“SILK WAY DEVELOPMENT” LIMITED LIABILITY COMPANY

Consolidated Financial Statements and
Independent Auditor’s Report
for the year ended 31 December 2022

"SILK WAY DEVELOPMENT" LIMITED LIABILITY COMPANY

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"SILK WAY DEVELOPMENT" LIMITED LIABILITY COMPANY

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Management is responsible for the preparation of the consolidated financial statements that present fairly, in all material respects, the consolidated financial position of "Silk Way Development" Limited Liability Company and its subsidiaries (the "Group") as at 31 December 2022, consolidated statements of profit or loss and other comprehensive income for the year then ended, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and of significant accounting policies and notes to the consolidated financial statements in compliance with International Financial Reporting Standards ("IFRSs").

In preparing the consolidated financial statements, management is responsible for:

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2022 were authorised for issue by management on 07 July 2023.

On behalf of Management:

AZƏRBAYCAN RESPUBLİKASI "Silk Way Development" MMC SW DEVELOPMENT "Silk Way Development" LLC AZERBAIJAN REPUBLIC

Mr. Zaur Akhundov	Mr. Mir Samad Movsum-zada
President	Vice President, Finance
Baku, the Republic of Azerbaijan	Baku, the Republic of Azerbaijan
07 July 2023	07 July 2023

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and the Board of Directors of "Silk Way Development" Limited Liability Company

Opinion

We have audited the consolidated financial statements of "Silk Way Development" Limited Liability Company and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statements of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Deloitte + Touche LLAC

07 July 2023

DELOITTE & TOUCHE
MƏHDUD MƏSULİYYƏTLİ AUDİTOR CƏMİYYƏTİ
AZERBAIJAN

"SILK WAY DEVELOPMENT" LIMITED LIABILITY COMPANY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022
(in thousands of Azerbaijani Manats)

	Notes	Year ended 31 December 2022	Year ended 31 December 2021
Revenue[1]	5	3,378,636	2,911,679
Other operating income		19,522	27,094
Total revenue		**3,398,158**	**2,938,773**
Fuel		(990,610)	(612,785)
Handling, landing and navigation charges		(341,461)	(364,509)
Depreciation[1]	13, 14	(191,052)	(190,826)
Staff costs[1]	7	(129,786)	(138,114)
Commissions		(123,311)	(108,795)
Engineering and maintenance		(81,973)	(78,322)
Aircraft and engine lease costs	6	(53,261)	(64,094)
Crew rental and other crew costs		(41,775)	(42,646)
Trucking costs		(38,550)	(51,364)
Material expenses		(36,093)	(25,153)
Taxes, other than income tax		(26,736)	(19,623)
Fees for transportation by chartered flights		(15,872)	(1,694)
Other operating expenses[1]		(49,009)	(55,435)
Total operating expenses		**(2,119,489)**	**(1,753,360)**
Operating profit		**1,278,669**	**1,185,413**
Finance cost, net	8	(72,536)	(74,037)
Foreign exchange loss		(85,611)	(34,641)
Foreign exchange gain[1]		73,502	28,607
Other income[1]	9	13,634	75,118
Gain on disposal of property and equipment		4,862	3,227
(Impairment loss on) / recovery of financial assets		(3,321)	1,037
Loss on disposal of property and equipment		-	(11,110)
Other costs		-	(7,509)
Profit before income tax		**1,209,199**	**1,166,105**
Income tax expense[1]	10	(245,063)	(233,597)
Profit for the year from continuing operations		**964,136**	**932,508**
Discontinued operations			
(Loss) / profit for the year from discontinued operations		(2,261)	42,583
Profit for the year		**961,875**	**975,091**
Other comprehensive income:			
Translation differences on foreign operations		(672)	(181)
Other comprehensive income for the year		**(672)**	**(181)**
Total comprehensive income for the year		**961,203**	**974,910**
Profit for the year attributable to:			
Owners of the Company		959,885	958,058
Non-controlling interests		1,990	17,033
Total comprehensive income for the year attributable to:			
Owners of the Company		959,213	957,877
Non-controlling interests		1,990	17,033

[1] The prior year of profit or loss figures have been re-presented to show the discontinued operation separately from continuing operations.

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022
(in thousands of Azerbaijani Manats)

	Notes	31 December 2022	31 December 2021
Assets			
Non-current assets			
Right-of-use assets	14	1,054,784	1,132,168
Property and equipment	13	490,685	422,976
Advances paid [1]	19	373,184	184,799
Restricted cash	17	20,400	20,400
Security deposits		19,846	22,833
Inventories	16	12,593	12,593
Other long-term assets[2]		6,505	11,669
Total non-current assets		**1,977,997**	**1,807,438**
Current assets			
Bank deposits	18	425,000	-
Cash and bank balances	17	435,268	344,288
Trade and other receivables	15	166,004	254,084
Inventories	16	53,681	32,760
Advances paid[1]		38,211	29,786
Other short-term assets[2]		28,100	27,374
Total current assets		**1,146,264**	**688,292**
Total assets		**3,124,261**	**2,495,730**
Equity and liabilities			
Capital and reserves			
Charter capital	20	12,329	12,329
Retained earnings		1,096,703	254,018
Revaluation reserve	25	394,496	394,496
Foreign exchange translation reserve		(820)	10,190
Equity attributable to owners of the Company		1,502,708	671,033
Non-controlling interests		-	12,613
Total equity		**1,502,708**	**683,646**
Non-current liabilities			
Lease liabilities, non-current portion	22	655,939	733,972
Loans and borrowings, non-current portion	23	308,667	293,592
Deferred tax liability	11	110,515	112,056
Provisions	24	31,489	31,047
Total non-current liabilities		**1,106,610**	**1,170,667**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2022
(in thousands of Azerbaijani Manats)

	Notes	31 December 2022	31 December 2021
Current liabilities			
Trade and other payables	21	234,252	218,489
Lease liabilities, current portion	22	135,787	103,108
Loans and borrowings, current portion	23	66,001	102,988
Current income tax payable		44,778	179,596
Other liabilities		34,125	37,236
Total current liabilities		**514,943**	**641,417**
Total liabilities		**1,621,553**	**1,812,084**
Total equity and liabilities		**3,124,261**	**2,495,730**

[1] AZN 184,799 thousand and AZN 29,786 thousand of "Advances paid" that were presented within "Other long-term assets" and "Other short-term assets", respectively, in the prior year consolidated financial statements, are presented separately in order to conform to the presentation of the current year.
[2] AZN 8,245 thousand and AZN 9,735 thousand that were presented as "Finance lease receivables" in the prior year consolidated financial statements, are presented within "Other long-term assets" and "Other short-term assets", respectively, in the consolidated financial statements in order to conform to the presentation of the current year.

The accompanying notes are an integral part of these consolidated financial statements.

“SILK WAY DEVELOPMENT” LIMITED LIABILITY COMPANY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022
(in thousands of Azerbaijani Manats)

	Notes	**Charter Capital**	**Revaluation reserve**	**Foreign exchange translation reserve**	**Retained earnings**	**Total equity attributable to owners of the parent**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2021		**12,329**	**361,853**	**10,371**	**8,807**	**393,360**	**(276)**	**393,084**
Profit for the year		-	-	-	958,058	**958,058**	17,033	**975,091**
Other comprehensive income		-	-	(181)	-	**(181)**	-	**(181)**
Total comprehensive income for the year		**-**	**-**	**(181)**	**958,058**	**957,877**	**17,033**	**974,910**
Transfer from revaluation reserve	25	-	32,643	-	(32,643)	**-**	-	**-**
Dividends	26	-	-	-	(680,204)	**(680,204)**	(6,515)	**(686,719)**
Non-controlling interests arising in a business combination		-	-	-	-	**-**	2,371	**2,371**
Balance at 31 December 2021		**12,329**	**394,496**	**10,190**	**254,018**	**671,033**	**12,613**	**683,646**
Profit for the year		-	-	-	959,885	**959,885**	1,990	**961,875**
Other comprehensive income for the year		-	-	(672)	-	**(672)**	-	**(672)**
Total comprehensive income for the year		-	-	(672)	959,885	**959,213**	1,990	**961,203**
Dividends	26	-	-	-	(127,538)	**(127,538)**	(8,424)	**(135,962)**
Disposal of subsidiary	12	-	-	-	-	**-**	(6,179)	**(6,179)**
Transfer		-	-	(10,338)	10,338	**-**	-	**-**
Balance at 31 December 2022		**12,329**	**394,496**	**(820)**	**1,096,703**	**1,502,708**	**-**	**1,502,708**

The accompanying notes are an integral part of these consolidated financial statements.

"SILK WAY DEVELOPMENT" LIMITED LIABILITY COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022
(in thousands of Azerbaijani Manats)

	Note	Year ended 31 December 2022	Year ended 31 December 2021
Profit for the year before tax		1,208,966	1,219,999
Adjustments for:			
Depreciation	13, 14	191,611	191,347
Foreign exchange loss		85,611	36,302
Foreign exchange gain		(73,502)	(28,607)
Finance cost, net	8	72,536	74,037
Loss on disposal of subsidiary	12	7,237	-
Impairment losses / (recoveries) on financial assets, net	15	3,321	(1,037)
Gain on disposal of property and equipment		(4,862)	(3,227)
Trade and other payables write-off		(639)	(1,187)
Gain on lease modification	9	-	(32,085)
Gain on early termination of lease	9	-	(31,304)
Loss on disposal of property and equipment		-	11,110
Gain on bargain purchase	9	-	(866)
Operating cash flow before movements in working capital		**1,490,279**	**1,434,482**
Change in trade and other receivables		(385,620)	(240,192)
Change in trade and other payables		238,883	232,182
Change in amount due from related parties		48,952	(96,837)
Change in inventories		(21,133)	(15,439)
Change in amounts due to related parties		18,915	42,429
Change in advances paid		(8,425)	(6,850)
Change in other liabilities		346	533
Change in other short-term assets		88	5,947
Cash generated by operating activities		**1,382,285**	**1,356,255**
Income tax paid		(240,758)	(60,883)
Interest paid		(60,912)	(70,304)
Net cash generated by operating activities		**1,080,615**	**1,225,068**
Investing activities			
Bank deposits placement	18	(425,000)	-
Advance payments for aircraft purchase	19	(160,870)	(96,714)
Payments for property and equipment purchases and overhauls		(84,277)	(46,061)
Advance payments for maintenance reserve and aircraft repair services	19	(41,139)	(39,590)
Advance payments for engine purchase	19	(21,900)	-
Disposal of subsidiary, net of cash disposed of		(8,975)	-
Cash proceeds from disposal of property and equipment		5,313	27,462
Cash proceeds from finance lease receivables		2,637	8,037
Security deposit payments		(1,316)	(2,524)
Payments for right-of-use overhauls		-	(43,602)
Cash held as collateral	17	-	(20,400)
Cash proceeds from long-term receivables and prepayments		-	4,948
Net cash used in investing activities		**(735,527)**	**(208,444)**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022
(in thousands of Azerbaijani Manats)

	Note	Year ended 31 December 2022	Year ended 31 December 2021
Financing activities			
Dividends paid	26	(129,953)	(686,719)
Principal payments on lease liabilities	22	(99,900)	(127,793)
Principal payments on loans and borrowings	23	(92,924)	(130,567)
Proceeds from loans and borrowings	23	72,051	71,400
Net cash used in financing activities		**(250,726)**	**(873,679)**
Net change in cash and bank balances		**94,362**	**142,945**
Foreign currency effect on cash		(3,382)	(1,839)
Cash and bank balances, beginning of the year	17	**344,288**	**203,182**
Cash and bank balances, end of the year	17	**435,268**	**344,288**

Following non-cash transactions were not included in consolidated statement of cash flows for the year ended 31 December 2022 and 31 December 2021:

(a) Recognition of right-of-use assets of AZN 42,265 thousand through lease liabilities (2021: AZN 59,664 thousand) (Note 23);
(b) Capitalisation of AZN 9,359 thousand for overhaul of an engine by transfer from advances paid (advance payments for aircraft repair service providers under power-by-hour (PBH)) (2021: AZN 19,415 thousand) (Note 19);
(c) Transfer of right-of-use assets of AZN 13,470 thousand to property and equipment upon purchase of a previously leased aircraft (2021: Transfer of right-of-use asset of AZN 19,531 thousand to property and equipment and derecognition of provision against right-of-use asset of AZN 7,096 thousand upon purchase of a previously leased aircraft) (Note 9, 13 and 14);
(d) Offset of AZN 142,692 thousand current income tax liability with other tax receivables (2021: AZN 30,096 thousand);
(e) Offset of security deposit of AZN 2,125 thousand (2021: AZN 2,125 thousand) and refundable contributions to maintenance reserve of AZN 26,165 thousand (2021: AZN 16,427 thousand) with amount payable upon purchase of previously leased aircraft (Note 9);
(f) Offset of amount due from related parties and trade and other receivables of AZN 47,282 thousand (2021: AZN 50,506 thousand);
(g) Offset of amount due from related parties and trade and other payables of AZN 1,532 thousand (2021: AZN 82,735 thousand);
(h) Offset of trade and other receivables with trade and other payables of AZN 238,161 thousand (2021: AZN 146,365 thousand);
(i) Offset of trade and other receivables with amount due to related parties of AZN 18,586 thousand (2021: AZN nil thousand);
(j) Transfer from foreign exchange translation reserve to retained earnings of AZN 10,338 thousand (2021: AZN nil thousand);
(k) Offset of amount due from related parties and amount due to related parties of AZN 66,110 thousand in 2021;
(l) Transfer from investment property to property and equipment of AZN 85,612 thousand in 2021;
(m) Adjustments made to right-of-use asset due to derecognition of lease liabilities and maintenance provision of AZN 16,264 thousand and AZN 4,654 thousand, respectively, upon modification of a lease contract (Note 9 and 14) in 2021.

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands of Azerbaijani Manats)

1. NATURE OF ACTIVITIES

“Silk Way Development” Limited Liability Company (the “Company”) is a legal entity registered by the State Tax Service under the Ministry of Economy of the Republic of Azerbaijan on 12 December 2011. The registered office of the Company is Heydar Aliyev Airport, Baku, Azerbaijan Republic.

The principal activity of the Company and its subsidiaries (the “Group”) is provision of regular and charter air cargo transportation throughout Europe, Asia and America with its central hub located in Heydar Aliyev Airport, Baku, Azerbaijan Republic.

The Company’s immediate owners as at 31 December 2022 and 2021 were as follows:

Shareholders	Ownership, %
Mr. Zaur Akhundov	89.78%
Mrs. Dilara Akhundova	10.22%

The ultimate controlling party of the Group as at 31 December 2022 and 2021 is Mr. Zaur Akhundov.

The Group has several subsidiaries. Details of the Group’s material subsidiaries, which are consolidated in these financial statements, as at the end of the reporting period are as follows:

Name of Subsidiary	Principal activity	Place of incorporation and operation	Proportion of direct or indirect ownership interest held %	
			2022	2021
Silk Way Holding	Holding Company	The Republic of Azerbaijan	100%[1]	100%[1]
Silk Way Airlines LLC	Air cargo transportation	The Republic of Azerbaijan	100%[2]	100%[2]
Silk Way West Airlines LLC	Air cargo transportation and technical services to aircraft	The Republic of Azerbaijan	100%[3]	100%[3]
Silk Way Airlines Germany GmbH	Air cargo agency services	Germany	100%[1]	100%[1]
Silk Way Airlines Limited	Air cargo agency services	China (Hong Kong)	100%[1]	100%[1]
Silk Way Airlines USA Inc.	Air cargo agency services	USA	100%[3]	100%[3]
Sky Gates Rus LLC	Air cargo transportation	Russian Federation	-	60%[4]
Sky Gates Airlines Rus LLC	Air cargo transportation	Russian Federation	-	60%[4]

[1] 100% owned by Silk Way Development LLC;
[2] 62% owned by Silk Way Holding and 38% owned by Silk Way Development LLC;
[3] 100% owned by Silk Way Airlines LLC
[4] Sky Gates Airlines Rus LLC is 100% owned by Sky Gates Rus LLC. Sky Gates Rus LLC was 60% owned by Silk Way Development as at 31 December 2021 and was disposed during 2022 (Note 12).

(in thousands of Azerbaijani Manats)

Silk Way West Airlines LLC provides transportation services in the global market through its representative offices and branches located in different regions of the world. Representative offices and branches through which transportation services are provided as of 31 December 2022 and 2021 are listed below:

Representative offices and branches	Place of operation
Silk Way Zhengzhou	China
Silk Way Seoul	Korea
Silk Way Shanghai	China
Silk Way Tokyo	Japan
Silk Way Alma-Ata	Kazakhstan
Silk Way Tbilisi	Georgia
Silk Way West Ukraine	Ukraine
Silk Way Tianjin Binhai	China
Silk Way Singapore	Singapore

Silk Way West Airlines LLC also has a branch located in Azerbaijan, Silk Way West Technics that provides technical maintenance services to aircraft.

On 30 December 2020, the Group entered into the agreement on acquisition of 60% controlling interest over Sky Gates Rus LLC, a Russian based air cargo transportation company, as an opportunity to expand its cargo transportation operations in Russian market. Sky Gates Rus LLC registered 45% and 15% shares in the Unified State Register of Legal Entities on 30 December 2020 and 11 January 2021, respectively.

On 1 March 2022, the Board of Directors has authorized the decision to dispose of its 60% shares in Sky Gates Rus LLC. The respective entry on disposal has been made in the Unified State Register of Legal Entities on 18 April 2022.

The results of discontinued operations are disclosed in detail in Note 12.

2. ADOPTION OF NEW AND REVISED STANDARDS

New and amended IFRS Accounting Standards that are effective for the current year

There are no new and amended standards effective for the current year which could materially impact the Group's consolidated financial statements.

(in thousands of Azerbaijani Manats)

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these consolidated financial statements, the Group has not applied amendments to the following IFRS Standards that have been issued but are not yet effective:

Standards	***Effective date***
IFRS 17 – Insurance Contracts (including the June 2020 and December 2021 Amendments to IFRS 17) - *Insurance Contracts*	*1 January 2023*
Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	*To be set by the Board*
IAS 1 - *Classification of Liabilities as Current or Non-current*	*1 January 2023*
IAS 1 and IFRS Practice Statement 2 - *Disclosure of Accounting Policies*	*1 January 2023*
IAS 8 - *Definition of Accounting Estimates*	*1 January 2023*
IAS 12 - *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	*1 January 2023*

Management does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

Amendments to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences - e.g. leases. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognized from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other components of the equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The Group accounts for deferred tax on leases applying the “integrally linked” approach, resulting in similar outcome to the amendments, except that the deferred tax asset or liability is recognized on a net basis. Under the amendments, the Group will recognize a separate deferred tax asset and a deferred tax liability.
The impact on taxable temporary difference in relation to the right-of-use asset will be AZN 89,976 thousand and a deductible temporary difference in relation to the lease liability and maintenance provision will be AZN 70,622 thousand and AZN 4,549 thousand, respectively, resulting in a net deferred tax liability of AZN 14,765 thousand as at 31 December 2022. Management expects no impact on retained earnings on adoption of the amendments.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and comply with all issued and effective IFRS at the time of preparing these consolidated financial statements.

These consolidated financial statements have been prepared on the historical cost basis except for revaluation of aircraft and related overhauls that are measured at revalued amounts at the end of each reporting period as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.
In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IFRS 16 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories.

The same accounting policies, presentation and methods of computation have been followed the year ended 31 December 2022 as were applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2021.

The principal accounting policies adopted are set out below.

Going concern

Management has, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

- Has the power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee;
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.
When the Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements;
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable IFRS Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

Functional and presentation currency

The national currency of Azerbaijan is the Azerbaijani Manat (“AZN”), which is the Group’s functional currency, because it reflects the economic substance of the underlying events and circumstances of the Group. Azerbaijani Manat is also the presentation currency for these consolidated financial statements. All values are rounded to the nearest thousand AZN, except when otherwise indicated.

Foreign currency transactions

In preparing the consolidated financial statements, transactions in currencies other than the Group’s functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

The relevant exchange rates are as follows:

	31 December 2022	31 December 2021
AZN / USD	1.7000	1.7000
AZN / EUR	1.8114	1.9265

Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue as detailed below.

Transportation revenue

Revenue from transportation services includes sales generated from the transportation of goods through scheduled and chartered flights and is recognised when the air transportation is provided.

Technical maintenance and repair revenue

Revenue from maintenance services is recognised in the period in which the services are rendered.

Operating lease rental income

Rental income from operating leases is recognised when earned, on a time apportionment basis.

Leases

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract.
The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The incremental borrowing rate depends on the term, currency and start date of the lease and is determined based on a series of inputs including: the risk-free rate based on government bond rates; a country-specific risk adjustment; a credit risk adjustment based on bond yields.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date; and
- Fixed or in-substance fixed payments to the maintenance reserve, that are not expected to be refunded in cash by lessor.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received, non-refundable maintenance contributions and any initial direct costs. Leased aircraft are subsequently measured at revalued amounts whereas remaining right-of-use asset classes are carried at cost less accumulated depreciation and impairment losses.

The Group recognises maintenance provisions related to return obligations constituting major maintenance and restoration work, airframe and engine potential reconstitution within the framework of the leasing of aircraft. These costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the right-of-use asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line “Aircraft and engine lease costs” in profit or loss.

The Group as lessor

The Group enters into lease agreements as a lessor with respect to its aircraft rented out.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Finance cost

Finance cost comprise interest expense on loans and borrowings and lease liabilities. All finance costs are recognised in profit or loss in the period in which they are incurred.

Employee benefit obligations

Remuneration to employees in respect of services rendered during the reporting period, including accruals for unused vacation and bonuses and related social payments, is recognised as an expense in the period when it is earned.

In accordance with the legislation of the Republic of Azerbaijan, pension payments are calculated by an employer as certain percentages of salary expenses and transferred to the State Social Protection Fund of the Republic of Azerbaijan. This expense is charged to profit or loss in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the fund. The Group does not have any pension arrangements separate from the state pension system of the Republic of Azerbaijan. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Taxation

Income tax expense represents the sum of current income and deferred tax charges.

Current tax

Taxable profit differs from profit as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date at the end of the reporting period.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Such deferred tax assets and liabilities are not recognised if the temporary difference from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Operating taxes

Azerbaijan also has various other taxes (such as property tax, social tax and withholding tax), which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss and other comprehensive income.

Accounting for payments made to aircraft repair service providers under power-by-hour agreements

As part of aircraft maintenance and overhaul (major maintenance) expenditure, the Group enters into power-by-hour ("PBH") agreement for engine maintenance with original equipment manufacturers of aircraft engines. The monthly payments are based on the number of flight hours multiplied by fixed rate per hour and rate per flight hour is escalated on an annual basis in accordance with PBH agreement. Monthly payments made are partially recorded as an advance payment, to the extent that it is to be utilised through future overhaul and partially is expensed-off as part of daily maintenance expenses.

Upon completion of an overhaul during the year, part of advanced payments is capitalised over aircraft. The proportion of the amount to be expensed-off and capitalised is determined based on the best estimate of the proportion of day-to-day maintenance compared to that, which extends the useful lives of the engines.

Property and equipment

Items of property and equipment held for use in the supply of services, or for administrative purposes, except aircraft and related overhauls are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Aircraft and related overhauls are carried at a revalued amount, being its fair value at the date of the revaluation less any accumulated depreciation and accumulated impairment losses. Revaluation is performed with sufficient regularity to ensure that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such aircraft is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such aircraft is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the aircraft revaluation reserves relating to a previous revaluation of that asset.

Depreciation on revalued aircraft is recognised in profit or loss. On the subsequent sale or retirement of a revalued aircraft, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. The cost relating to an acquired (owned or leased) aircraft reflects all components in its full service potential excluding the maintenance condition of its landing gear, airframe, auxiliary power unit and engines (major components). The cost relating to the major maintenance element is identified on acquisition as a separate component and depreciated till its next major maintenance event.

Major spare parts and stand-by equipment are classified as property and equipment when the Group expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property and equipment, they are accounted for as property and equipment.

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. Capitalised costs include major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalization are charged to the profit or loss as incurred.

(in thousands of Azerbaijani Manats)

Depreciation

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method on the following bases:

Category	**Useful life**	**Residual value**
Aircraft and related overhauls		
Airframe	25-42 years	Nil and 10% of cost
Overhauls and checks	8-10 years, 10,000 hours	nil
Engines and related overhauls		
Engine	25 years	nil
Overhaul component of engines	2,800-3,500 cycles	nil
Building and infrastructure	25 years	nil
Others	5-10 years	nil

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Aircraft and engines

Aircraft and engines are depreciated using the straight-line method over their average estimated useful life. During the operating cycle, the Group reviews whether the depreciable base or the useful life should be adjusted and, if necessary, determines whether a residual value should be recognised.

Major overhauls

Overhauls of major components and related expenditure are capitalised and depreciated over the average expected life between major overhauls based on flight hours and cycles. All other costs relating to maintenance of an aircraft are charged to the profit or loss upon consumption or as incurred.

Impairment of property and equipment and right-of-use assets

At each reporting date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease and to the extent that the impairment loss is greater than the related revaluation reserves, the excess impairment loss is recognised in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss to the extent that it eliminates the impairment loss which has been recognised for the asset in prior years. Any increase in excess of this amount is treated as a revaluation increase.

Advances paid

Advance payments are carried at cost less impairment losses. An advance payment is classified as non-current when the goods or services relating to the advance payment are expected to be obtained after one year, or when the advance payment relates to an asset which will itself be classified as non-current upon initial recognition. Advance payment to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. If there is an indication that the assets, goods or services relating to an advance payment will not be received, the carrying value of the advance payment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Maintenance provisions

Maintenance provisions for the costs to restore leased assets to their original condition, as required by the terms and conditions of the lease, are recognised when the obligation is incurred, either at the commencement date or as a consequence of having used the underlying asset during a particular period of the lease, at management's best estimate of the expenditure that would be required to restore the assets. Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Amortised cost and effective interest method

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Cash and bank balances

Cash and bank balances comprise of bank balances, cash in transit, cash in hand and VAT deposits.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime expected credit losses (ECL) for trade receivables. The credit losses on trade receivables are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions, credit ratings and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor; and
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

1. The financial instrument has a low risk of default,
2. The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
3. Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

If historical experience indicates that financial assets, for which information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full, the Group considers this as an event of default for internal risk management purposes.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) Significant financial difficulty of the issuer or the borrower;
(b) A breach of contract, such as a default or past due event (see (ii) above);
(c) The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
(e) The disappearance of an active market for that financial asset because of financial difficulties.

It may not be possible to identify a single discrete event instead; the combined effect of several events may have caused financial assets to become credit-impaired.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Recoveries resulting from the Group's enforcement activities will result in impairment gains and recognised in profit or loss.

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities

Financial liabilities (other than financial guarantee), including trade and other payables are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of profit or loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Dividends

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In applying the Group's accounting policies, which are described in Note 3, management is required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognized, and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations (which are presented separately below) that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

Critical judgments in applying accounting policies

Transactions with general sales agents

In normal course of business, the Group sells air cargo transportation services through general sales agents. Certain portion of Group's air cargo transportation services (2022: AZN 76,987 thousand and 2021: AZN 121,589 thousand) are sold through related parties under common control, who act as general sales agents. Critical judgement is applied by management in considering whether general sales agents act as agents or principals in relation to the services provided to final customers.

Management considers whether agent has performance obligation to provide services to the customer or whether the agent's obligation is to facilitate the services provided by the Group. Group management assessed and concluded that the Group is primarily responsible for fulfilling the promise to provide the service and it has discretion in establishing the price for the air cargo transportation service, even though agents bear credit risks associated with payments from final customers. Consequently, all revenue is recognised at gross amount from final customer and commission paid to agents is recognized as operating expense.

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at the inception date and whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Agreement to lease engines

The Group signed certain framework lease agreement (the “Framework Agreement”) with one of its engine providers. The Framework Agreement contains specified list of engines with the maximum flight potential available for lease per each engine until the maturity date of 31 December 2025. When the Group needs an engine, a separate lease agreement (“Lease Agreement”) is signed with reference to the specific engine. The Lease Agreement specifies the engine leased (which is from the list in the Framework Agreement), minimum utilization per month and fee per cycle. Management concluded the arrangement contains a lease, as

- both Lease Agreement and Framework Agreement includes identifiable asset/pool of assets;
- the Group is able to control the use of the engine being leased for the lease period and can make economic decisions about the use of the engine; and
- the Group has the right to obtain substantially all of the economic benefits from use of the engine during the lease term.

Agreement to lease an aircraft

The Group entered into a lease agreement that does not specify a particular contractual term but continues indefinitely until either party to the contract gives notice to terminate. It includes a notice period and does not oblige either party to make a payment on termination. Management considered below facts and circumstances and concluded that non-cancelable period could not be determined:

- No leasehold improvements are undertaken by the Group over the term of the lease agreement;
- No significant costs or termination penalties will be incurred and the Group will be able to use and obtain economic benefit from the aircraft during the notice period;
- There are available alternatives in the market that could be found during the notice period; and
- The Group’s historical practice with the lease agreements containing option to extend.

Aircraft and related overhauls revaluation

Management assessed whether revaluation of aircraft and related overhauls is required in the current year. As a result of the assessment, management concluded that there had been no significant changes observed in the market since 31 December 2021 and the last revaluation date of 31 December 2020, and the carrying amounts of aircraft approximated their fair values as of 31 December 2022. Accordingly, no revaluation was conducted as of the reporting date.

Taxation

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated additional tax assessments as a result of tax audits based on estimates of whether it is probable that additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determinations are made.
Fiscal periods remain open to review by the tax authorities in respect of taxes for the three calendar years preceding the year of tax review. Under certain circumstances reviews may cover longer periods. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Group.

Key sources of estimation uncertainty

Useful lives of property and equipment

The Group's property and equipment are depreciated using the straight-line method over their estimated useful lives which are based on management's business plans and operational estimates. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The factors that could affect the estimation of the life of a non-current asset include the following:

- Changes in maintenance technology;
- Changes in regulations and legislation; and
- Unforeseen operational issues.

Any of the above could affect prospective depreciation of property and equipment and their carrying and residual values. The estimation of the useful lives of items of property and equipment is a matter of judgment based on the Group's experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and condition of the assets (including operational factors and utilization of maintenance programs), often will result in a change of the economic benefit from these assets.

Management periodically reviews the appropriateness of the remaining useful lives of property, and equipment. Revisions to estimates of the useful lives of items of property and equipment are recognised prospectively in the period of the revision and where applicable, future periods. Accordingly, this may impact the amount of depreciation charge and carrying amount of property and equipment to be recognised in the future.

(in thousands of Azerbaijani Manats)

Aircraft maintenance and overhaul expenditure under power-by-hour agreements

The Group has entered into several power-by-hour ("PBH") engine maintenance agreements with original equipment manufacturers of aircraft engines. The monthly payments are based on the number of hours flown. A portion of the cost is expensed at a fixed rate per hour during the term of the PBH agreement. The remaining payments made are recorded as advance payment, to the extent that it is to be utilised through future maintenance activities and capitalised upon completion of an overhaul.

The proportion of the amount to be expensed off and capitalised is determined based on the best estimate of the proportion of day-to-day maintenance compared to maintenance which extends the useful lives of the engine.

5. REVENUE

	Year ended 31 December 2022	Year ended 31 December 2021[1]
Transportation revenue	3,332,729	2,850,710
Technical maintenance and repair revenue	23,165	22,869
Operating lease rental income	4,029	26,221
Other revenue	18,713	11,879
Total revenue	**3,378,636**	**2,911,679**

[1] The comparative revenue figures have been re-presented to show the effect of discontinued operations.

6. AIRCRAFT AND ENGINE LEASE COSTS

Group incurred AZN 53,261 thousand (2021: AZN 64,094 thousand) aircraft and engine lease costs for the use of lessors' several aircraft and engines. Major part of the agreements comprise variable charges based on actual cycles and hours flown.

7. STAFF COSTS

	Year ended 31 December 2022	Year ended 31 December 2021[1]
Salaries and bonuses	111,880	119,712
Social taxes	17,906	18,402
Total staff costs	**129,786**	**138,114**

[1] The comparative staff cost figures have been re-presented to show the effect of discontinued operations.

(in thousands of Azerbaijani Manats)

8. FINANCE COST, NET

	Year ended 31 December 2022	Year ended 31 December 2021
Interest on lease liabilities	49,341	51,885
Interest on loans and borrowings	23,929	23,660
Other finance costs	1,280	646
Other finance income	(2,014)	(2,154)
Finance cost, net	**72,536**	**74,037**

9. OTHER INCOME, NET

	Year ended 31 December 2022	Year ended 31 December 2021
Other income[1]	12,995	7,295
Gain on lease modification	-	32,085
Gain on early termination of lease	-	31,304
Gain recognised on disposal of subsidiary	-	2,381
Payables write-off	639	1,187
Gain on a bargain purchase	-	866
Total other income, net	**13,634**	**75,118**

[1]AZN 1,118 thousand payables written-off and AZN 2,381 thousand gain on disposal of subsidiary that were presented separately in the “Other income, net” in the prior year consolidated financial statements are included as “Other income” within “Other income, net” line item in the current year.

Lease modification

During 2021, the Group revised the term of one of its leases with the intention to purchase the aircraft in 2022. As a result of modification, right-of-use asset and corresponding lease liability was offset and the difference of AZN 1,371 thousand was recognised through profit or loss within other income as a gain on lease modification.

The Group paid certain amount of security deposit and maintenance reserve contributions (refundable and non-refundable) for the aircraft from the commencement of the lease until the date of modification. Of these contributions for maintenance reserve AZN 8,291 thousand were considered as non-refundable and expensed to profit and loss in previous periods. As per the agreement terms, total contributions for maintenance reserve will be deducted from the future purchase price of the aircraft. As a result, maintenance contributions assessed to be non-refundable until the modification date were recognised through profit or loss within other income as a gain on lease modification.

Maintenance provisions of the aircraft was derecognised against maintenance reserve within right-of-use asset as of the effective date of modification and a difference of AZN 22,423 thousand was charged to other income as a gain on lease modification.

(in thousands of Azerbaijani Manats)

During 2022, the aircraft was purchased and right-of-use asset as of the purchase date of AZN 13,470 thousand (Note 13) was reclassified to property and equipment and refundable contributions of AZN 26,165 AZN (Note 19) and security deposit of AZN 2,125 thousand were netted-off against the aircraft purchase price.

Purchase of leased aircraft

During 2021, an aircraft previously leased and recognised as right-of-use asset by the Group was purchased before the expiration of the lease. As a result, right-of-use asset as of the purchase date of AZN 19,531 thousand was reclassified to property and equipment and the carrying amount of the purchased aircraft was adjusted for the difference between purchase price and the lease liability of AZN 21,379 thousand.

The Group paid AZN 2,125 thousand as security deposit and AZN 16,427 thousand as total contributions for maintenance reserve for the purchased aircraft from the commencement of the lease until the date of the purchase.
Of these contributions for maintenance reserve AZN 3,968 thousand was considered as non-refundable and expensed to profit and loss in prior periods. As per the agreement terms, total contributions for maintenance reserve were deducted from the purchase price of the aircraft. As a result, maintenance contributions assessed to be non-refundable until the transaction date were recognised through profit or loss within other income as a gain on early termination of lease.

Maintenance provisions of the aircraft was derecognised against maintenance reserve within right-of-use asset as of purchase date and a difference of AZN 27,336 thousand was charged to other income as a gain on early termination of lease.

10. INCOME TAX EXPENSE

	Year ended 31 December 2022	Year ended 31 December 2021[1]
Current income tax expense	(246,604)	(228,274)
Deferred tax (income) / expense	1,541	(2,366)
Adjustments in respect of prior years	-	(2,957)
Total income tax expense	**(245,063)**	**(233,597)**

[1] The comparative income tax expense figures have been re-presented to show the effect of discontinued operations.

(in thousands of Azerbaijani Manats)

The income tax expense for the year calculated at statutory income tax rate of 20% can be reconciled to the accounting profit as follows:

	Year ended 31 December 2022	**Year ended 31 December 2021**
Profit before income tax	1,209,199	1,166,105
Income tax expense at statutory tax rate (20%)	(241,840)	(233,221)
Effect of non-deductible expenses	(3,223)	(376)
Total income tax expense	**(245,063)**	**(233,597)**

11. DEFERRED TAX LIABILITY

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effect on the major temporary differences that give rise to the deferred liabilities as at 31 December 2022 and 2021 is presented below:

Movement in temporary differences during the year

	1 January 2022	**Recognised in profit or loss**	**31 December 2022**
Right-of-use assets	(4,636)	8,001	3,365
Property and equipment	(79,506)	(2,773)	(82,279)
Other long-term assets	(17,886)	(135)	(18,021)
Trade and other receivables	6,331	(2,175)	4,156
Other short-term assets	(2,342)	3,350	1,008
Lease liabilities	(17,293)	(2,470)	(19,763)
Provisions	1,661	88	1,749
Finance lease receivables	(324)	-	(324)
Other liabilities	1,939	(2,345)	(406)
Total	**(112,056)**	**1,541**	**(110,515)**

(in thousands of Azerbaijani Manats)

	1 January 2021	Recognised in profit or loss	Reclassification	31 December 2021
Right-of-use assets	(1,493)	(3,143)	-	(4,636)
Property and equipment	(96,887)	11,699	5,682	(79,506)
Other long-term assets	(13,217)	(4,669)	-	(17,886)
Trade and other receivables	4,172	2,159	-	6,331
Other short-term assets	982	(3,324)	-	(2,342)
Lease liabilities	(11,044)	(6,249)	-	(17,293)
Provisions	1,606	55	-	1,661
Finance lease receivables	(417)	93	-	(324)
Other liabilities	926	1,013	-	1,939
Investment property	5,682	-	(5,682)	-
Total	**(109,690)**	**(2,366)**	**-**	**(112,056)**

12. DISCONTINUED OPERATIONS

After initiation of Russia - Ukraine war on 24 February 2022, the Group management decided to discontinue its operations with Sky Gates Rus LLC, a Russian based company where Silk Way Development LLC held 60% of participation interest. On 1 March 2022 management entered into a sale agreement to dispose Sky Gates Rus LLC. The disposal was completed on 18 April 2022 when control of Sky Gates Rus LLC passed to the acquirer. The comparative consolidated statement of profit or loss has been re-presented to show the discontinued operation separately from continuing operations. Details of the assets and liabilities disposed of, and the calculation of the profit or loss on disposal, are disclosed below.

The results of the discontinued operations, which have been included in the profit for the year, were as follows:

	Period ended 18/04/2022 AZN	Year ended 31/12/2021 AZN
Revenue	13,484	77,698
Expenses	(6,480)	(23,804)
Profit before tax	7,004	53,894
Attributable tax expense	(2,028)	(11,311)
Gain from discontinued operations	4,976	42,583
Loss on disposal of subsidiary	(7,237)	-
(Loss) / profit	(2,261)	42,583
(Loss) / profit attributable to:		
Owners of the Company	(4,251)	25,550
Non-controlling interest	1,990	17,033

The loss on discontinued operations disclosed above is attributable entirely to the owners of the company.

(in thousands of Azerbaijani Manats)

The net assets of Sky Gates LLC at the date of disposal were as follows:

	18/04/2022 AZN
Property and equipment	(5,049)
Trade receivables	(11,307)
Bank balances and cash	(8,975)
Trade payables	10,419
Loans and borrowings	864
Other liabilities	632
Net assets disposed of	**(13,416)**
Loss on disposal	(7,237)
Non-controlling interest	(6,179)
Net cash inflow arising on disposal:	
Consideration received in cash and cash equivalents	-
Less: cash and cash equivalents disposed of	(8,975)
Net cash outflows	**(8,975)**

During the year Sky Gates Rus LLC contributed AZN 29,105 thousand (2021: AZN 23,738 thousand) to the Group’s net operating cash flows and paid AZN 28,924 thousand (2021: AZN 20,684 thousand) in respect of financing activities.

(in thousands of Azerbaijani Manats)

13. PROPERTY AND EQUIPMENT

	Buildings and building improvements	Aircraft, parts and related equipment	Engines and other equipment[1]	Other assets[1]	Construction in progress	Total
Cost						
Balance at 1 January 2021	**64,362**	**196,448**	**135,779**	**10,227**	**3,106**	**409,922**
Additions	3,135	49,380	16,870	707	-	70,092
Disposal and write offs	(17,161)	(17,697)	(1,259)	(1,716)	(26)	(37,859)
Transfer from investment property	-	85,612	-	-	-	85,612
Transfer from right-of-use assets	-	19,531	6,610	-	-	26,141
Acquisition of subsidiary	-	6,306	-	-	-	6,306
Balance at 31 December 2021	**50,336**	**339,580**	**158,000**	**9,218**	**3,080**	**560,214**
Additions	-	98,213	25,257	6,275	2,704	132,449
Disposal and write offs	-	-	(4,670)	(603)	-	(5,273)
Transfer from right-of-use assets	-	13,470	2,751	-	-	16,221
Fully depreciated asset write offs	-	-	(13,886)	-	-	(13,886)
Disposal of subsidiary	(3,008)	(6,378)	(3,494)	-	-	(12,880)
Transfer	5,784	-	-	-	(5,784)	-
Balance at 31 December 2022	**53,112**	**444,885**	**163,958**	**14,890**	**-**	**676,845**
Accumulated depreciation						
Balance at 1 January 2021	**(20,676)**	**(1,708)**	**(56,944)**	**(8,188)**	**-**	**(87,516)**
Depreciation charge for the year[2]	(1,934)	(34,553)	(14,731)	(63)	-	(51,281)
Depreciation of discontinued operation	-	(521)	-	-	-	(521)
Disposal and write offs	2,276	-	(100)	(96)	-	2,080
Balance at 31 December 2021	**(20,334)**	**(36,782)**	**(71,775)**	**(8,347)**	**-**	**(137,238)**
Depreciation charge for the year	(2,457)	(50,758)	(15,101)	(2,462)	-	(70,778)
Depreciation of discontinued operation	-	(559)	-	-	-	(559)
Disposal and write offs	-	-	698	-	-	698
Fully depreciated asset write-offs	-	-	13,886	-	-	13,886
Disposal of subsidiary	3,019	677	3,218	917	-	7,831
Balance at 31 December 2022	**(19,772)**	**(87,422)**	**(69,074)**	**(9,892)**	**-**	**(186,160)**
Net book value						
At 31 December 2022	**33,340**	**357,463**	**94,884**	**4,998**	**-**	**490,685**
At 31 December 2021	**30,002**	**302,798**	**86,225**	**871**	**3,080**	**422,976**
At 1 January 2021	**43,686**	**194,740**	**78,835**	**2,039**	**3,106**	**322,406**
Net book value if no revaluation took place						
At 31 December 2022	**33,340**	**260,033**	**94,884**	**4,998**	**-**	**393,255**
At 31 December 2021	**30,002**	**206,047**	**86,225**	**871**	**3,080**	**326,225**
At 1 January 2021	**43,686**	**109,840**	**78,835**	**2,039**	**3,106**	**237,506**

[1] Engines with carrying amount of AZN 17,576 thousand as at 31 December 2021 were presented within “Other” class of assets in prior year consolidated financial statements.

No revaluation was performed for aircraft and related overhauls as of 31 December 2022 (Note 4). During 2022, an aircraft previously leased and recognised as right-of-use asset by the Group was purchased before the expiration of the lease. As a result, right-of-use asset with a carrying value of AZN 13,470 thousand as of purchase date was reclassified to property and equipment (Note 9).

During 2021, an aircraft previously leased and recognised as right-of-use asset by the Group was purchased before the expiration of the lease. As a result, right-of-use asset with a carrying value of AZN 19,531 thousand as of purchase date was reclassified to property and equipment and the carrying amount of the purchased aircraft was adjusted by the difference between purchase price and the lease liability of AZN 21,379 thousand (Note 9).

As at 31 December 2022 and 2021, property and equipment totaling AZN 235,728 thousand and AZN 234,999 thousand, respectively, were pledged as collateral on loans and borrowings obtained by the Group.

(in thousands of Azerbaijani Manats)

14. RIGHT-OF-USE ASSETS

	Aircraft and related overhauls	Engines[1]	Other	Total
Cost				
Balance at 1 January 2021	**1,243,147**	**44,818**	**-**	**1,287,965**
Additions	63,017	56,624	2,849	122,490
Fully depreciated overhaul write-off	(3,629)	-	-	(3,629)
Decrease upon modification of lease	(39,013)	-	-	(39,013)
Transfer to property and equipment	(38,119)	(9,405)	-	(47,524)
Decrease upon termination of lease	(29,188)	-	-	(29,188)
Balance at 31 December 2021	**1,196,215**	**92,037**	**2,849**	**1,291,101**
Additions	7,382	51,729	-	59,111
Fully depreciated overhaul write-off	-	(9,054)	-	(9,054)
Transfer to property and equipment	(34,539)	(4,348)	-	(38,887)
Derecognition at the end of lease term	-	(1,982)	-	(1,982)
Balance at 31 December 2022	**1,169,058**	**128,382**	**2,849**	**1,300,289**
Accumulated depreciation				
Balance at 1 January 2021	**(74,034)**	**(10,553)**	**-**	**(84,587)**
Depreciation charge for the year	(127,507)	(12,038)	(180)	(139,545)
Fully depreciated overhaul write-off	3,629	-	-	3,629
Decrease upon modification of lease	18,095	-	-	18,095
Transfer to property and equipment	18,588	2,795	-	21,383
Decrease upon termination of lease	22,092	-	-	22,092
Balance at 31 December 2021	**(139,137)**	**(19,616)**	**(180)**	**(158,933)**
Depreciation charge for the year	(98,197)	(22,026)	(51)	(120,274)
Fully depreciated overhaul write-off	-	9,054	-	9,054
Transfer to property and equipment	21,069	1,597	-	22,666
Derecognition at the end of lease term	-	1,982	-	1,709
Balance at 31 December 2022	**(216,265)**	**(29,009)**	**(231)**	**(245,505)**
Net book value				
At 31 December 2022	**952,793**	**99,322**	**2,618**	**1,054,784**
At 31 December 2021	**1,057,078**	**72,241**	**2,669**	**1,132,168**
At 1 January 2021	**1,169,113**	**34,265**	**-**	**1,203,378**
Net book value if no revaluation took place				
At 31 December 2022	**756,836**	**99,373**	**2,618**	**858,827**
At 31 December 2021	**851,776**	**72,421**	**2,669**	**926,866**
At 1 January 2021	**948,440**	**34,265**	**-**	**982,705**

[1] Engines with carrying amount of AZN 72,241 thousand and 34,265 thousand as at 31 December 2021 and 1 January 2021, respectively, were presented within “Other” class of assets in prior year consolidated financial statements.

The Group leases several aircraft and engines. The average remaining lease term is six years (2021: seven years).

No revaluation was performed for aircraft and related overhauls as of 31 December 2022 (Note 4).

(in thousands of Azerbaijani Manats)

The Group has options to purchase certain aircraft for a nominal amount at the end of the lease term. The Group's obligations are secured by the lessors' title to the leased assets for such leases. One of the lease agreements in addition to being secured by the title to the leased asset, is also secured by property and equipment with a carrying amount of AZN 20,105 thousand as of 31 December 2022 (2021: AZN 20,952 thousand).

An aircraft previously leased and recognised as a right-of-use asset by the Group was purchased before the expiration of the lease. As a result, the right-of-use asset with a carrying value of AZN 13,470 thousand (2021: 19,531 thousand) as of the purchase date was reclassified to property and equipment (Note 9 and 13).

The maturity analysis of lease liabilities is presented in Note 22.

	Year ended 31 December 2022	Year ended 31 December 2021
Depreciation expense on right-of-use assets	(120,274)	(139,545)
Interest expense on lease liabilities	(49,341)	(51,885)
Unwinding of discount related to provision	(442)	(277)
Expense relating to short-term leases	(4,685)	(7,508)
Expense relating to variable lease payments not included in the measurement of the lease liabilities	(48,576)	(56,586)
Total amount recognised in profit or loss	**(223,318)**	**(255,801)**

The total cash outflow for leases amount to AZN 186,201 thousand (2021: AZN 171,575 thousand).

15. TRADE AND OTHER RECEIVABLES

	31 December 2022	31 December 2021
Trade receivables	167,376	241,189
Other receivables[1]	13,258	24,204
Less: expected credit losses	(14,630)	(11,309)
Total trade and other receivables	**166,004**	**254,084**

[1] Other receivables with carrying amount of AZN 24,204 thousand as at 31 December 2021 was presented within "Trade receivables" in prior year consolidated financial statements.

The average credit period on sales of services is 30 days (2021: 30 days). No interest is charged on outstanding trade receivables.

The Group has considered a probability of default of 100 per cent against all receivables over 90 days past due because historical experience has indicated that these receivables are generally not recoverable. There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

(in thousands of Azerbaijani Manats)

The following table details the risk profile of trade receivables based on the Group's provision matrix. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer segments.

	Trade and other receivables – days past due						
31 December 2022	**Not past due**	**<30**	**31-60**	**61-90**	**91-120**	**>120**	**Total**
Expected credit loss rate	1.17%	3.68%	8.77%	24.86%	48.87%	73.36%	8.10%
Estimated total gross carrying amount at default	121,064	40,785	2,929	173	397	15,286	180,634
Lifetime ECL	(1,421)	(1,501)	(257)	(43)	(194)	(11,214)	(14,630)
							166,004

	Trade and other receivables – days past due						
31 December 2021	**Not past due**	**<30**	**31-60**	**61-90**	**91-120**	**>120**	**Total**
Expected credit loss rate	0.83%	2.50%	4.55%	5.63%	8.08%	25.99%	4.26%
Estimated total gross carrying amount at default	207,589	20,535	2,222	426	260	34,361	265,393
Lifetime ECL	(1,718)	(514)	(101)	(24)	(21)	(8,931)	(11,309)
							254,084

The following table shows the movement in lifetime ECL that has been recognised for trade and other receivables in accordance with the simplified approach set out in IFRS 9.

	2022	**2021**
Balance as at 1 January	**11,309**	**12,520**
Net remeasurement of loss allowance	5,620	(951)
Amount recovered	(4,829)	(2,232)
Change in loss allowance due to new trade and other receivables originated net of those derecognised due to settlement	2,530	1,972
Balance as at 31 December	**14,630**	**11,309**

The Group's exposure to credit and currency risks are disclosed in Note 27.

(in thousands of Azerbaijani Manats)

16. INVENTORIES

	31 December 2022	31 December 2021
Current		
Spare parts and consumables	40,642	25,552
Fuel	14,382	8,551
Less: allowance for slow-moving inventories	(1,343)	(1,343)
	53,681	**32,760**
Non-current		
Spare parts[1]	12,593	12,593
	12,593	**12,593**
Total inventories	**66,274**	**45,353**

[1]Aircraft spare parts that are planned to be utilised more than twelve months after the reporting period.

None of the inventories has been pledged as security for loans and borrowings as of 31 December 2022 and 2021.

17. CASH AND BANK BALANCES

	31 December 2022	31 December 2021
Current bank accounts	418,176	342,944
Cash in transit	16,310	-
Cash on hand	228	-
VAT deposit	554	1,344
Total cash and bank balances	**435,268**	**344,288**

In December 2021, AZN 20,400 thousand was held in one of the current bank accounts as a collateral of a guarantee for five years and presented as restricted cash under non-current assets as of 31 December 2022 and 2021.

Management has not recognised any loss allowance for expected credit losses under IFRS 9 for cash and bank balances as at 31 December 2022 and 2021 as this would not have any material impact on the consolidated financial statements.

The Group’s exposure to foreign currency, credit risk as well as a sensitivity analysis for financial assets and liabilities are disclosed in Note 27.

18. BANK DEPOSITS

During 2022, the Group placed AZN 425,000 thousand 0.4% interest-bearing USD denominated deposit in one of the banks.

(in thousands of Azerbaijani Manats)

19. ADVANCES PAID

	31 December 2022	31 December 2021
Advance payments for purchase of aircraft and engines	284,133	101,363
Advance payments for aircraft repair service providers for PBH	89,051	57,271
Refundable contributions for maintenance reserve	-	26,165
Total advances paid	**373,184**	**184,799**

The carrying amount of the advance payment relating to PBH agreement for the Group for the year ended 31 December 2022 was AZN 89,116 thousand (2021: AZN 57,271 thousand). The maintenance and repair costs covered by PBH agreement expensed off and capitalized for overhaul during the year amounted to AZN 10,403 thousand (2021: AZN 13,540 thousand) and AZN 9,359 thousand (2021: AZN 19,415 thousand), respectively.

20. CHARTER CAPITAL

In accordance with the charter, the Company’s charter capital constitutes AZN 12,329 thousand (2021: AZN 12,329 thousand) comprised of 12,329,000 participation interest (2021: 12,329,000 participation interest) with par value of AZN 1.

21. TRADE AND OTHER PAYABLES

	31 December 2022	31 December 2021
Trade payables	206,079	196,940
Other taxation and social security	15,576	6,644
Staff payables	12,343	13,602
Other	254	1,303
Total trade and other payables	**234,252**	**218,489**

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 27.

(in thousands of Azerbaijani Manats)

22. LEASE LIABILITIES

	31 December 2022	31 December 2021
Lease liabilities	783,387	836,764
Accrued interest on lease liabilities	8,339	316
Total lease liabilities	**791,726**	**837,080**
Lease liabilities, non-current portion	655,939	733,972
Lease liabilities, current portion	135,787	103,108
Total lease liabilities	**791,726**	**837,080**

Reconciliation of future lease payments and their present values at the end of reporting period:

31 December 2022	Year 1	Year 2	Year 3	Year 4	Year 5	Onwards	Total
Lease payments	186,167	164,856	162,592	124,586	86,566	276,045	1,000,812
Unearned finance charges	(50,380)	(43,433)	(36,112)	(27,956)	(19,536)	(31,669)	(209,086)
Present value of minimum lease payments	**135,787**	**121,423**	**126,480**	**96,630**	**67,030**	**244,376**	**791,726**

31 December 2021	Year 1	Year 2	Year 3	Year 4	Year 5	Onwards	Total
Lease payments	148,501	147,257	146,418	146,627	122,885	360,879	1,072,567
Unearned finance charges	(45,393)	(42,051)	(37,602)	(32,842)	(27,039)	(50,560)	(235,487)
Present value of minimum lease payments	**103,108**	**105,206**	**108,816**	**113,785**	**95,846**	**310,319**	**837,080**

All lease arrangements are denominated in USD and classified per maturity and rate terms:

		31 December 2022		31 December 2021	
Group	**Maturity**	**Rate, %**	**Amount**	**Rate, %**	**Amount**
Group A	2032	7.00%	192,592	7.00%	209,903
Group A	2031	7.00%	186,712	7.00%	201,951
Group B	2029	6.70%	175,290	6.70%	171,305
Group C	2026	0.6% + Lib.(3m)	156,917	0.6% + Lib.(3m)	199,433
Group D	2026	3.90%	74,541	3.90%	49,040
Group E	2033	3.88%	2,352	-	-
Group F	2024	3.90%	2,157	-	-
Group G	2023	3.90%	1,165	3.90%	3,128
Group H	2022	-	-	3.90%	539
Group I	2022	-	-	6.25%	796
Group J	2022	-	-	6.95%	985
Total lease liabilities			**791,726**		**837,080**

(in thousands of Azerbaijani Manats)

Starting from the mid-March 2023, leased aircraft with a carrying amount of AZN 143,660 thousand as of 31 December 2022 recognised under right-of-use assets has been grounded due to the sanctions imposed on the lessor. The Group's payment obligations under the lease agreement have been recognised up to the mid-March of 2023, however no payments could have been made due to the sanctions imposed on the lessor.

23. LOANS AND BORROWINGS

	31 December 2022	31 December 2021
Loans and borrowings	373,399	396,003
Accrued interest on loans and borrowings	1,269	577
Total loans and borrowings	**374,668**	**396,580**
Loans and borrowings, non-current portion	308,667	293,592
Loans and borrowings, current portion	66,001	102,988
Total loans and borrowings	**374,668**	**396,580**

Loans and borrowings classified as per lender, interest rate and currency in the below table:

	Currency	Interest rate	31 December 2022 Rate, %	31 December 2022 Amount	31 December 2021 Rate, %	31 December 2021 Amount
Bank A	USD	Fixed	3.88%-5.50%	92,397	3.88%-5.50%	87,190
Bank B	USD	Fixed	4.50%-5.00%	131,176	3.88%-5.00%	155,804
Bank D	USD	Fixed	2.24%	9,508	-	-
Bank C	USD	Fixed	4.5%	25,314	4.5%	32,265
Bank F	USD	Floating	4% plus 3 month LIBOR	24,814	4% plus 3 month LIBOR	57,421
Bonds issued to public	USD	Fixed	5.00%	51,213	5.00%	17,071
Bonds issued to individuals	USD	Fixed	4%	40,246	4%	40,344
Bank B	EUR	Fixed	-	-	5%	6,485
Total loans and borrowings				**374,668**		**396,580**

The maturity profile of loans and borrowings is as follows:

	31 December 2022	31 December 2021
Due in one month	5,606	2,174
Due from one month to one year	60,395	100,814
Total current portion of loans and borrowings	**66,001**	**102,988**
Due from one year to five years	147,128	116,629
Due over five years	161,539	176,963
Total long-term portion of loans and borrowings	**308,667**	**293,592**
Total loans and borrowings	**374,668**	**396,580**

(in thousands of Azerbaijani Manats)

The collateral profile of loans and borrowings is as follows:

	31 December 2022	31 December 2021
Secured loans and borrowings	273,443	338,124
Unsecured loans and borrowings	101,225	58,456
Total loans and borrowings	**374,668**	**396,580**

Reconciliation of liabilities arising from financing activities

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

As of 31 December 2022		**Cash changes**	**Non-cash changes**					
	01-Jan-22	**Financing cash flows (i)**	**Disposal of subsidiary**	**New leases**	**Re-measurement**	**Forex**	**Other changes (iii)**	**31-Dec 22**
Lease liabilities	837,080	(99,900)	-	42,265	(58)	-	12,339	791,726
Loans and borrowings	396,580	(20,873)	(864)	-	-	(194)	19	374,668
Total liabilities from financing activities	**1,233,660**	**(120,773)**	**(864)**	**42,265**	**(58)**	**(194)**	**12,358**	**1,166,394**

As of 31 December 2021		**Cash changes**	**Non-cash changes**					
	01-Jan-21	**Financing cash flows (i)**	**Acquisition of subsidiary**	**New leases**	**Re-measurement**	**Payments on behalf of the Group**	**Other changes (iii)**	**31-Dec 21**
Lease liabilities	919,886	(127,793)	-	59,664	(17,635)	(3,143)	6,101	837,080
Loans and borrowings	449,400	(59,167)	7,207	-	-	-	(860)	396,580
Total liabilities from financing activities	**1,369,286**	**(186,960)**	**7,207**	**59,664**	**(17,635)**	**(3.143)**	**5,241**	**1,233,660**

(i) Financing cash flows make up the net amount of proceeds from and payment for loans and borrowings and lease liabilities in the consolidated statement of cash flows.

(ii) Other changes include interest accruals and payments.

(in thousands of Azerbaijani Manats)

24. PROVISIONS

Present value of estimated last overhaul costs was recognised as provision within non-current liabilities in accordance to IAS 37 as at the lease commencement date. Maintenance provisions were estimated based on the costs of the overhauls and flight hours/cycles of aircraft under the lease. The expected cost of the last overhaul was then discounted from the lease commencement date till the last overhaul date using risk-free rate. The estimates are reviewed on an ongoing basis and revised whenever appropriate.

	Maintenance provisions
At 1 January 2021	**92,281**
Unwinding of discount	277
Reversal of provision	(61,511)
At 1 January 2022	**31,047**
Unwinding of discount	442
At 31 December 2022	**31,489**

Reversal of provision was due to termination as a result of purchase of aircraft previously leased and modification of lease contracts (Note 9).

25. REVALUATION RESERVES

The revaluation reserve arises on the revaluation of aircraft. When revalued aircraft are sold, the portion of the aircraft revaluation reserve that relates to that asset is transferred directly to retained earnings. Items of other comprehensive income included in the aircraft revaluation reserve will not be reclassified subsequently to profit or loss.

As of 1 January 2021, AZN 32,643 thousand was transferred from retained earnings to revaluation reserve to account for transfer of aircraft from investment property to property and equipment.

No revaluation was performed as of 31 December 2022 and 2021 (Note 4).

26. OTHER LIABILITIES

	31 December 2022	**31 December 2021**
Dividends payable	20,564	22,979
Advances from customers	7,177	11,373
Other	6,384	2,884
Total other liabilities	**34,125**	**37,236**

(in thousands of Azerbaijani Manats)

AZN 127,538 thousand dividends (inclusive of 10% withholding tax) were declared and paid during 2022 (2021: AZN 680,204 thousand).

AZN 2,415 thousand dividends payable were repaid to shareholder which were declared in 2020.

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Exposure to credit, interest rate, currency and liquidity risk arises in the normal course of the Group's business. The Group does not hedge its exposure to such risks.

Capital management

The Group manages its capital to ensure the Group will be able to continue as a going concern while maximising the return to shareholder through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2021.

The capital structure of the Group consists of net debt (total debt in Note 22 and 23 after deducting cash and bank balances) and shareholder equity of the Group. The Group is not subject to any externally imposed capital requirements.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

Trade and other receivables consist of a large number of customers, spread across diverse industries and geographical areas.

Concentration of trade and other receivables is set out in below table:

	31 December 2022		31 December 2021	
Company A	21,281	12%	39,153	15%
Company B	8,513	5%	25,713	10%
Company C	7,410	4%	6,441	2%
Company D	7,257	4%	4,496	2%
Others	136,173	75%	189,590	71%
Total	**180,634**	**100%**	**265,393**	**100%**

Apart from above, the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated. In the opinion of management, the Group has no significant credit risk with abovementioned agents, as the Group maintains long-term and stable business relationships with healthy repayment history.

(in thousands of Azerbaijani Manats)

Bank deposits and restricted cash of AZN 425,000 thousand and AZN 20,400 thousand, respectively, are held in Bank A. From cash and bank balances at the end of 2022, AZN 292,458 thousand (2021: AZN 213,472 thousand) is placed in Bank A and AZN 87,484 thousand is placed in Bank C (2021: AZN 64,148 thousand is placed in Bank B).

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure, except for cash and bank balances where exposure is reduced by the amount of cash in hand. The maximum exposure to credit risk at the reporting date was:

Carrying amount	**31 December 2022**	**31 December 2021**
Bank deposits	425,000	-
Cash and bank balances	435,268	344,288
Trade and other receivables	166,004	254,084
Restricted cash	20,400	20,400
Security deposits	19,846	22,833
Finance lease receivables[1]	16,884	17,980
Amounts due from related parties[2]	-	5,652
Total	**1,083,402**	**665,237**

[1] Finance lease receivables are included under "Other short-term assets” and "Other long-term assets” line in the consolidated statement of financial position.

[1] Amounts due from related parties are included under " Other short-term assets” line in the consolidated statement of financial position.

Interest rate risk

Changes in interest rate impact primarily lease and loan balances by changing their cash flows.

Cash flow sensitivity analysis for variable rate instruments

An increase of the variable interest rates would have decreased equity and profit or loss by the amounts shown below. This analysis is based on variable interest rates variances that the Group considered to be reasonably possible at the end of the reporting period.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss	**Profit or loss**
	31 December 2022	**31 December 2021**
Three-month USD Libor 20 basis points increase	(940)	(4,482)
Cash flow sensitivity	**(940)**	**(4,482)**

A decrease of the variable interest rates would have increased equity and profit or loss by the same amounts shown in above table.

(in thousands of Azerbaijani Manats)

Foreign currency risk

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise.

The Group is exposed to foreign currency risk on sales and purchases and lease liabilities and loans and borrowings that are denominated in currencies other than the AZN.

Foreign currency sensitivity analysis

The Group is mainly exposed to the risk of change of exchange rates of AZN against USD. The book values of the Group's monetary assets and liabilities in foreign currency as at the reporting date have been provided below:

31 December 2022	AZN	USD	EUR	CNY	Other	Total
Cash and bank balances	28,957	310,090	84,257	5,108	6,856	435,268
Trade and other receivables	9,613	57,138	31,337	42,519	25,397	166,004
Security deposits	-	19,846	-	-	-	19,846
Restricted cash	-	20,400	-	-	-	20,400
Finance lease receivables[1]	16,884	-	-	-	-	16,884
Total financial assets	**55,454**	**407,474**	**115,594**	**47,627**	**32,253**	**658,402**
Lease liabilities	-	791,726	-	-	-	791,726
Loans and borrowings	-	374,668	-	-	-	374,668
Trade and staff payables	87,724	72,856	37,192	7,062	13,588	218,422
Provisions	-	31,489	-	-	-	31,489
Dividends payable	21,387	-	-	-	-	21,387
Total financial liability	**109,111**	**1,270,739**	**37,192**	**7,062**	**13,588**	**1,437,692**
Open position		**(863,265)**	**78,402**	**40,565**	**18,665**	**(725,633)**

(in thousands of Azerbaijani Manats)

31 December 2021	**AZN**	**USD**	**EUR**	**CNY**	**Other**	**Total**
Cash and bank balances	10,823	295,746	23,696	7,890	6,133	344,288
Trade and other receivables	21,588	56,963	81,268	36,656	57,609	254,084
Amounts due from related parties	-	5,652	-	-	-	5,652
Security deposits	-	22,833	-	-	-	22,833
Restricted cash	-	20,400	-	-	-	20,400
Finance lease receivables[1]	17,980	-	-	-	-	17,980
Total financial assets	**50,391**	**401,594**	**104,964**	**44,546**	**63,742**	**665,237**
Lease liabilities	-	837,080	-	-	-	837,080
Loans and borrowings	-	390,095	6,485	-	-	396,580
Trade and staff payables	64,644	84,712	30,259	8,903	22,024	210,542
Provisions	-	31,047	-	-	-	31,047
Amounts due to related parties	-	175	-	-	-	175
Dividends payable	22,979	-	-	-	-	22,979
Total financial liability	**87,623**	**1,343,109**	**36,744**	**8,903**	**22,024**	**1,498,403**
Open position		**(941,515)**	**68,220**	**35,643**	**41,718**	**(795,934)**

[1] Finance lease receivables are included under "Other short-term assets” and "Other long-term assets” line in the consolidated financial statements.

Sensitivity analysis

A weakening of the AZN against the following currencies at year end would have decreased profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

31 December 2022	**USD**	**EUR**	**CNY**	**Other**	**Total**
10% weakening of AZN	(86,327)	7,840	4,057	1,867	(72,563)

31 December 2021	**USD**	**EUR**	**CNY**	**Other**	**Total**
10% weakening of AZN	(94,152)	6,822	3,564	4,172	(79,593)

A strengthening of the AZN against the above currencies would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(in thousands of Azerbaijani Manats)

Master netting

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

31 December 2022

	Trade and other receivables	Trade and other payables
Gross amounts	270,544	338,792
Amounts offset in accordance with IAS 32 offsetting criteria	(104,540)	(104,540)
Net amounts presented in the consolidated statement of financial position	166,004	234,252
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(17,465)	(17,465)
Net amounts	**148,539**	**216,787**

31 December 2021

	Trade and other receivables	Trade and other payables
Gross amounts	354,196	310,654
Amounts offset in accordance with IAS 32 offsetting criteria	(110,112)	(110,112)
Net amounts presented in the consolidated statement of financial position	254,084	210,542
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(23,195)	(23,195)
Net amounts	**230,889**	**187,347**

31 December 2022

	Amounts due from related parties	Amounts due to related parties
Gross amounts	38,207	38,207
Amounts offset in accordance with IAS 32 offsetting criteria	(38,207)	(38,207)
Net amounts presented in the consolidated statement of financial position	-	-
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	-	-
Net amounts	**-**	**-**

31 December 2021

	Amounts due from related parties	Amounts due to related parties
Gross amounts	71,762	66,285
Amounts offset in accordance with IAS 32 offsetting criteria	(66,110)	(66,110)
Net amounts presented in the consolidated statement of financial position	5,652	175
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(175)	(175)
Net amounts	**5,477**	**-**

(in thousands of Azerbaijani Manats)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	31 December 2022			
	Within one year	**1 to 5 years**	**Over 5 years**	**Total**
Lease liabilities	186,167	538,600	276,045	1,000,812
Loans and borrowings	84,196	190,941	174,376	449,513
Trade and staff payables	218,422	-	-	218,422
Provisions	-	-	31,489	31,489
Dividends payable	21,387	-	-	21,387
Total financial liabilities	**510,372**	**729,541**	**481,910**	**1,721,623**

	31 December 2021			
	Within one year	**1 to 5 years**	**Over 5 years**	**Total**
Lease liabilities	148,501	563,187	360,879	1,072,567
Loans and borrowings	123,984	165,957	198,345	488,286
Trade and staff payables	210,542	-	-	210,542
Provisions	-	-	31,047	31,047
Amounts due to related parties[1]	175	-	-	175
Dividends payable	22,979	-	-	22,979
Total financial liabilities	**506,181**	**729,144**	**590,271**	**1,825,596**

[1] Amounts due to related parties are included under "Other liabilities" line in the consolidated statement of financial position.

Fair values versus carrying amounts

Management believes that the fair value of the Group's financial assets and liabilities, which are classified within Level 2 category of the above hierarchy, approximates their carrying amounts. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.
The Group uses the hierarchy mentioned in Note 3 to determine and disclose fair value of financial instruments.

(in thousands of Azerbaijani Manats)

28. COMMITMENTS AND CONTINGENCIES

Capital commitments

Commitments related to the pre-delivery payments for the acquisition of new aircraft and engines were AZN 756,478 thousand (2021: AZN 370,997 thousand). Authorised future commitments (excluding pre-delivery payments) for the acquisition of new aircraft and engines by the Group for which contracts were signed until 31 December 2022 amounted AZN 2,053,801 thousand. The maturity of undiscounted future capital expenditures (including pre-delivery payments) as of 31 December 2022 is set out below:

	Within one year	1 to 5 years	Over 5 years	Total
31 December 2022	557,859	1,443,206	809,215	**2,810,280**

Taxation contingencies

The taxation system in the Republic of Azerbaijan continues to evolve and is characterised by regular changes in legislation, official pronouncements and court decisions, which may be subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by state authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Republic of Azerbaijan suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

The Tax Code of the Republic of Azerbaijan establishes general principles of taxation in Azerbaijan, sets the rule for determining, payment and collection of taxes, identifies the rights and responsibilities of taxpayers and tax authorities. The Tax Code does not contain provisions specifically regulating air transportation services.
For withholding and value added tax purposes such services fall under the category of international transportation, whereas for profit tax purposes general services provided. All clauses in respect of these service categories are general and subject to interpretations. Therefore, the interpretation for air cargo transportation services involves uncertainty and judgement.

These circumstances may create tax risks in Azerbaijan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Azerbaijan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Operating environment

Emerging markets such as Azerbaijan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Azerbaijan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future stability of the Azerbaijan economy is heavily influenced by reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Because Azerbaijan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

On 21 February 2022, the President of Russia signed the executive orders on the recognition of the Donetsk People's Republic and the Lugansk People's Republic. On 24 February 2022, Russia initiated invasion of Ukraine. Subsequent to these events, the US, UK, EU and other countries announced an extension of sanctions on certain Russian officials, businessmen and companies and flights were cancelled over airspace of Russia and Ukraine. Because of existing interdependencies between Russian and other CIS economies, these developments may result in reduced access of the regional businesses to international capital and export markets, weakening of the Russian Ruble and other CIS regional currencies, decline in capitals markets and other negative economic consequences.

The suspension of flights to and from Russia and Ukraine has no material commercial impact on the operations of the Group as these two countries represent insignificant portion of the Group's total operations.

The Group's management carefully evaluates all transactions with Russian based vendors and none of these transactions are in the breach of sanctions as of the issuance date of these financial statements.

The Group's management is monitoring developments in the current environment and taking necessary measures to support the sustainability and development of the Group's business in the foreseeable future. The impact of further economic and political developments on future operations and financial position of the Group might be significant.

(in thousands of Azerbaijani Manats)

29. RELATED PARTY TRANSACTIONS

Related parties comprise the shareholder of the Group and all other companies in which those shareholders, either individually or together, have a controlling interest.

During the year, the Group entered into the following trading transactions with related parties:

		Year ended 31 December 2022		Year ended 31 December 2021	
	Notes	**Related party transactions**	**Total per category**	**Related party transactions**	**Total per category**
Revenue	5		3,378,636		2,911,679
- *entities under common control*		*76,987*		*121,589*	
Handling, landing and navigation charges			341,461		364,509
- entities under common control		*8,543*		*11,069*	
Aircraft and engine lease costs			53,261		64,094
- entities under common control		*2,583*		*38,307*	
Commissions			123,311		108,795
- entities under common control		*6,083*		*9,940*	
Staff costs			129,786		138,114
- key management personnel		*20,798*		*20,863*	
Finance cost			72,536		74,037
-ultimate owner		782		782	

The following balances with related parties were outstanding at the end of the reporting period:

	31 December 2022		31 December 2021	
	Related party balances	**Total per category**	**Related party balances**	**Total per category**
Amounts due from related parties, net of allowance:		-		5,652
- entities under common control	-		*5,652*	
Loans and borrowing:		374,668		396,580
-ultimate owner	*19,796*		*19,893*	

30. EVENTS AFTER THE REPORTING DATE

In April 2023, the Group obtained US denominated loan of AZN 13,232 thousand from one of the banks with an interest rate of 1.75 per cent and a maturity date of 20 June 2024.

AZN 24,814 thousand outstanding loan from Bank F was repaid by 28 February 2023.

In June 2023, the Group obtained loan of USD 100,000 thousand from one of the banks with an interest rate of SOFR + 2% per cent and a maturity date of 02 June 2033.

AZN 186,712 thousand outstanding lease from Group A was fully repaid on 02 June 2023 before the maturity date of 2031 and respective aircraft with a carrying amount of AZN 203,599 thousand as of the reporting date was transferred from right of use assets to property and equipment. Due to early repayment of lease liability, the Group received USD 7,500 thousand discount from the lessor.

In June 2023, the Group placed AZN 79,390 thousand and AZN 170,000 thousand 1.75 per cent interest-bearing USD denominated deposits in Bank C and Bank A, respectively.

In June 2023, the Group extended term of AZN 425,000 thousand deposit placed in Bank A for additional 12 months with revised interest rate of 1.75 per cent.

In June 2023, the Group signed an agreement with the Education Development Fund under the Ministry of Science and Education of Azerbaijan to donate AZN 80,000 for the construction, major repairs, and renovation of educational schools and institutions in the country. As part of this agreement, the Group made a payment of AZN 20,000 to the Education Development Fund in June 2023.