

ASSESSMENT OF THE EFFICIENCY OF IMPLEMENTING IFRS AND TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS IN ENERGY ENTERPRISES

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Abstract: This research examines the necessity, advantages, and practical aspects of implementing International Financial Reporting Standards (IFRS) in energy enterprises of the Republic of Uzbekistan. The study analyzes the impact of adaptation to international standards on corporate financial transparency and investment attractiveness in the context of energy sector liberalization.

Keywords: IFRS, International Financial Reporting Standards, energy enterprises, ESG reporting, corporate governance, sustainable development.

Reforms in the energy sector are not limited to changing technology or market structures alone, but also require a fundamental revision of financial management and reporting systems based on international standards. For major energy enterprises to implement investment projects, attract foreign capital, and enter international markets, it is crucial that their financial reports be prepared in accordance with globally recognized standards.

International Financial Reporting Standards (IFRS) constitute a comprehensive set of universal rules applied worldwide for financial reporting preparation, with the primary objective of providing fair and comparable representation of a company's financial position for investors and other stakeholders. Reports prepared in accordance with IFRS enable the investment community to compare enterprise performance with other international companies.

The process of preparing consolidated financial statements includes the following stages (Table 1):

Table 1. Consolidation stages of electric power group enterprises

Stage	Practical Actions	Methodological Basis
1. Determining consolidation scope	Identifying enterprises included in the group based on control concept	IFRS 10 "Consolidated Financial Statements"
2. Applying uniform accounting policies	Recalculating all group enterprise reports based on unified principles	IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"
3. Eliminating intra-group operations	Removing balances and results from intra-group transactions	IFRS 10 "Consolidated Financial Statements"
4. Calculating and recognizing goodwill	Determining the difference between acquisition cost and net asset value	IFRS 3 "Business Combinations"

5. Recognizing non-controlling interests	Determining minority shareholders' share in subsidiary enterprises	IFRS 10 "Consolidated Financial Statements"
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The implementation of IFRS holds significant importance in the process of reforming the Republic of Uzbekistan's energy sector and attracting foreign investors. IFRS implementation creates the following opportunities:

First, international comparability of financial reports is ensured. Energy enterprises gain the ability to compare their financial results with other companies in the global market, which is of great significance in strategic planning and competitiveness assessment.

Second, the effectiveness of attracting international investments increases. Reports prepared on the basis of IFRS become comprehensible and reliable for foreign investors, facilitating their investment decision-making process.

Third, corporate governance quality improves. IFRS requirements enable enterprises to strengthen their financial control systems and enhance the quality of management decisions.

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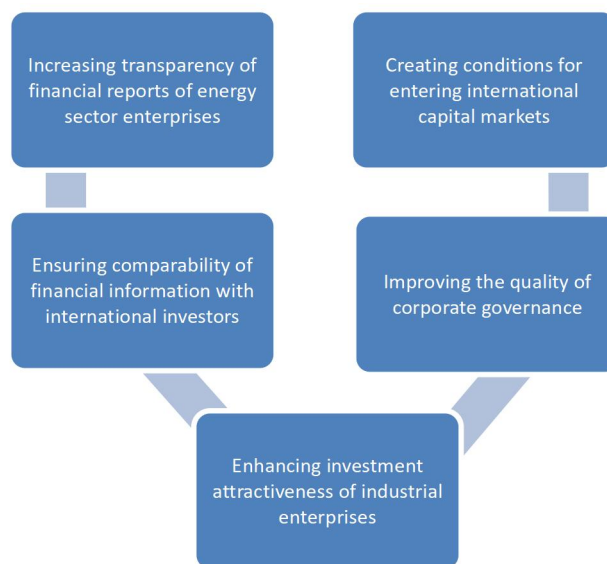


Figure 1. Opportunities arising from IFRS implementation

The implementation of IFRS in energy enterprises has distinctive characteristics compared to other sectors:

First, the energy sector involves large-scale fixed assets with extended service lives. Power plants, transmission networks, and distribution equipment operate for 30-50 years, requiring their valuation and depreciation calculations to be conducted in accordance with IFRS requirements.

Second, the energy sector operates under government-regulated tariff systems. This necessitates a specific approach when applying IFRS revenue recognition standards (IFRS 15), as tariffs are established by government authorities rather than under market conditions. [1]

Third, environmental obligations and sustainable development issues hold particular significance for energy enterprises. This requires accounting for environmental provisions based on the IFRS provisions standard (IAS 37). [2]

In recent years, sustainable development and ESG reporting have gained particular importance within international financial reporting frameworks. ESG (Environmental, Social, Governance) represents a comprehensive set of indicators reflecting corporate performance in environmental, social, and corporate governance areas, increasingly influencing investor decisions in developed markets. [3]

In 2023, the International Sustainability Standards Board (ISSB) under the IFRS Foundation announced its first set of standards: IFRS S1 (general sustainability disclosure standard) [4] and IFRS S2 (climate change disclosure standard). [5]

The following key challenges are anticipated in implementing IFRS in Uzbekistan's energy enterprises: First, the shortage of qualified personnel presents a significant issue. The number of accountants and auditors with deep IFRS knowledge remains limited.

Second, modernization of IT systems becomes necessary. Current information systems do not fully comply with IFRS requirements and require updating.

Third, organizational culture transformation is required. IFRS demands a new way of thinking and necessitates changes throughout the entire organization.

The structural distribution policy of the Ministry of Energy defines policy development and strategic planning functions. The Energy Market Development and Regulation Agency, established at the end of 2023, assumes regulatory functions and holds authority for licensing market participants and setting tariffs. [6]

Institutional changes in the financial reporting system have fundamentally transformed the sector's corporate transparency standards. The new Law "On Electric Power Industry," which entered into force on November 9, 2024, established requirements for enterprises to prepare financial reports in accordance with international financial reporting standards. [7]

The practical analysis of Uzbekistan energy enterprises' financial reports provides an opportunity to assess existing system standards compliance. Reports prepared based on national accounting standards create interpretation complexities for international investors.

Financial reports of thermal power plants reveal structural problems in fixed asset valuation. Under national standards requirements, assets are presented at historical cost. IFRS requires fair value assessment for certain asset categories, which creates significant value differences, particularly for long-term assets.

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