation of IFRS financial statements, Support of activities for IFRS reporting automation process, fast close and etc. Provision of data on the requests of the Management Committee, shareholders, Preparation of MD&A and Board Pack
Level of IFRS reporting process automation	Average level of automation: Parent company- automation of transactional accounting, Subsidiaries - data collection via DCF (Data Collection Forms in Excel) and uploading to the transformation and consolidation system	High level of automation of data generation at the Group companies and automation of consolidation and preparation of IFRS financial statements
Number of transformation adjustments	>30	Minimum
Frequency of IFRS reporting	Quarterly	Monthly (for management accounting purposes)
Reporting deadlines	~60 days	~10 days

The organisation of IFRS departments in other companies

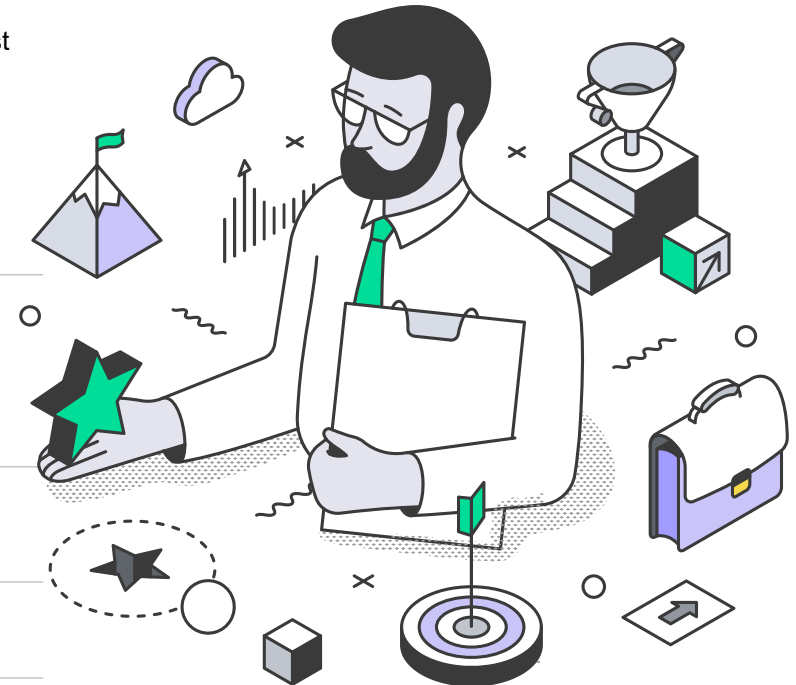
Line of business	Large producer of nickel and palladium	Large producer of electricity
Country	Russia	Russia
Annual revenue	10 billion USD	11 billion USD
Number of employees in IFRS Reporting Department	~18-20 employees	~20 employees
Functions	Preparation of IFRS financial statements, Support of activities for IFRS reporting automation process, fast close and etc. Preparation of MD&A, quarterly issuer reports and other analyses for management and shareholders	Preparation of IFRS financial statements, Support of activities for IFRS reporting automation process, preparation of requests for change (in terms of accounting principles, processes, automation)
Level of IFRS reporting process automation	High level of automation of accounting at the key production companies, other group companies use DCF in Excel. High level of automation of consolidation and preparation of IFRS financial statements	Average level of automation: data collection via DCF in Excel and uploading them to the system. Some adjustments are considered to be automatic and some adjustments are considered to be manual.
Number of transformation adjustments	Minimum	>70
Frequency of IFRS reporting	Quarterly. Planned transition to monthly reporting.	Quarterly
Reporting deadlines	~20 days	~20 days

The organisation of IFRS departments in other companies

Line of business	Large transport company	Large mining company
Country	Kazakhstan	Kazakhstan
Annual revenue	3 billion USD	~400 million USD
Number of employees in IFRS Reporting Department	~16 - 22 employees	~7 employees
Functions	Preparation of consolidated and standalone IFRS financial statements, submission of financial statements in accordance with the Forms approved by the state authorities and the shareholder. Support of activities for IFRS reporting automation process, fast close and etc. Provision of information at the request of the Management Committee	Preparation of IFRS financial statements Support of activities for IFRS reporting automation process, fast close and etc. Provision of information at the request of the Management Committee, shareholders
Level of IFRS reporting process automation	Average level of automation: Subsidiaries - data collection via DCF (Data Collection Forms in Excel) and uploading to the transformation and consolidation system	High level of automation at the level of group companies and automation of consolidation and preparation of IFRS financial statements
Number of transformation adjustments	Sufficient number	Minimum
Frequency of IFRS reporting	Monthly (for management accounting purposes)	Monthly (for management accounting purposes)
Reporting deadlines	Monthly operational data- 10 days, quarterly - 45 days, annual - 60-75 days	~5-7 days

The organisation of IFRS departments in other companies

Line of business	Exploration company
Country	Uzbekistan
Annual revenue	~1 million USD
Number of employees in IFRS Reporting Department	~15 employees
Functions	Preparation of IFRS financial statements, Support of activities for IFRS reporting automation process, fast close and etc. Provision of information at the requests of the Management Committee, shareholders
Level of IFRS reporting process automation	Average level of automation
Number of transformation adjustments	-
Frequency of IFRS reporting	Monthly (for management accounting purposes)
Reporting deadlines	~10 days



Appendix 3

Regulation of accounting and IFRS adoption in Uzbekistan



Types of accounting

Three types of accounting exist in Uzbekistan:



NAS local accounting
(national accounting
standards)

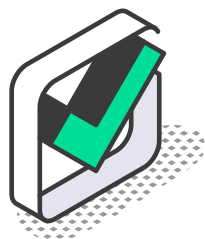


Tax accounting
(accounting for income
tax calculations)



IFRS accounting
(for IFRS financial
statement preparation)

In practice, companies in Uzbekistan conduct only NAS accounting, with a simultaneous calculation for tax purposes in tax returns, as there are differences between Tax and NAS accounting.



The process of transitioning to IFRS has been taking place in Uzbekistan since 2015 and is currently under development.

Currently, most companies adopt a conservative approach and when switching to IFRS continue to maintain NAS and the Tax Code records.

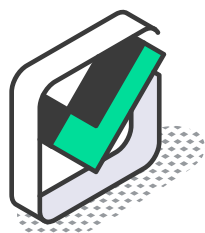
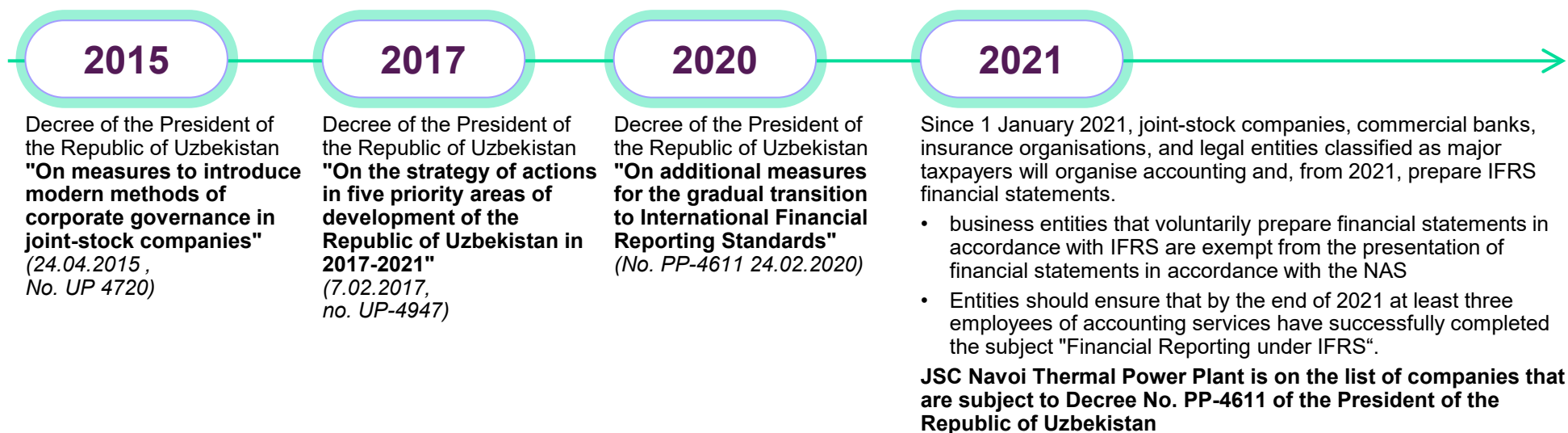
Accounting (national accounting standards) regulatory framework

Degree	Documents	Host authorities	Brief description
Legislative	The Law on Accounting of 1996 (as amended in 2016)	Legislative chamber of the Oliy Majlis	Establishes general requirements and procedure for regulating accounting in Uzbekistan.
Normative	National accounting standards, accounting guidelines	The Ministry of Finance	Establish a set of basic accounting rules for a particular object or their combination
Methodological	Methodological recommendations, instructions, comments, letters of the Ministry of Finance	The Ministry of Finance	Documents of this level contain methodological instructions, clarifications on the accounting and financial statements
Organisational	Accounting policies, working documents, regulations, and instructions for the internal regulatory system	The management of organisation	Accounting policy of the organisation and other methodological internal documents

Taxation and tax accounting regulatory framework

Degree	Documents	Host authorities	Brief description
Legislative	Tax Code (No. 599 in 30/12/2019), Law on The State Tax Service (No. 474-I in 29/08/1997)	Legislative chamber of the Oliy Majlis	Tax Code establishes requirements and the procedure for regulating taxation in Uzbekistan. Law on the State Tax Service defines the legal basis for the activities of state tax authorities
Normative	The Decree of President "On measures for further improvement of the tax policy of the Republic of Uzbekistan" (No. PD-5837 26/09/2019), the Decree of President "On organisational measures to reduce the shadow economy and improve the efficiency of the activities of tax bodies" (No. PD-6098 30/10/2020) and other Presidential, Cabinet Ministry, Ministry of Finance, State Tax Committee decrees.	The President of Uzbekistan, Cabinet of Ministers, Ministry of Finance, State Tax Committee	Documents of this level contain methodological instructions, clarifications on taxation and tax rates.
Methodological	Methodological recommendations, instructions, comments, letters of the Ministry of Finance/ State Tax Committee	Ministry of Finance, State Tax Committee	Documents of this level contain methodological instructions, clarifications on taxation.
Organisational	Accounting policies related to taxation, working documents	The management of the organisation	Tax policy of the organisation, document circulation per tax return

IFRS adoption process

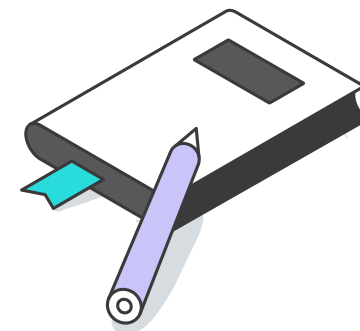


For the Company, there is an obligation to maintain IFRS accounting and adhere to the Tax Code, but no obligation to maintain NAS accounting (under Decree No. PP-4611 of the President of the Republic of Uzbekistan).

At the same time, since NAS accounting is now the basis for calculating taxes, this accounting should be maintained.

IFRS regulatory framework

Degree	Documents	Host authorities	Brief description	Source
Legislative	The Presidential Decree on additional measures to comply with International Financial Reporting Standards (PD-4611 in 24/02/2020)	The President of Uzbekistan	A detailed roadmap for the full transition to IFRS	https://lex.uz/docs/4746049
Normative	Decision of the Cabinet of Ministers of the Republic of Uzbekistan (CMD-507 in 24/08/2020)	Cabinet of Ministers	On approving regulations on the procedure for recognising IFRS and the text of explanations to it	https://lex.uz/docs/4966554



IFRS regulatory framework

Degree	Documents	Host authorities	Brief description	Source
Methodological	Template Chart of Account (draft), Template Accounting Policy, Translation IFRS into Uzbek Language (in progress), Development of new national accounting standards and amendments to existing ones, Revision and adaptation of tax reporting forms to financial statements prepared in accordance with IFRS	The Ministry of Finance/ State Tax Committee	The Ministry of Finance are preparing clarifications on the application of IFRS/The Tax Committee are also clarifications on differences between Tax Accounting and IFRS	https://buxgalter.uz/uz/msfo1/minfin_opublikoval_metodichku_po_uchetnoy_politike_po_msfo#
Organisational	Preparing an overview of essential differences between NAS and IFRS with the involvement of international experts, Conducting active informative and methodological support on the application of IFRS for heads of organisations and employees of the accounting services	The Ministry of Finance/ Public associations of accountants and auditors	Companies that prepare IFRS financial statements are exempted from the provision of NAS financial statements	https://lex.uz/docs/4746049

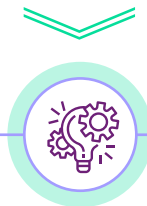
IFRS adoption process

The Ministry of Finance of the Republic of Uzbekistan:



Cooperation

Expand cooperation with Big-4 firms to develop uniform financial reporting standards, establish new Chart of Accounts per IFRS, and adapting the current Tax Code to IFRS.



Edu-platform

Organise a free educational platform with annual updates until 2025 for the special course "Financial reporting in accordance with IFRS" using remote learning technologies.



Funding

Annually allocate necessary funds in the budget of the Republic of Uzbekistan to cover the cost of:

- translating the texts of IFRS and explanations into the state language
- paying annual contributions to the IFRS Foundation
- organising a free educational platform in accordance with IFRS

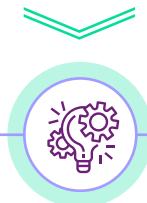
IFRS adoption process

The State Tax Committee of the Republic of Uzbekistan should ensure:



Database

The creation of an electronic database for the collection and storage of a complete set of annual financial statements according to IFRS provided by organisations, in terms of organisations subject to a mandatory audit along with an auditor's report



Posting

Annually posting on its website for external users of financial statements:

- by 1 April a list of organisations that prepare IFRS financial statements (including on a voluntary basis) with an indication of the date of transition to IFRS
- by 1 August starting 2023, a complete set of annual IFRS financial statements, subject to publication in accordance with the law



Monitoring

Systematic monitoring of compliance with the deadlines for the submitting and publishing financial statements prepared in accordance with IFRS.

At the same time, to entities that prepare financial statements in accordance with IFRS, no financial sanctions are applied for violating the procedure for preparing financial statements when applying IFRS for the first time

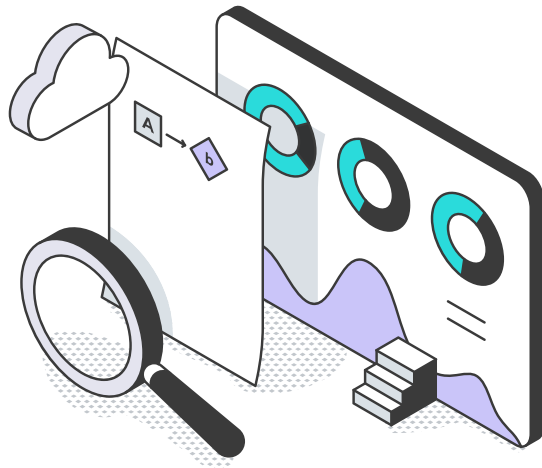
State authorities regulating accounting

President of Uzbekistan

The President The President of the Republic of Uzbekistan is the head of state and ensures the coordinated functioning and interaction of state authorities of Uzbekistan

Legislative power of Uzbekistan

Legislative chamber of the Oliy Majlis



Executive power of Uzbekistan

Cabinet of Ministers

Ministry of Finance

State Tax Committee

Appendix 4

Chart of accounts



Chart of accounts

- The Ministry of Finance has issued a new chart of accounts for organisations preparing IFRS financial statements.
- At the moment the Company has only NAS and Tax accounting and uses the NAS chart of accounts for both types of accounting.
- **A KPMG team developed a unified IFRS chart of accounts based on an NAS chart of accounts (by adding special accounts for IFRS purposes) for all companies in TPP group**

Standard chart of accounts for NAS

Код	Наименование счета	Код	Наименование счета
0000	Вспомогательный счет	5600	Денежные эквиваленты в пути
0100	Основные средства	5700	Переводы в пути
0200	Амортизация основных средств	5800	Краткосрочные инвестиции
0300	ОС, полученные по договору лизинга	5900	Прочие текущие активы
0400	Нематериальные активы	6000	Расчеты с поставщиками и подрядчиками
0500	Амортизация нематериальных активов	6100	Расчеты с обособленными подразделениями, выделенных на отдельный баланс
0600	Долгосрочные инвестиции	6200	Доходы будущих периодов и отсроченные обязательства
0700	Оборудование к установке	6300	Авансы полученные от покупателей
0800	Учет капиталовложения	6400	Расчеты по налогам и сборам
0900	Долгосрочная дебиторская задолженность и отсроченные расходы	6500	Расчеты по платежам в государственные внебюджетные фонды
1000	Материалы	6600	Расчеты с учредителями
1100	Животные на выращивании и откорме	6700	Расчеты с персоналом по оплате труда
1500	Заготовление и приобретение материальных ценностей	6800	Расчеты по краткосрочным инвестициям
1600	Отклонение в стоимости материальных ценностей	6900	Расчеты с различными кредиторами
2000	Основное производство	7000	Расчеты с поставщиками и подрядчиками - долгосрочная часть
2100	Полуфабрикаты собственного производства	7100	Расчеты с обособленными подразделениями, выделенных на отдельный баланс - долгосрочная часть
2300	Вспомогательные производства	7200	Доходы будущих периодов и отсроченные обязательства - долгосрочная часть
2500	Общепроизводственные расходы	7300	Авансы полученные от покупателей - долгосрочная часть
2600	Брак в производстве	7800	Расчеты по долгосрочным инвестициям
2700	Обслуживающие производства и хозяйства	7900	Расчеты с различными кредиторами - долгосрочная часть
2800	Готовая продукция	8300	Уставный капитал
2900	Товары	8400	Добавочный капитал
3100	Расходы будущих периодов	8500	Резервный капитал
3200	Отсроченные расходы - текущая часть	8600	Собственные акции (доли)
4000	Расчеты с покупателями и заказчиками	8700	Нераспределенная прибыль (непокрытый убыток)
4100	Расчеты с обособленными подразделениями, выделенных на отдельный баланс	8800	Целевое финансирование
4200	Авансы, выданные персоналу	8900	Резервы предстоящих расходов
4300	Авансы, выданные поставщикам и подрядчикам	9000	Доходы от основной деятельности
4400	Авансовые платежи по налогам и сборам в бюджет	9100	Себестоимость продаж
4500	Авансовые платежи по обязательным платежам	9200	Выбытие основных фондов
4600	Расчеты с учредителями		

New chart of accounts for the Companies that use IFRS – the link [ru.pdf \(mf.uz\)](http://mf.uz)

Код	Наименование счета
1000	Основные средства
1010	Основные средства
1020	Амортизация основных средств
1030	Резерв на обесценение основных средств
1040	Активы в форме права пользования
1050	Амортизация активов в форме права пользования
1060	Резерв на обесценение активов в форме права пользования
1070	Капитальные вложения в основные средства
1080	Резерв на обесценение капитальных вложений в основные средства
1100	Нематериальные активы
1110	Гудвилл
1120	Прочие нематериальные активы
1130	Амортизация прочих нематериальных активов
1140	Резерв на обесценение гудвилла и прочих нематериальных активов
1150	Активы в форме права пользования
1160	Амортизация активов в форме права пользования
1170	Резерв на обесценение активов в форме права пользования
1180	Капитальные вложения в нематериальные активы
1190	Резерв на обесценение капитальных вложений в нематериальные активы
1200	Инвестиционная недвижимость
1210	Инвестиционная недвижимость
1220	Амортизация инвестиционной недвижимости
1230	Резерв на обесценение инвестиционной недвижимости
1240	Активы в форме права пользования
1250	Амортизация активов в форме права пользования
1260	Резерв на обесценение активов в форме права пользования
1270	Капитальные вложения в инвестиционную недвижимость
1280	Резерв на обесценение капитальных вложений в инвестиционную недвижимость
1300	Долгосрочные инвестиции
1310	Инвестиции, учитываемые методом долевого участия

Detailed advantages and disadvantages of each chart of accounts are examined below

Chart of account creation approaches

A description of various approaches to organising a unified transaction chart of accounts for primary accounting, indicating the advantages and disadvantages of each:

Approaches	Brief description of approaches
01 Unified IFRS chart of accounts based on NAS chart of accounts	<p>The basis for the unified IFRS chart of accounts based on the NAS chart of accounts will be the NAS standard chart of accounts (structure and coding of accounts) as already used by the Company. This will be have two aspects:</p> <ul style="list-style-type: none"> • Finalising in terms of Tax of the Republic of Uzbekistan requirements, IFRS, and management accounting (addition with accounts and analysts) • Finalising in terms of eliminating inefficiencies in the NAS chart of accounts. For example, dividing synthetic accounts into analytical accounts according to analysts that are not applicable to IFRS (for example, fixed-asset accounts by group) <p>Advantages of this option:</p> <ul style="list-style-type: none"> • Provides the fastest and most convenient transition to a new chart of accounts, as it is based on the chart of accounts currently used by the company • Fewer errors in the creation of transactions and data verification: in addition to the potential change in the chart of accounts, a fairly large number of other changes are planned within the project (new analytics, sub-accounts, accounting principles, processes): using a familiar chart of accounts may lead to fewer errors in the early stages (compared to other options) • The absence of difficulties in finding new employees working in companies in the Republic of Uzbekistan • Implemented in the system, and will require only improvements to 1C • TPP has selected the NAS standard chart of accounts for the unified 1C system implementation • The KPMG consultants team developed unified IFRS chart of accounts based on the NAS chart of accounts (by adding special accounts for IFRS purposes) for all TPP group companies, therefore it can be used for both IFRS and Tax purposes <p>Disadvantages of this option:</p> <ul style="list-style-type: none"> • More difficult transition to the target chart of accounts, as the structure of the chart of accounts and coding changes • Need to revise IFRS requirements (addition of accounts and analysts) • Need for revision in terms of eliminating inefficiencies in the NBU chart of accounts • In 1C you need to rebuild parallel IFRS and Tax accounting

The chart of account formation approaches

The description of various approaches to the organisation of the Unified transaction chart of accounts of primary accounting is below indicating the advantages and disadvantages of each of them:

Approaches	Brief description of approaches
02 Chart of accounts based on the Unified chart of accounts of the Ministry of Finance version	<p>The Ministry of Finance has issued a new chart of accounts for organisations preparing IFRS financial statements.</p> <p>The advantages of this option:</p> <ul style="list-style-type: none"> • This chart of accounts is universal; • Reducing labour costs for checking the correctness of data by IFRS and Management accounting, as the structure of the recommended NAS chart of accounts is similar to the structure of the IFRS balance sheet for the initial verification of the initial data. <p>Disadvantages of this option:</p> <ul style="list-style-type: none"> • More difficult transition to the target chart of accounts, as the structure of the chart of accounts and coding changes; • The current 1C system is not adopted by the new chart of accounts, there will be more time spent for modifications; • A greater number of errors in the formation of postings and data verification due to the large number of changes compared to the current accounting procedure; • Difficulties in finding new employees working in companies in the territory of the Republic of Uzbekistan.

Benchmark for IFRS chart of accounts among companies in Uzbekistan:

The Company	Chart of accounts used for IFRS
01 The largest gold mining company in Uzbekistan	NAS chart of accounts modified in accordance with IFRS
02 Large construction company of Uzbekistan (oil and gas and industrial construction)	NAS chart of accounts modified in accordance with IFRS
03 The leading enterprise for the production of fuels and lubricants in the Central Asian region	Chart of accounts by the Ministry of Finance (implementation is in process, long run project)
04 The leading company in industrial construction in the market of Central Asia	Russian chart of accounts modified in accordance with IFRS

Conceptual approach of using unified chart of accounts for Tax (ex. NAS) and IFRS

01

Unified accounts of the chart of accounts (the same numbering, names) and unified additional analytics (sub-accounts, details) are used to reflect transactions in Tax (ex. NAS) and IFRS thus, primary accounting under both Tax (ex. NAS) and IFRS is conducted in a single structure of the chart of accounts.

02

Transactions in Tax (ex. NAS) and IFRS are reflected in the same correspondence of accounts.

03

Unified analytics (for example the list of counterparties) are used for accounting under Tax (ex. NAS) and IFRS.

04

If the transactions relate to different lines of the Tax (ex. NAS)/IFRS balance sheet, then separate sub-accounts are allocated for such transactions in the chart of accounts (for example, the long-term/short-term part of the calculations).

Compliance with the above approaches ensures:

1. Maximum uniformity of Tax (ex. NAS) and IFRS data (unified chart of accounts for the assessment of Tax and IFRS)
2. Uniformity in accounting rules (there is no need for an accounting specialist to double-classify one operation by defining accounting rules once, the operation is immediately reflected in Tax and IFRS)
3. Reducing the total time for closing the period (it takes less time to reconcile the compliance of Tax and IFRS data, since it is necessary to check only those operations where there are methodological differences)

Methodologically, it is recommended to use the same chart of accounts for IFRS and Tax area (the same account numbers and names, the same analysts for Tax and IFRS), however, technical implementation may involve the use of 2 charts of accounts for Tax and IFRS with the same accounts and analysts. The specifics of the technical implementation are determined by the Company when developing the terms of reference.

Appendix 5

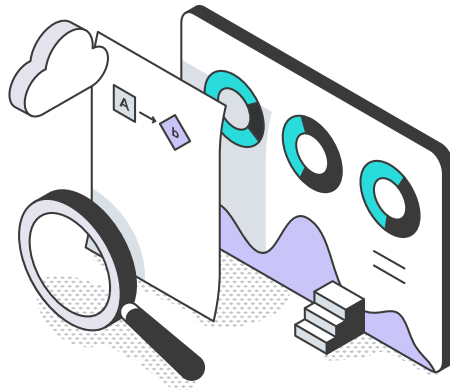
1C settings, parameters and report requirements for parallel accounting of Property, Plant and Equipment



Parallel accounting of Property, Plant and Equipment

Examples of documents for parallel accounting of PPE:

1. Entering initial balances of the PPE
2. Recognition of PPE
4. Modernisation / capitalisation of expenses
5. Changing the parameters of the depreciation of PPE
6. Disposal of PPE
7. Depreciation of PPE
8. PPE production
9. PPE movement
10. Impairment of PPE



Depreciation of PPE and analytical information:

The document **Depreciation of PPE** is reflected in the system last, after all events with PPE items in the documents of parallel accounting of PPE.

Analytical information:

For each asset item, information on accounting parameters should be stored both in Tax (ex. NAS) and in IFRS, in particular:

- initial cost
- date of being put into use
- accumulated depreciation
- asset group
- useful life
- depreciation method
- net book value
- parameters for reflecting depreciation expenses

The inventory number should be the same both in the assessment of Tax (ex. NAS) and in IFRS (for one asset item, one inventory number). This information should also be available when generating separate analytical reports.

Parallel accounting of Property, Plant and Equipment

General concept for transactions in IFRS chart of accounts:

For the completeness and correctness of data in both the Tax (ex. NAS) and IFRS areas, it is proposed to use the following approach:

1. Identify the main accounting ledger Tax or IFRS (for example, IFRS)
2. Ensure the availability of data slices on the secondary register (for example, Tax) containing the following values: IFRS assessment, reversal of IFRS / adjustment, Tax adjustment

Thus, when generating secondary register data, during the first step it will always be possible to ensure that IFRS = Tax, as part of subsequent steps, it will be possible to track the reasons for differences between IFRS and Tax (since adjustments will be reflected separately).

Example of parallel accounting (proposed option):

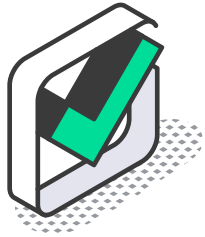
Account	Description	Indicators	Translation		Reversal		Reclassification		Parallel accounting	
			Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
02	PPE Depreciation	In accounting currency (IFRS)		23 905 847,44		-23 905 847,44				3 201 848,03
		In accounting currency (NAS)		23 905 847,44						
02.01	PPE Depreciation accounted on the 01 account	In accounting currency (IFRS)		23 905 847,44		-23 905 847,44				3 201 848,03
		In accounting currency (NAS)		23 905 847,44						
02.01.1	PPE Depreciation accounted on the 01.01 account	In accounting currency (IFRS)		23 905 847,44		-23 905 847,44				3 201 848,03
		In accounting currency (NAS)		23 905 847,44						

Also, a report that displays the itemised data of IFRS and Tax (ex. NAS) must be downloaded. An example is given in Appendix 6 p. 5. The example of this report helps to understand and analyse how data was changed from NAS to IFRS

Advantages:

- an ability to analyse data according to NAS and IFRS in one system in terms of the IFRS chart of accounts
- an ability to analyse data by operation types (translation, reversal, reclassification, parallel accounting) in the context of accounting items
- the automation of most parallel accounting operations, based on specific rules (for example, for inseparable improvements on concession property)

Parallel accounting of Property, Plant and Equipment



It is required to provide reports that will allow a detailed comparison of IFRS and Tax (ex. NAS) data and an analysis of discrepancies arising due to parallel accounting and adjustments in 1C.

To do this, it is necessary to provide "Indicator" analytics in all standard reports, which will include "IFRS" and "Tax" values.

For example, turnover balance sheet in terms of the IFRS chart of accounts should be created with a separation of "IFRS" and "Tax" data slices and include a transcript divided into Tax and IFRS for both balances and turnover:

Account	Indicator	Opening balance Dr	Opening balance Cr	Turnover Dr	Turnover Cr	Closing balance Dr	Closing balance Cr
	IFRS						
	Tax (ex. NAS)						

It is required to specify in which assessment the report should be displayed. There are three possible options:

1. IFRS. The report is displayed in the IFRS assessment.
2. Tax. The report is displayed in the Tax (ex. NAS) assessment.
3. IFRS+Tax. The report is displayed in both Tax and IFRS assessments.

Appendix 6

List of supplementary documents*

*Documents were transferred to Navoi TPP and TPP within the framework of the previous stages of the project



List of supplementary documents

During the implementation of the project, Navoi TPP JSC and TPP JSC received the following documents:

1. Schedule for the preparation of consolidated financial statements for TPP Group.
2. IFRS Fundamentals training statistics.
3. Comments and questions on the transformation of data to individual IFRS financial statements for 2020 of the Navoi TPP.
4. Comments and questions on the transformation of data to the consolidated IFRS financial statements for 2020 of the TPP Group.
5. An example of an itemised register of Property, Plant and Equipment with a reconciliation of IFRS and Tax (ex. NAS) data.
6. A description of the procedure for preparing IFRS financial statements using the method of transformation from NAS.
7. A list of files used in preparing the transformation for 2021 (indicating the relationship and status of the presence of thermal power plants).
8. Detailed recommendations on improving the accounting policy for TPP group.
9. “The procedure for preparing data transformation from NAS to IFRS and consolidation” training statistics

Information from these documents was used in the course of framing the recommendations included in the current report.

All materials are provided in a separate files



Appendix 7

Additional training
"Preparation of IFRS
financial statements
using the
transformation method
from NAS using the
model in MS Excel"



Contents of the training "Preparation of IFRS financial statements using the transformation method from NAS using the model in MS Excel"

Day	Training topic
Day 1	IFRS reporting in the Republic of Uzbekistan
Day 1	Presentation of annual and interim financial statements
Day 1	Approaches and stages of preparing IFRS financial statements
Day 1	Approaches and stages of preparing IFRS financial statements: Preparatory stage
Day 1	Approaches and stages of preparing IFRS financial statements: Collection of information
Day 2	Approaches and stages of preparing IFRS financial statements: Transformation
Day 2	Demonstration of the main MS Excel formulas used in preparing IFRS financial statements using the transformation method
Day 2	Theory and practice: Property, Plant and Equipment (IAS 16)
Day 3	Theory and practice: Inventories (IAS 2)
Day 3	Theory and practice: Accounting for Exchange Differences on Monetary Items (IAS 21)
Day 3	Theory and practice: Capital

Contents of the training "Preparation of IFRS financial statements using the transformation method from NAS using the model in MS Excel"

Day	Training topic
Day 3,4	Theory and practice: Financial Instruments (IFRS 9)
Day 4	Theory and practice: Provisions, Contingent Liabilities and Contingent Assets (IAS 37)
Day 4	Theory and practice: Income Tax (IAS 12)
Day 4	Theory and practice: Other transformational adjustments
Day 4	Approaches and stages of preparing IFRS financial statements: Consolidation
Day 4	Theory and practice: Consolidation Adjustments
Day 4	Approaches and stages of preparing IFRS financial statements: Collection of reporting forms
Day 4	Theory and practice: Notes to the Consolidated Financial Statements
Day 4	Approaches and stages of preparing IFRS financial statements: Preparation of a word version of financial statements
Day 4	Approaches and stages of preparing IFRS financial statements: Audit of financial statements

Appendix 8

Description of 1C System configurations



1C System configurations

1C is a Russian software developer, distributor. In Russia, 1C is considered a leader in business software for its comprehensive business software suite 1C:Enterprise. The use of 1C products is widespread in the markets of Russia and the CIS, including in the field of organization of accounting automation. 1C has been developing since the 90s. At the moment, most of the products have been transferred to the 1C: Enterprise 8.3 platform. The 1C: Enterprise 8.3 platform provides for the use of various 1C configurations.

Solutions for Russian companies

Standard configurations

ERP systems:

- Procurement and asset management;
- Investment project management;
- Regulated accounting and tax accounting;
- **Accounting and reporting under IFRS;**
- Budgeting;
- Corporate Treasury;
- *and other functions depending on the configuration, for example, cost calculation.*

E.g. : **1C: Holding Management** **1C:ERP Enterprise Management**

Accounting:

The main task is regulated accounting and tax accounting

There is no accounting and preparation of IFRS reporting

E.g. : **1C Accounting**

1C: USO Partionny

1C: Enterprise Accounting

1C: Accounting CORP

Other configurations:

There are configurations for individual accounting tasks, e.g.:

- Payroll and personnel accounting;
- Electronic document flow;
- Managing inventory balances

E.g. :

1C: Salary and personnel accounting

1C: Document management

Industry configurations

Depending on the type of business, there are special solutions for configurations (for example, ERP and Accounting) for accounting in:

- Retail, hotel, restaurant business;
- Construction;
- Production;
- other industries.

Specialized configurations

For individual companies, their own atypical configurations are created.

Official localized solutions (Uzbekistan)

Configurations for different countries are created based on configurations for Russia

Accounting:

The main task is regulated accounting.

There is no tax accounting and accounting/preparation of IFRS reporting

E.g. : **1C: Accounting Uzbekistan**

Other configurations:

E.g. : **1C: Retail Uzbekistan** **1C: Salary and personnel accounting Uzbekistan**

TPP 1C configuration

Additional functions are configured, including on the basis of libraries of standard solutions "1C: Library of standard subsystems".

Specialized configuration is being developed for TPP

The configuration functionality is determined by the TPP.

To set up accounting and reporting under IFRS, as well as to calculate income tax taking into account the existing differences between tax accounting and accounting under IFRS, a Specialized configuration of 1C System is currently being developed (Zayd Group – IT; Grant Thornton – methodology).

The configurations used in the Russian Federation was taken as a basis (localized versions for Uzbekistan were not used): "1C: Enterprise Accounting" and "1C:Salary and personnel accounting".

The configuration has already implemented accounting according to the NAS of all Companies of the TPP Group. The same configuration is in the process of being finalized for the purposes of accounting and reporting under IFRS.

As a result, there will be one single database.