Azərbaycan Respublikasının Dövlət Neft Şirkəti

2022-ci il üzrə

İllik İdarəetmə Hesabatı

1. Emitentin tam və qısaldılmış adı, vergi ödəyicisinin eyniləşdirmə nömrəsi (VÖEN), dövlət qeydiyyatının tarixi və nömrəsi;	Emitentin tam adı: Azərbaycan Respublikasının Dövlət Neft Şirkəti Qısaldılmış adı: SOCAR Qeydiyyata alındığı tarix: 24.11.1995 Dövlət qeydiyyat nömrəsi (VÖEN): 9900003871 Təşkilati-hüquqi forması: Digər kommersiya təşkilatı
2. Emitentin hüquqi ünvanı və olduğu yer;	AZ1029, Bakı şəhəri, Nərimanov rayonu, Heydər Əliyev Prospekti 121
3. Emitentin adında dəyişikliklər olduqda, emitentin bütün əvvəlki adları, habelə onların qeydiyyata alındığı tarixlər, emitent digər hüquqi şəxsin bölünməsi və ya tərkibindən ayrılması şəklində yenidən təşkil yolu ilə yaradıldıqda, yenidən təşkilin forması, həmin hüquqi şəxsin adı, emitent hüquqi şəxslərin birləşməsi və ya çevrilmə şəklində yenidən təşkil yolu ilə yaradıldıqda, yenidən təşkilin forması, həmin hüquqi şəxslərin adları;	Hesabat dövrü ərzində emitentin firma adında və təşkilati-hüquqi formasında heç bir dəyişiklik olmayıb. Emitent digər hüquqi şəxin bölünməsi və ya tərkibindən ayrılması şəklində yenidən təşkil olmayıb. Emitent hüquqi şəxslərin birləşməsi şəklində yenidən təşkil olmayıb.
4. Emitentin hesabat dövrü ərzində yaranmış və ləğv edilmiş filialları və nümayəndəliklərinin adı, olduqları yer və qeydiyyatları haqqında məlumatlar;	Emitentin hesabat dövrü ərzində heç bir filialı və ya nümayəndəliyi yaradılmayıb və ləğv edilməyib.
5. Emitentin hesabat dövrü ərzində yaranmış və ya ləğv edilmiş hər bir törəmə cəmiyyətinin adı, təşkilati-hüquqi forması, hüquqi ünvanı, qeydiyyatı haqqında məlumatlar, nizamnamə kapitalında emitentin payı, hüquqi şəxsin emitentin törəmə cəmiyyəti hesab olunması üçün əsas olan müqavilənin bağlanma tarixi və qüvvədə olma müddəti;	Emitentin hesabat dövrü ərzində yaranmış və ya ləğv edilmiş törəmə müəssisəsi yoxdur.
6. Emitent şirkətlər qrupunun bir hissəsi olduğu təqdirdə qrupun (emitent daxil olmaqla iqtisadiyyatın müxtəlif sahələrində fəaliyyət göstərən bir və ya daha artıq törəmə təşkilatı olan qrupdur) adı;	SOCAR-ın mülkiyyət hüququnun 100 faizi Azərbaycan Respublikasına ("Dövlət") məxsusdur.

7. Emitentin məşğul olduğu fəaliyyət istiqamətləri;	Emitent yerli və beynəlxalq energetika bazarlarında fəaliyyət göstərir. Emitentin fəaliyyətinə təsir göstərən başlıca qlobal tendensiyalar qismində dünya bazarında təbii qaz, xam neft və neft məhsullarına olan tələbatı, bu sahədə əsas istehsalçıların, o cümlədən beynəlxalq təşkilatların bazara təklifini, habelə alternativ enerji sahəsində inkişafı qeyd etmək olar.
8. Emitent lisenziya və ya icazəyə malik olduqda, onlar üzrə fəaliyyət növləri və qüvvədə olma müddətləri;	Toksik istehsalat tullantılarının utilizasiyası və zərərsizləşdirilməsinin həyata keçirilməsinə dair lisenziya-Müddətsiz Yanğından mühafizə sistemlərinin və vəsaitlərinin quraşdırılması, texniki xidmətinin və təmirinin həyata keçirilməsinə dair xüsusi lisenziya-Müddətsiz Mülki dövriyyəsi məhdudlaşdırılmış əşyaların dövriyyəsinə (neft-qaz quyularında istifadə olunan atma-partlayış materialları və onların avadanlıqları) xüsusi icazə-Müddətsiz Radioaktiv maddələrin nəqli ilə əlaqədar işlərin həyata keçirilməsinə dair xüsusi icazə- 09.04.2021-09.04.2024 Radioaktiv maddələrdən istifadə ilə əlaqədar işlərin həyata keçirilməsinə dair xüsusi icazə-22.01.2021-22.01.2024 Radioaktiv maddələrin saxlanma məntəqələrinin istismarının həyata keçirilməsinə dair xüsusi icazə-22.01.2021-22.01.2024 İonlaşdırıcı şüa mənbələri hesab edilən qurğuların istismarının həyata keçirilməsinə dair xüsusi icazə-06.12.2019-06.12.2022 Təhlükə potensiallı obyektlərin dövlət reyestrində qeydiyyatdan keçirilməsi barədə çıxarış-29.07.2021-29.07.2026 Azərbaycan Respublikası Dövlət Neft Şirkətinin Təlim, Tədris və Sertifikatlaşdırma İdarəsinin Dənizdə insan həyatının mühafizəsi üzrə təlim mərkəzində təlim və tədrisin Beynəlxalq Dəniz Təşkilatının “Dənizçilərin hazırlanmasına, onlara diplom verilməsinə və növbə çəkməyə dair” Beynəlxalq Konvensiyanın tələblərinə uyğunluğu haqqında şəhadətnamə-16.06.2021-16.06.2026 Qeyd: “Azərbaycan Respublikası Dövlət Neft Şirkətinin fəaliyyəti istiqamətləri üzrə müvafiq işlərin görülməsi üçün alınması tələb olunmayan lisenziya və icazələrin siyahısının təsdiq edilməsi haqqında” Azərbaycan Respublikası Prezidentinin 01 iyun 2020-ci il tarixli 1079 nömrəli Fərmanı ilə Azərbaycan Respublikası Dövlət Neft Şirkətinin fəaliyyəti istiqamətləri üzrə müvafiq işlərin görülməsi üçün alınması tələb olunmayan lisenziyalar və icazələrin siyahısı təsdiq edilmişdir.
9. Emitentin təklif etdiyi məhsullar və xidmətlər;	SOCAR hasilat, nəql və emal əməliyyatları ilə məşğul olur. SOCAR-ın əsas fəaliyyəti neft, qaz və qaz kondensatlarının hasilatı, emalı və nəqli, eləcə də neftin, qazın və neft və qaz məhsullarının satışından ibarətdir.
10. Emitentin işçilərinin sayı və onun rüblük dinamikası;	48,042 (qırx səkkiz min qırx iki) nəfər

11. Emitentin idarəetmə orqanları haqqında məlumat: direktorlar şurası (müşahidə şurası) (olduqda), icra orqanı, audit komitəsi (olduqda), onların üzvlərinin adı, soyadı, atasının adı;	**Emitentin idarəetmə və nəzarət orqanlarının hər bir üzvü barədə aşağıdakı məlumatlar:** **Müşahidə şurası** Mikayıl Çingiz oğlu Cabbarov, SOCAR-ın Müşahidə Şurasının sədri Emin Hüseynov SOCAR-ın Müşahidə Şurasının üzvü İsrafil Məmmədov SOCAR-ın Müşahidə Şurasının üzvü Elnur Soltanov SOCAR-ın Müşahidə Şurasının üzvü Azər Bayramov SOCAR-ın Müşahidə Şurasının üzvü Ruslan Əlixanov SOCAR-ın Müşahidə Şurasının üzvü **Rəhbərlik** Rövşən Nəcəf SOCAR-ın prezidenti Yusifzadə Xoşbəxt Birinci vitse-prezident Qasımov Süleyman Vitse-prezident - iqtisadi məsələlər üzrə Nəsirov Elşad Vitse-prezident - sərmayələr və marketinq üzrə Bədəlov Bədəl Vitse-prezident - sosial məsələlər üzrə Məmmədov Xalik Vitse-prezident - kadr, rejim və informasiya texnologiyaları üzrə İskəndərov Daşqın Vitse-prezident - neftin, qazın nəqli və qaz təsərrüfatı məsələləri üzrə Hüseynzadə Rəfiqə Vitse-prezident - ekologiya üzrə Lətifov Yaşar Vitse-prezident - yataqların işlənməsi üzrə Nəcəfov Kənan Vitse-prezident Qurbanov Zaur Vitse-prezident

12. Emitentin fiziki və hüquqi şəxs olan səhmdarlarının (payçılarının) ayrı-ayılıqda sayı;	Yoxdur – 100% dövlət mülkiyyətindədir.
13. Emitentin nizamnamə kapitalının beş faizi və daha artıq həcmdə səsli səhmlərinə (paylara) malik olan şəxslər (fiziki şəxsin soyadı, adı, atasının adı; hüquqi şəxsin adı, olduğu yer və VÖEN-i), onların hər birinə məxsus olan səhmlərin sayı (səhmlərin hər növü üzrə ayrı-ayrılıqda göstərilir) və emitentin nizamnamə kapitalında payı;	Yoxdur – 100% dövlət mülkiyyətindədir.
14. Nizamnamə kapitalında emitentin payı beş faizdən az olmayan hüquqi şəxslər (hüquqi şəxsin adı, olduğu yer, VÖEN-i, nizamnamə kapitalında emitentin payı);	Yoxdur – 100% dövlət mülkiyyətindədir.
15. Emitentin səhmdarlarının (payçılarının) hesabat dövrü ərzində keçirilmiş yığıncaqları barədə məlumat: 15.1. Yığıncağın keçirilmə tarixi və yeri (ünvan); 15.2. Ümumi yığıncaqda qəbul edilmiş qərarlar.	Yoxdur.
16. Emitentin dövriyyədə olan investisiya qiymətli kağızlarının buraxılışları haqqında məlumat (investisiya qiymətli kağızların hər buraxılışı ayrı-ayrılıqda göstərilir): 16.1. İnvestisiya qiymətli kağızın növü və forması; 16.2. İnvestisiya qiymətli kağızlar buraxılışının dövlət qeydiyyat nömrəsi və qeydiyyat tarixi; 16.3. İnvestisiya qiymətli kağızların miqdarı və nominal dəyəri; 16.4. İnvestisiya qiymətli kağızlar buraxılışının məcmu nominal dəyəri; 16.5. Hesabat dövrü ərzində emitent tərəfindən səhmlər üzrə ödənilmiş dividendlər haqqında məlumat (hesabat dövründə səhmlərin hər növü üzrə ödənilmiş dividendlərin məbləği göstərilir); 16.6. Faizli istiqrazlar buraxılışı haqqında məlumatda - istiqrazlar üzrə gəlirliyin illik faiz dərəcəsi; 16.7. İnvestisiya qiymətli kağızların yerləşdirildiyi və ya tədavüldə olduğu fond birjasının adı və olduğu yer (olduqda).	SOIAZ 2023: Avrobond Emissiya, faizli, təmin edilməmiş, sənədsiz, adlı istiqraz, ISIN: XS0903465127, Miqdarı: 1,000,000 ədəd, Nominal dəyəri: 1,000,000,000 USD, Müddəti: 13.03.2013-13.03.2023, 10 illik, Faizi 4.75%, Qalıq: 1,000,000,000 USD, London Stock Exchange SOIAZ 2030: Avrobond Emissiya, Faizli, təmin edilməmiş, sənədsiz, adlı istiqraz, ISIN: XS1196496688, Miqdarı: 750,000 ədəd, Nominal dəyəri:750,000,000 USD, Müddəti: 18.03.2015-18.03.2030, 15 illik, Faizi 6.95 %, Qalıq: 750,000,000 USD, London Stock Exchange Yerli SOCAR İstiqrazları, Faizli, təmin edilməmiş, sənədsiz, adlı istiqrazlar, ISIN: AZ2002019894, Qeydiyyat tarixi: 28.12.2020, Miqdarı: 100,000 ədəd, Nominal dəyəri:100,000,000 USD, Müddəti: 01.11.2021-01.11.2026, 5 il, 4.5% - Qalıq: 100,000,000 USD, Bakı Fond Birjası
17. Emitent tərəfindən bağlanılmış xüsusi əhəmiyyətli əqdlər barədə məlumatlar: 17.1. Əqdin məbləği; 17.2. Hesabat tarixinə əqdin ödənilməmiş hissəsi	Yoxdur.

18. Emitent tərəfindən aidiyyəti şəxslərlə bağlanılmış əqdlər barədə məlumatlar: 18.1. Bağlanılmış əqdin mahiyyəti, tarixi və məbləği; 18.2. Aidiyyəti şəxs barədə məlumat və emitentlə aidiyyət əlaqəsi.	SOCAR və "Caspian İnnovation Center" MMC – 10.01.2022 Online imtahan platforması üçün texniki dəstək xidmətinin göstərilməsi 7 480 AZN Törəmə müəssisə SOCAR, SOCAR-ın Sərmayələr İdarəsi və "SOCAR Upstream Management İnternational" MMC – 04.02.2022 İcarə müqaviləsi üzrə hüquq və öhdəliklərinin ötürülməsi haqqında Törəmə müəssisə SOCAR və Azerbaijan Gas Supply Company Limited – 08.02.2022Amendment NO. 11 of the Upstream purchase Agreement for natural gas Törəmə müəssisə SOCAR və Azerbaijan Gas Supply Company Limited – 08.02.2022Gas delivery Agreement Turkey delivery point 1000 SCM of gas – 137 USD PSV delivery point 1000 SCM of gas - 247 USD Törəmə müəssisə SOCAR və SOCAR Trading SA – 08.02.2022 General Agreement for the delivery of natural gas to the İtalian market Törəmə müəssisə SOCAR və "Caspian İnnovation Center" MMC – 17.02.2022 29.12.2020-ci il tarixli BT.017/2020 nömrəli "Rəqəmsal Keyfiyyət və SƏTƏMM sistemlərinin qurulması" haqqında "İş Həcmlərinin Təsviri"nin ləğv edilməsi haqqında Törəmə müəssisə SOCAR və "Caspian İnnovation Center" MMC – 25.02.2022 UFAM layihəsi çərçivəsində SAP dəstək xidməti 8 216 712 AZN ƏDV xaric Törəmə müəssisə SOCAR və Azerbaijan Gas Supply Company Limited – 28.02.2022 Second deed of Amendment of Condensate Sale and Purchase Agreement Törəmə müəssisə SOCAR və Azerbaijan Gas Supply Company Limited – 28.02.2022 Amendment NO. 12 of the Upstream purchase Agreement for natural gas Törəmə müəssisə SOCAR və Azerbaijan Gas Supply Company Limited – 28.02.2022 Second deed of Amendment of the deed of charge in relation to the Receivables under the Purchase Agreements Törəmə müəssisə SOCAR və "SOCAR RUS" MMC (SOCAR Rusiya) – 17.03.2022 Tapşırıq müqaviləsi Hər rüb 7 500 USD Törəmə müəssisə

	SOCAR, Azerbaijan Gas Supply Company Limited və “Azərkontrakt” ASC – 08.04.2022 Side Agreement to Azerbaijan Rollover GSA Törəmə müəssisə SOCAR və “SOCAR Capital” MMC – 18.04.2022 17.10.2016-cı il tarixli 259 nömrəli Borc müqaviləsinə Əlavə saziş Törəmə müəssisə SOCAR və Azerbaijan Gas Supply Company Limited – 27.05.2022 Amendment NO. 13 of the Upstream purchase Agreement for natural gas Törəmə müəssisə SOCAR, Engie S.A və Azerbaijan Gas Supply Company Limited – 08.09.2022 Guarantee relating a gas sales Agreement dated 19.09.2013 Törəmə müəssisə SOCAR, Azerbaijan Gas Supply Company Limited və Societe Generale – 23.09.2022 Amendment and restatement deed relating to the İnstruction and İndemnity Agreement dated 30.08.2018 Törəmə müəssisə SOCAR və Azerbaijan Gas Supply Company Limited – 03.10.2022 Gas delivery Agreement Operations Agreement Törəmə müəssisə SOCAR və “Caspian İnnovation Center” MMC – 01.11.2022 SOCAR-a aid olan struktur vahidlərinin məlumat bazasının yaradılması və vizuallaşdırılması 70 633 AZN ƏDV xaric Törəmə müəssisə SOCAR və “Caspian İnnovation Center” MMC – 01.11.2022 SOCAR-ın Baş ofisi üçün Layihələrin İdarəedilməsi alətinin təmin edilməsi 78 213.60 AZN ƏDV xaric Törəmə müəssisə SOCAR və “Caspian İnnovation Center” MMC – 05.11.2022 LimeSurvey Platforması 29 216 AZN ƏDV xaric Törəmə müəssisə SOCAR və SOCAR-ın “Azərikimya” İstehsalat Birliyi – 21.11.2022 Borc müqaviləsi 38 608 823 USD Törəmə müəssisə SOCAR və “Caspian İnnovation Center” MMC – 25.11.2022 SOCAR Prezidenti üçün İdarəetmə Hesabatı 78 506 AZN ƏDV xaric Törəmə müəssisə SOCAR və Azerbaijan Gas Supply Company Limited – 30.11.2022 Gas Delivery Agreement

	First Amendment Agreement Törəmə müəssisə SOCAR və SOCAR Enerji Ticaret A.Ş – 02.12.2022 Gas Sales Agreement Törəmə müəssisə SOCAR və “Caspian İnnovation Center” MMC – 07.12.2022 BT Layihələrin İdarəedilməsi xidmətləri 250 088 AZN ƏDV xaric Törəmə müəssisə SOCAR və Ümid, Babək Exploration and Production şirkəti – 19.12.2022 Borc müqaviləsi 90 000 000 USD Törəmə müəssisə
19. İllik hesabatın təsdiq edildiyi ümumi yığıncağın tarixi;	Yoxdur.
20. Hesabatın açıqlanma mənbəyi haqqında məlumat.	Məlumatların Elektron Açıqlanması Sistemi (MEAS): cbar.az/meas

State Oil Company of the Azerbaijan Republic

Consolidated financial statements prepared under International Financial Reporting Standards

31 December 2022

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Building a better
working world

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Independent auditor's report

To the Management Board and Supervisory Board of the
State Oil Company of the Azerbaijan Republic

Opinion

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

In our opinion, 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' International Code of Ethics for Professional Accountants (including International Independence Standards) (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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of oil and gas properties and equipment and investments in joint ventures in refining segment	
We considered this matter to be one of most significance in the audit due to the significance of the Group's oil and gas properties and equipment and investments in joint ventures in the refining segment for the consolidated financial statements and due to the fact that the impairment of such assets is subjective due to the significant amount of judgement involved in determining whether indicators of impairment or impairment reversal exist. Indicators should reflect significant upward or downward revisions in assumptions impacting the long-term value generating potential of an asset, rather than drivers of short-term fluctuations. Key judgements in determining whether indicators of impairment or impairment reversal for oil and gas properties and equipment and investments in joint ventures in the refining segment exist include changes of prices for crude oil, gas and petrochemical products, refinery margins, discount rates and oil and gas reserves estimates. Impairment assessment of oil and gas properties and equipment and investments in joint ventures in the refining segment is mainly affected by prices for crude oil, gas and petrochemical products and refinery margin assumptions which are inherently difficult to predict as they are affected by various factors such as long-term economic growth, geopolitics, technological developments, energy transition, investments in the industry and industry capacity. There is a risk that management's forecasts for crude oil, petrochemical product prices and refinery margins are over optimistic or conservative. That may lead to potential material misstatements in analysis of indicators of impairment and impairment reversal, as well as determination of recoverable amount in impairment tests.	We evaluated the Group's assessment of impairment and impairment reversal triggers, including changes in the forecast commodity price assumptions, movements in oil and gas reserves, changes in asset performance, changes in the Group's operating plans, and whether these are indicators of impairment or impairment reversal. Separately from management, for material oil and gas properties and equipment and investments in joint ventures in the refining segment, we also assessed whether indicators of impairment or impairment reversal exist, considering all available evidence, both corroborative and contradictory, that could indicate a significant increase or decrease in the recoverable amount of any of those Group's assets. We involved our internal valuation experts and compared the forecasted prices of crude oil, gas and petrochemical products used in impairment assessment with independent market forecasts. We also critically assessed the reasonableness of the Group's refining margin estimation methodology and assumptions. We have compared the price assumptions (oil, gas, petrochemical products, refinery margins), as well as the Group's production forecasts, which were used in the Group's impairment trigger analysis and impairment tests, with the actual results for the first quarter of 2023. We independently evaluated the reasonableness of the Group's main inputs into discount rates calculation used in impairment tests for oil and gas properties and equipment and investments in joint ventures in the refining segment. We assessed how the risk-free rates and risk premiums were determined and incorporated into the discount rates used by management. We analysed the discount rates calculation methods.

Key audit matter	How our audit addressed the key audit matter
Given the long timeframes involved, certain impairment assessments for oil and gas properties and equipment and investments in joint ventures in the refining segment are sensitive to the discount rate applied. Discount rates should reflect market assessment of the time value of money and risks specific to the assets for which cash flow estimates have not been adjusted. There is a risk that management's determination of discount rate is not appropriate, due to the inappropriate determination of risk-free rates and risk premiums, leading to material misstatements. The information on oil and gas properties and equipment and investments in joint ventures in the refining segment, key assumptions used by management and results of impairment tests are disclosed in Notes 3, 16 and 18 to the consolidated financial statements.	We analysed the disclosure of oil and gas properties and equipment and investments in joint ventures in the refining segment in the notes to the consolidated financial statements.
Estimation of oil and gas reserves	
The estimate of oil and gas reserves has a significant impact on the impairment test, depreciation and decommissioning provisions. The Group involved internationally recognised independent reserves engineers to evaluate its oil and gas reserves. Information on oil and gas reserves is disclosed in Note 3 to the consolidated financial statements.	We compared the assumptions used by the reserve engineers with the Group's approved budget and historical data. We assessed the underlying assumptions and compared estimates of reserves provided by reserves engineers to the amounts included in the calculation of impairment, depreciation, depletion and amortization and decommissioning provisions. We analysed the disclosure of oil and gas reserves in the notes to the consolidated financial statements.
The impact of hyperinflation in Türkiye on the Group's consolidated financial statements	
Hyperinflationary accounting was one of the matters of most significance in our audit since the Group has a subsidiary in Türkiye - SOCAR Türkiye Enerji A.Ş. ("STEAS"), with a functional currency - Turkish Lira - which is the currency of a hyperinflationary economy. Balances and transactions related to this subsidiary were significant, and the application of the related accounting standard – IAS 29 - "Financial Reporting in Hyperinflationary Economies" - involves complex calculations and certain degree of subjectivity. Information on the impact of hyperinflation in Türkiye on the Group is disclosed in Note 2 to the consolidated financial statements.	We obtained an understanding of the process of identification of the Group subsidiaries acting in hyperinflationary economies and evaluated the Group's accounting policy in relation to hyperinflation accounting. We assessed the indicators of hyperinflation in Türkiye's economy and examined available macroeconomic and industry reports. We evaluated the list of non-monetary assets and liabilities of the Turkish subsidiary subject to hyperinflationary adjustment calculation. We assessed the assumptions underlying hyperinflationary adjustment calculation, such as current inflation rate, cumulative inflation rate, consumer price indices (CPI) on origination dates of non-monetary assets and liabilities,

Key audit matter	How our audit addressed the key audit matter
	CPI at current reporting date and prior year reporting date and compared them to available external data. We checked mathematical accuracy of the calculations. We performed analytical recalculation of IAS 29 effect on the Group's consolidated financial statements and compared the results with those recognised by the Group. We assessed the disclosures in the consolidated financial statements related to the effects of IAS 29 application.

Other information included in the Group's 2022 Annual Report

Other information consists of the information included in the Group's 2022 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2022 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of the Management Board and Audit Committee 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.

Audit Committee is responsible for overseeing the Group's financial reporting process.

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

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

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

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

We communicate with Audit Committee 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.

Building a better working world

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Turgay Teymurov.

Ernst & Young Holdings (CIS) B.V.

19 June 2023

Baku, Azerbaijan

Consolidated statement of financial position

as at 31 December 2022

(Amounts presented are in millions of Azerbaijani manats)

	Note	31 December 2022	31 December 2021
Assets			
Current assets			
Cash and cash equivalents	8	12,490	9,012
Restricted cash	9	305	248
Deposits	8	528	614
Trade and other receivables	10	9,730	9,418
Inventories	11	2,504	2,839
Assets held for sale	13	5,527	192
Other current financial assets	12	2,245	1,558
Other current assets	12	102	59
Total current assets		**33,431**	**23,940**
Non-current assets			
Property, plant and equipment	16	29,901	30,901
Goodwill	39	391	284
Intangible assets other than goodwill	17	1,028	671
Investments in joint ventures	18	6,299	5,024
Investments in associates	19	4,487	4,228
Right-of-use assets	28	895	807
Deferred tax assets	35	986	936
Other non-current financial assets	15	3,011	1,975
Other non-current assets	14	406	591
Total non-current assets		**47,404**	**45,417**
Total assets		**80,835**	**69,357**
Equity			
Charter capital	29	4,760	4,748
Additional paid-in capital	29	5,546	5,291
Retained earnings		15,086	6,353
Other capital reserves		(40)	(100)
Loss on purchase of subsidiary share, net		(205)	(205)
Cumulative translation differences		6,998	5,798
Equity attributable to equity holders of the Group		**32,145**	**21,885**
Non-controlling interests		1,190	865
Total equity		**33,335**	**22,750**

Consolidated statement of financial position (continued)

	Note	31 December 2022	31 December 2021
Liabilities			
Current liabilities			
Trade and other payables	20	11,508	11,049
Short-term and current portion of long-term borrowings	21	7,746	5,865
Taxes payable	22	737	840
Contract liabilities	20	1,336	657
Corporate income tax payable	22	754	518
Deferred acquisition consideration payable	27	130	202
Current lease liabilities	28	178	208
Other provisions for liabilities and charges	24	41	76
Liabilities directly associated with the assets held for sale	13	603	83
Advances received for the sale of interest in PSA and associate	13	5,270	–
Other current financial liabilities	26	667	810
Total current liabilities		**28,970**	**20,308**
Non-current liabilities			
Long-term borrowings	21	11,134	15,501
Advances received for the sale of interest in PSA and associate	13	–	4,308
Deferred tax liabilities	35	2,220	1,688
Asset retirement obligations	23	1,143	2,066
Non-current lease liabilities	28	874	858
Deferred acquisition consideration payable	27	456	610
Other provisions for liabilities and charges	24	15	15
Deferred income	25	70	65
Other non-current liabilities	26	2,618	1,188
Total non-current liabilities		**18,530**	**26,299**
Total liabilities		**47,500**	**46,607**
Total liabilities and equity		**80,835**	**69,357**

Approved for issue and signed on behalf of the Group on 19 June 2023.

AZƏRBAYCAN RESPUBLİKASININ DÖVLƏT NEFT ŞİRKƏTİ • SOCAR •

Mr. Rovshan Najaf
President

Mr. Suleyman Gasymov
Vice-President for Economic Affairs

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2022

(Amounts presented are in millions of Azerbaijani manats)

	Note	2022	2021
Revenue	30	119,228	77,531
Cost of sales	31	(104,526)	(68,689)
Gross profit		**14,702**	**8,842**
Distribution expenses	31	(3,048)	(1,708)
General and administrative expenses	31	(1,851)	(1,456)
(Loss)/gain on disposals of property, plant and equipment		(1)	16
Social expenses		(214)	(261)
Exploration and evaluation expenses	31	(7)	(32)
Expected credit loss (ECL)	31	(245)	(68)
Other operating expenses	31	(973)	(1,195)
Other operating income	32	999	791
Operating profit		**9,362**	**4,929**
Interest revenue calculated using effective interest method	33	367	226
Other finance income		–	1
Finance costs	34	(1,537)	(1,247)
Foreign exchange losses, net		(498)	(771)
Gain on net monetary position	2	666	–
Share of result of joint ventures	18	1,475	(303)
Share of result of associates	19	1,028	442
Profit before income tax		**10,863**	**3,277**
Income tax expenses	35	(1,439)	(1,162)
Profit for the year		**9,424**	**2,115**
Other comprehensive income/(loss)			
Exchange differences on translation of foreign operations		1,628	(664)
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods – (loss)/gain on investments at FVOCI (net of tax)		(6)	8
Other comprehensive income/(loss) for the year (net of tax)		**1,622**	**(656)**
Total comprehensive income for the year		**11,046**	**1,459**
Profit/(loss) is attributable to:			
Equity holders of the Group		9,460	1,642
Non-controlling interests		(36)	473
		9,424	**2,115**
Total comprehensive income/(loss) attributable to:			
Equity holders of the Group		10,720	1,522
Non-controlling interests		326	(63)
		11,046	**1,459**

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

Consolidated statement of changes in equity

for the year ended 31 December 2022

(Amounts presented are in millions of Azerbaijani manats)

		Attributable to the equity holders of the Group									
	Note	Charter capital	Additional paid-in capital	Put option on company's shares	Gain/(Loss) on (purchase)/ sale of subsidiary share	Other capital reserves	Retained earnings	Cumulative translation differences	Total	Non-controlling interests	Total equity
Balance at 1 January 2021		**4,696**	**5,302**	**(1,310)**	**1,045**	**(133)**	**5,376**	**5,951**	**20,927**	**996**	**21,923**
Profit for the year		–	–	–	–	–	1,642	–	**1,642**	473	**2,115**
Other comprehensive income/(loss)		–	–	–	–	33	–	(153)	**(120)**	(536)	**(656)**
Total comprehensive income/(loss) for 2021		**–**	**–**	**–**	**–**	**33**	**1,642**	**(153)**	**1,522**	**(63)**	**1,459**
Additional paid-in capital	29	–	41	–	–	–	–	–	**41**	–	**41**
Increase in charter capital	29	52	(52)	–	–	–	–	–	**–**	–	**–**
Distribution to the Government	29	–	–	–	–	–	(665)	–	**(665)**	–	**(665)**
Derecognition of put option liabilities		–	–	1,310	(1,250)	–	–	–	**60**	(60)	**–**
Dividends declared by subsidiaries		–	–	–	–	–	–	–	**–**	(8)	**(8)**
Balance at 31 December 2021		**4,748**	**5,291**	**–**	**(205)**	**(100)**	**6,353**	**5,798**	**21,885**	**865**	**22,750**
Profit/(loss) for the year		–	–	–	–	–	9,460	–	**9,460**	(36)	**9,424**
Other comprehensive income		–	–	–	–	60	–	1,200	**1,260**	362	**1,622**
Total comprehensive income for 2022		–	–	–	–	**60**	**9,460**	**1,200**	**10,720**	**326**	**11,046**
Additional paid-in-capital	29	–	267	–	–	–	–	–	**267**	–	**267**
Increase in charter capital	29	12	(12)	–	–	–	–	–	–	–	–
Distribution to the Government	29	–	–	–	–	–	(527)	–	**(527)**	–	**(527)**
Dividends declared to the Government	29	–	–	–	–	–	(200)	–	**(200)**	–	**(200)**
Dividends declared by subsidiaries		–	–	–	–	–	–	–	**–**	(1)	**(1)**
Balance at 31 December 2022		**4,760**	**5,546**	**–**	**(205)**	**(40)**	**15,086**	**6,998**	**32,145**	**1,190**	**33,335**

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

Consolidated statement of cash flows

for the year ended 31 December 2022

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

	Note	2022	2021
Cash flows from operating activities			
Profit before income tax		**10,863**	**3,277**
Adjustments for:			
Depreciation of property, plant and equipment	31	1,847	1,935
Depreciation of right-of-use assets	28	157	142
Amortisation of intangible assets	17	78	70
Impairment of property, plant and equipment	16,31	605	798
Impairment of intangible assets	17,31	–	2
Impairment of investment in joint venture	18,31	26	30
Impairment of right-of-use assets	28	48	–
Reversal of impairment of property, plant and equipment	16,32	(97)	(223)
ECL	31	245	68
Loss/(gain) on disposals of property, plant and equipment and intangible assets		1	(16)
Other finance income		–	(1)
Interest revenue calculated using effective interest method	33	(367)	(226)
Finance costs	34	1,537	1,247
Gain on net monetary position		(666)	–
Foreign exchange rate differences		946	1,684
Share of result of associates and joint ventures	18,19	(2,503)	(139)
Fair value gains on equity instrument at FVPL, net	32	(213)	(365)
Fair value gains from financial instruments		(31)	–
Dividend received from associate held for sale	19,32	(247)	–
Change in discount rate	32	(196)	–
Other non-cash transactions		8	58
		12,041	**8,341**
Changes in assets and liabilities			
Increase in trade and other receivables		(1,599)	(3,908)
Decrease/(increase) in inventories		42	(464)
Increase in trade and other payables and contract liabilities		1,506	3,026
Change in provisions		(68)	(54)
Increase in restricted cash		(66)	(177)
Increase/(decrease) in other assets and liabilities		78	(156)
Cash generated from operations		**11,934**	**6,608**
Income taxes paid		(1,062)	(592)
Interest paid		(1,501)	(901)
Net cash flows from operating activities		**9,371**	**5,115**
Cash flows from investing activities			
Additional contribution in associates and joint ventures	18,19	(116)	(225)
Acquisition of 4.35% in SD PSA		(870)	–
Purchase of property, plant and equipment		(2,762)	(2,923)
Purchase of intangible assets		(23)	(15)
Additions to assets classified as assets held for sale		(154)	–
Placement of deposits		(77)	(88)
Withdrawal of deposits		274	76
Interest received		220	204
Dividends received from associates and joint ventures		50	404
Dividends received from associate held for sale	32	247	–
Proceeds from disposal of assets held for sale		40	43
Proceeds from sale of property, plant and equipment		4	54
Loan issued to related parties		(17)	(15)
Loans repaid by related parties		11	–
Purchase of financial instruments		(337)	(74)
Proceed from sale of financial instruments		–	9
Net cash flows used in investing activities		**(3,510)**	**(2,550)**
Cash flows from financing activities			
Proceeds from borrowings		25,977	12,704
Repayment of borrowings		(28,073)	(7,802)
Payment of lease liabilities	28	(151)	(123)
Increase in charter capital and additional paid-in capital	29	267	13
Distribution to the Government	29	(527)	(665)
Repayment of put option liabilities		–	(2,728)
Settlement of deferred consideration payable	37	(72)	(10)
Dividends paid to non-controlling interests		(1)	(33)
Advances received for the sale of interest in PSA and associate	13	962	–
Dividends paid to the Government	29	(200)	–
Net cash flows (used in)/from financing activities		**(1,818)**	**1,356**
Net foreign exchange difference on cash and cash equivalents		(566)	(1,061)
ECL reversal/(charge) for cash and cash equivalents	8	1	(1)
Net increase in cash and cash equivalents		**3,478**	**2,859**
Cash and cash equivalents at the beginning of the year	8	9,012	6,153
Cash and cash equivalents at the end of the year	8	**12,490**	**9,012**

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

1. The Group and its operations

The State Oil Company of the Azerbaijan Republic ("SOCAR") was established by the Presidential Decree on 13 September 1992 in accordance with Azerbaijani legislation and is domiciled in the Azerbaijan Republic. SOCAR is involved in upstream, midstream, and downstream operations. SOCAR's main functions pertain to the extraction, refining, transportation of oil, gas and gas condensates, and sale of oil, gas and oil products. SOCAR is 100 per cent owned by the Government of the Azerbaijan Republic (the "Government").

SOCAR's registered address is 121, Heydar Aliyev Avenue, AZ 1029 Baku, Azerbaijan Republic.

Information about subsidiaries

The consolidated financial statements of the Group include the following material subsidiaries:

Name	Principal activities	Country of incorporation	% equity interest 2022	% equity interest 2021
SOCAR Türkiye Enerji A.Ş.	Refinery, sales and distribution	Türkiye	100.0%	100.0%
Azerbaijan (ACG) Ltd	Oil production	Cayman Islands	100.0%	100.0%
Azerbaijan (Shah Deniz) Ltd	Gas production	Cayman Islands	100.0%	100.0%
Caspian Drilling Company (CDC)	Drilling operations	Azerbaijan	92.0%	92.0%
SOCAR Energy Georgia LLC	Sales and distribution	Georgia	91.8%	91.8%
SOCAR Overseas LLC	Sales and distribution	UAE	100.0%	100.0%
SOCAR Trading Holding	Sales and distribution	Malta	100.0%	100.0%
Azerbaijan (BTC) Ltd	Sales and distribution	Cayman Islands	100.0%	100.0%
Cooperative Menkent U.A.	Sales and distribution	Netherlands	100.0%	100.0%
SOCAR Energy Holdings AG	Sales and distribution	Switzerland	100.0%	100.0%
SOCAR Energy Ukraine	Sales and distribution	Ukraine	100.0%	100.0%
Azerbaijan (SCP) LTD	Sales and distribution	Cayman Islands	100.0%	100.0%
SOCAR Petroleum CJSC	Sales and distribution	Azerbaijan	100.0%	100.0%
SOCAR Absheron	Oil and gas production	Cayman Islands	100.0%	100.0%
SOCAR Karabakh	Oil and gas production	Cayman Islands	100.0%	100.0%
Baku Shipyard LLC	Shipbuilding	Azerbaijan	87.0%	87.0%
SOCAR Polymer Investments LLC	Chemical's production	Azerbaijan	57.0%	57.0%
BOS Shelf LLC	Construction	Azerbaijan	90.0%	90.0%
Gacrux Middle East Investment Holding LTD	Construction	UAE	100.0%	100.0%

2. Significant accounting policies

2.1 Basis of preparation

These consolidated financial statements of SOCAR and its subsidiaries (collectively referred to as "the Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

The Group has prepared the financial statements on the basis that it will continue to operate as a going concern.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2022.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

2. Significant accounting policies (continued)

2.2 Basis of consolidation (continued)

Subsidiaries are all entities (including special-purpose entities) over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group’s voting rights and potential voting rights.

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

Profit or loss and each component of other comprehensive income (“OCI”) is attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group’s accounting policies. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value on initial recognition. Total comprehensive income within a subsidiary is attributed to the non-controlling interests even if that results in a deficit balance. Such investments are subsequently measured in accordance with either IAS 28 or IFRS 9, depending on the nature of the investment.

2.3 Summary of significant accounting policies

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as a liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Transactions with non-controlling interests

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e., transactions with owners in their capacity as owners). In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary.

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 Group. The Group includes such accumulated differences in a separate reserve within equity under the caption 'Gain on sale/purchase of subsidiary share'.

Business combinations with entities under common control

The Group applies acquisition method of accounting for business combinations with entities under the common control.

Investments in associates and joint ventures

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

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

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

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

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. Any gain or loss on sale of share that was recognised directly in the equity of the associate or joint venture is reflected as a gain or loss within the Group share of associate's or joint venture's profit or loss. Gains and losses resulting from transactions between the Group and the associate or joint venture are recognised to the extent of the unrelated investors' interest in the associate or joint venture.

The Group's share of profit or loss of the associate and joint ventures is shown on the face of the consolidated statement of profit or loss and other comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment charge on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'other operating expenses' in the consolidated statement of profit or loss and other comprehensive income.

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

Investments in Production Sharing Agreements ("PSAs")

Certain upstream activities of the Group are governed by the PSAs. According to the terms of PSAs, the Group owns the portion of the project's assets and is liable for its portion of the project's liabilities. At the same time the Group is entitled to its portion of expenses incurred and revenues earned by the whole project. Therefore, the Group accounts for its investment in PSAs by recognising the portion of underlying assets, liabilities, expenses incurred and income earned by the projects using undivided interest method.

PSA is the method to execute exploitation of mineral resources by taking advantage of the expertise of a commercial oil and gas entity. The Government retains title to the mineral resources (whatever the quantity that is ultimately extracted) and often the legal title to all fixed assets constructed to exploit the resources. The Government takes a percentage share of the output which may be paid in in kind or in cash under an agreed pricing formula. The contracting parties may only be entitled to recover specified costs plus an agreed profit margin. It may have the right to extract resources over a specified period of time. Operating company is a legal entity created by one or more contracting parties to operate PSA.

As a contracting party to various PSAs the Group evaluates and accounts for the PSAs in accordance with the substance of the arrangement. It records only its own share of oil and gas under a PSA as revenue. Neither revenue nor cost is recorded by the Group for the oil and gas extracted and sold on behalf of the Government. The Group acts as the Government's agent to extract, deliver or sell the oil and gas and remit the proceeds.

Costs that meet the recognition criteria as intangible or fixed assets in accordance with IAS 38 and IAS 16, respectively, are recognised where the entity is exposed to the majority of the economic risks and has access to the probable future economic benefits of the assets. Acquisition, development and exploration costs are accounted for in accordance with policies stated herein.

Assets subject to depreciation, depletion or amortization are expensed using the appropriate depletion or depreciation method stipulated by the present accounting policies over the shorter of the PSA validity period or the expected useful life of the related assets.

Current versus non-current classification

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

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

All other assets are classified as non-current.

A liability is current when:

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

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification. The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Foreign currency translation

All amounts in these consolidated financial statements are presented in millions of Azerbaijani manats ("AZN"), unless otherwise stated.

The functional currencies of the Group's consolidated entities are the currencies of the primary economic environments in which the entities operate. The functional currency of SOCAR and its 24 business units and the Group's presentation currency is the national currency of the Azerbaijan Republic, AZN. However, US dollar ("USD"), Swiss franc ("CHF"), Georgian lari ("GEL"), Ukrainian hryvnia ("UAH") and Turkish lira ("TRY") are considered the functional currency of the Group's certain subsidiaries, associates and joint ventures as the majority of these investments' receivables, revenues, costs and debt liabilities are either priced, incurred, payable or otherwise measured in these currencies.

The transactions executed in foreign currencies are initially recorded in the functional currencies of respective Group entities by applying the appropriate rates of exchanges prevailing at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies other than functional currency of respective Group entity are translated into the functional currency of that entity at the appropriate exchange rates prevailing at the reporting date. Foreign exchange gains and losses resulting from the re-measurement into the functional currencies of respective Group's entities are recognised in profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The results and financial position of the Group entities which have different functional currencies from the presentation currency of the Group and are not already measured in the Group's presentation currency (functional currency of none of these entities is a currency of a hyperinflationary economy) are translated into the presentation currency of the Group as follows:

(i) Assets and liabilities for each consolidated statement of financial position are translated at the closing rate at the date of that consolidated statement of financial position;

(ii) Income and expenses for each consolidated statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) All resulting exchange differences are recognised as a separate component of equity − currency translation difference.

(iv) Dividends are translated with the exchange rate as at dividend declared date.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Principal rate of exchange used for translating foreign currency balances were as follows as at 31 December:

Currencies	2022	2021
USD 1	1.7000	1.7000
EUR 1	1.8114	1.9265
CHF 1	1.8412	1.8564
GEL 1	0.6298	0.5489
UAH 1	0.0460	0.0625
TRY 1	0.0909	0.1329
JPY 100	1.2813	1.4774

Financial Reporting in Hyperinflation Economies

Effective from 1 January 2022, IAS 29*, Financial Reporting in Hyperinflation Economies* has been applied in the preparation of the consolidated financial statements of the Group because the functional currency of the subsidiary of the Group, SOCAR Türkiye Enerji A.Ş (Turkish Lira), is the currency of a hyperinflationary economy as per IAS 29.

IAS 29 was applied to reflect the changes in the general purchasing power of the Turkish Lira as of 31 December 2022. IAS 29 requires that financial statements prepared in the currency in the economy with hyperinflation should be expressed the terms of the measurement unit valid at the balance sheet date. One of the requirements for the application of IAS 29 is a three – year compound inflation rate approaching or exceeding 100 per cent.

The application of IAS 29 results in an adjustment for the loss of purchasing power of the Turkish Lira during the year recognised in the profit or loss section of the consolidated statement of profit or loss and other comprehensive income. In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power and an entity with an excess of monetary liabilities over monetary assets gains purchasing power to the extent the assets and liabilities are not linked to a price level. This gain or loss on the net monetary position is derived as the difference resulting from the revaluation of non-monetary assets, owners' equity and items in the statement of comprehensive income and the adjustment of index linked assets and liabilities.

As per IAS 29, existence of hyperinflation in Turkish economy is firstly identified as of 30 June 22 and has been applied by the Group as at that date. Group continued this practise as of 31 December 22. Three-year cumulative increase in Consumer Price Index (CPI) as of December 2022 has been 156 per cent in Türkiye according to inflation data published by Türkiye Statistical Institute.

Since the Group's presentation currency is non-hyperinflationary, comparative figures are not adjusted for the effects of inflation in the current period.

On the application of IAS 29, Group used the conversion coefficient derived from the CPI in the Türkiye published by Türkiye Statistical Institute. The CPI for current and previous year periods and corresponding conversion factors since the time when the Türkiye previously ceased to be considered hyperinflationary, i.e., since 1 January 2005, were as follow:

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Year end	Index Numbers	Index, %	Conversion Factor
2004	113.86	9.35%	9.91
2005	122.65	7.72%	9.20
2006	134.49	9.65%	8.39
2007	145.77	8.39%	7.74
2008	160.44	10.06%	7.03
2009	170.91	6.53%	6.60
2010	181.85	6.40%	6.21
2011	200.85	10.45%	5.62
2012	213.23	6.16%	5.29
2013	229.01	7.40%	4.93
2014	247.72	8.17%	4.56
2015	269.54	8.81%	4.19
2016	292.54	8.53%	3.86
2017	327.41	11.92%	3.45
2018	393.88	20.30%	2.86
2019	440.50	11.84%	2.56
2020	504.81	14.60%	2.24
2021	686.95	36.08%	1.64
2022	1,128.45	64.27%	1.00

As required by IAS 29, assets and liabilities are separated into those that are monetary and non–monetary, with non–monetary items further divided into those measured on either a current or historical basis. Monetary items (other than index -linked monetary items) are not affected because they are already expressed in terms of measuring unit as of 31 December 2022. Non-monetary items (items which are not expressed in terms of measuring unit as of 31 December 2021) are revalued by applying the relevant index. The revalued amount of a non-monetary item is reduced, in accordance with appropriate IFRSs, when it exceeds its recoverable amount. Since the Group's functional currency is Azerbaijani manats "AZN", components of shareholders' equity in the statement of financial position were not revalued by applying the relevant index.

Non-monetary items measured at historical cost that were acquired or assumed before the time when the Türkiye previously ceased to be considered hyperinflationary, i.e before 1 January 2005, are revalued by applying the change in the relevant index from 1 January 2005 to 31 December 2022.

The prior year comparatives are not restated. IAS 29 impact on non-monetary assets and liabilities until 31 December 2021 have been adjusted through cumulative translation difference and NCI in total Equity. The hyperinflation effect occurred during 2022 has been applied through gain on net monetary position in the consolidated statement of profit or loss and other comprehensive income.

All items in the consolidated statement of profit or loss and other comprehensive income are expressed in terms of the current measuring unit at the reporting date, except for transactions other than TRY, where average rate have been applied. All amounts in profit or loss are adjusted by applying the change in the general price index from the dates when the items of income and expenses originated and indexed on a monthly basis.

Financial instruments − measurement bases

Fair value

The Group measures financial instruments such as derivatives at fair value at each balance sheet date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Amortised cost

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest rate method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related financial assets or liabilities presented in the consolidated statement of financial position.

The effective interest rate method is a method of allocating interest income or interest expense over the relevant period to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount of financial asset or financial liability. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

Financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

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

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

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

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified into four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon de-recognition (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

The Group's financial assets at amortised cost include current and deposit accounts as well as restricted accounts at several local and international banks, trade and loan receivables from third parties, loan receivables from associates and long-term deposit accounts classified as other non-current financial assets.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment charge or reversals are recognised in the profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon de-recognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group's debt instruments at fair value through OCI include group of trade and other receivables that are held for both collecting contractual cash flows and selling to manage short-term liquidity needs.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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

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

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

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

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

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Critical accounting estimates and judgements (Note 3);
- Debt instruments at fair value through OCI and trade and other receivables (Note 10).

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

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

For financial assets other than trade receivables and contract assets, the Group applies general approach in calculating ECLs.

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

The Group's debt instruments at fair value through OCI solely comprise trade and other receivables that are held for both collecting contractual cash flows and selling to manage its everyday liquidity needs. For debt instruments at fair value through OCI, the Group applies the same methodology that is applied to financial assets measured at amortised cost.

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

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

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

Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss and other comprehensive income.

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

Loans, borrowings and payables

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings and payables are subsequently measured at amortised cost using the Effective Interest Rate ("EIR") method taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss and other comprehensive income.

Derecognition

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

Offsetting of financial instruments

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

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently the liability is measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with IFRS 15.

Derivative financial instruments

Oil and Gas derivative financial instruments, including paper and physical contracts, are initially measured at fair value on the date on which a derivative contract is entered into and subsequently accounted for at fair value through profit or loss. Derivatives are recognised as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Gains or losses arising from change in fair value of derivative financial instruments are recognised through cost of sales in the consolidated statement of profit or loss and other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

Restricted cash

Restricted cash is presented separately from cash and cash equivalents. Restricted balances are excluded from cash and cash equivalents for the purposes of cash flow statement.

Trade payables

Trade payables are accrued when the counterparty performed its obligations under the contract. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Borrowings

All borrowings are initially recognised at fair value net of issue costs associated with the borrowing. Borrowings are carried at amortised cost using the effective interest rate method.

Interest costs on borrowings directly attributable to the construction of qualifying property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Property, plant and equipment

The initial cost of an asset purchased comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of decommissioning obligation, if any, and, for qualifying assets, borrowing costs. Non-recoverable value-added tax related to the acquisition of property, plant and equipment is capitalised by the Group. Subsequently, property, plant and equipment are stated at cost as described below, less accumulated depreciation and provision for impairment, where required.

Depreciation

Property, plant and equipment related to oil and natural gas properties are depreciated using the unit-of-production method.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Depreciation of oil and gas assets is computed on a field-by-field basis over proved developed reserves. Shared oil and gas properties and equipment (i.e. internal delivery systems, processing units, etc.) are depleted over total proved reserves.

Land is not depreciated. Property, plant and equipment other than oil and gas properties and equipment, are depreciated on a straight-line basis over their estimated useful lives. Assets under construction are not depreciated.

Exploration and evaluation costs

The Group accounts for exploration and evaluation activities, expensing exploration and evaluation costs until such time as the economic viability of producing the underlying resources is determined.

Exploration and evaluation costs related to resources determined to be not economically viable are expensed through operating expenses in the consolidated statement of profit or loss and other comprehensive income.

Development costs

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

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

All minor repair and maintenance costs are expensed as incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

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

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

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). The cost of a right-of-use asset comprises:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date, less any lease incentives received;
- Any initial direct costs incurred by the lessee; and
- An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

A lessee recognises dismantling, removal and restoration costs above as part of the cost of the right-of-use asset when it incurs an obligation for those costs. A lessee applies IAS 2 *Inventories* to costs that are incurred during a particular period as a consequence of having used the right-of-use asset to produce inventories during that period. The obligations for such costs are recognised and measured applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. Right-of-use assets are subject to the impairment requirements of IAS 36 *Impairment of Assets*.

Lease liabilities

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. When the lease liability is remeasured as described above, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. When there is a modification of a lease that decreases the scope of the lease, the Group also recognises gain or loss in the profit or loss equal to the difference between carrying amounts of portions of lease liability and right-of-use asset derecognised.

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. The Group also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease term and is included in lease revenue in the consolidated statement of profit or loss and other comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Goodwill

Goodwill is initially measured at cost being, the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment charge.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets

Intangible assets are stated at cost, less accumulated amortization and accumulated impairment charge. Intangible assets include rights and computer software, patents, licences, customer relationships, trade name, water rights and development projects.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Development projects

Cost incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be operational considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other expenditures on research and development activities are recognised as an expense in the period in which they incurred. When there is an impairment, the carrying values of the intangible assets are written down to their recoverable amounts. Intangible assets not yet ready for use are not amortised, however are tested for impairment annually.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Corporate income taxes

Corporate income taxes have been provided for in the consolidated financial statements in accordance with the applicable legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss unless it relates to transactions that are recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax asset is provided on deductible temporary differences arising on investment in subsidiaries, joint ventures and associates, except where taxable profit will not be available against which the temporary differences can be utilised and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax liability is provided on taxable temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax relating to items recognised outside profit or loss is recognised either in OCI or directly in equity.

Deferred income taxes are provided in full on temporary differences arising on recognition and subsequent measurement of provision for asset retirement obligation and related adjustments to cost of property, plant and equipment, as well as on temporary differences arising on right-of-use assets and lease liabilities.

Taxes other than corporate income tax

Taxes, other than on income, are recorded within operating expenses.

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Inventories

The major part of inventories are stated at the lower of cost and net realizable value. Cost is assigned by the weighted average method. Cost comprises direct purchase costs, cost of production, transportation and manufacturing expenses (based on normal operating capacity).

The remaining part of inventories which are purchased with a view to resale in the near future, generating a profit from fluctuations in price or broker-traders' margin is stated at fair value less costs to sell.

Government grants

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

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

Asset retirement obligations

Liabilities for asset retirement obligation costs are recognised when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. Where an obligation exists for a new facility, such as oil and natural gas production or transportation facilities, this will be on construction or installation. An obligation for asset retirement may also crystallise during the period of operation of a facility through a change in legislation. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements.

The cost of property, plant and equipment is also adjusted for amounts of estimated liabilities for asset retirement obligations.

Any change in the present value of the obligation resulting from changes in estimates of the amounts or timing of future expenditures is reflected as an adjustment to the provision and the corresponding capitalised costs within property, plant and equipment. Changes in estimates of the amounts or timing of future expenditures to dismantle and remove fully depreciated plant or facility is recognised in the profit or loss. Changes in the present value of the obligation resulting from unwinding of the discount are recognised as finance costs in the consolidated statement of profit or loss and other comprehensive income.

Provisions for liabilities and charges

Provisions for liabilities and charges are liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Distribution to the Government

Distribution to the Government represents cash distributions or financing which the Group may be required to make to the state budget, various government agencies and projects administered by the Government based on the particular decisions of the Government. Such distributions are recorded as a reduction of equity. Distributions in the form of transfers of non-monetary assets are recognised at the carrying value of transferred assets.

Contributions by the Government

Contributions by the Government are made in the form of cash contributions, transfer of other state-owned entities or transfer of all or part of the Government's share in other entities. Transfer of the state-owned entities to the Group is recognised as contribution through equity statement in the amount being the fair value of the transferred entity.

Value-added tax

The tax authorities permit the settlement of sales and purchases value-added tax ("VAT") on a net basis.

VAT payable

VAT payable represents VAT related to sales net of VAT on purchases which have been settled at the reporting date. Following the updates in the Tax Code of the Azerbaijan Republic, starting from 1 January 2020, VAT related to sales is payable to tax authorities upon receipt of payment. Where ECL has been recognised for impairment of receivables, impairment charge is recorded for the gross amount of the receivable, including VAT where applicable. The related VAT payable is maintained until the receivable is written off for tax purposes.

VAT related to sales, which has already been collected from the clients and VAT related to purchases, which has already been settled, is recognised in the consolidated statement of financial position on a net basis and disclosed as an asset or liability. VAT related to sales which have not been settled at the reporting date (VAT accrual) is also included in VAT payable.

VAT recoverable

VAT recoverable relates to purchases which have not been settled at the reporting date. VAT recoverable is claimable against VAT on sales upon payment for the purchases.

In accordance with the terms of Shah Deniz, Absheron, ACG PSAs, Karabakh and Umid Babek Risk Service Agreements (RSA), the provision of goods and services in connection with hydrocarbon activities to Azerbaijan Shah Deniz Limited ("AzSD"), SOCAR Absheron LLC, Azerbaijan ACG Limited ("AzACG"), SOCAR Karabakh LLC and Umid Babek Exploration Production Company ("UBEP") should be charged with zero per cent VAT by goods and service suppliers, provided that respective companies have duly obtained VAT Exemption Certificate from the tax authorities.

Revenue from contracts with customers

The Group is in the business of selling ranges of oil and oil products, petroleum products and natural gas as well as providing mainly construction services. Revenue from contracts with customers is recognised when the control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Revenues from sales of crude oil are recognised normally when the oil is loaded into the oil tanker or other transportation facilities. Revenues from sales of petroleum products are recognised when the products are shipped. Revenue from sales of natural gas is recorded on the basis of regular meter readings (monitored on a monthly basis) and estimates of customer usage from the last meter reading to the end of the reporting period. Natural gas prices and gas transportation tariffs to the final consumers in the Azerbaijan Republic are established by the Tariff Council of the Azerbaijan Republic. Revenues from construction activities are recognised either at the point of time or overtime basis depending on terms of the contracts with customers.

Interest income is recognised on a time-proportion basis using the effective interest rate method.

Variable consideration

If the consideration promised in a contract includes a variable amount, the Group shall estimate the amount of consideration to which the Group will be entitled in exchange for transferring the promised goods or services to a customer.

The Group is required to estimate an amount of variable consideration by using either of the following methods, depending on which method the Group expects to better predict the amount of consideration to which it will be entitled:

- The expected value – the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if the Group has a large number of outcomes with similar characteristics;
- The most likely amount – the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e. the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (i.e. the Group either achieves a performance bonus or does not).

The Group selects the method that is best suited, based on the specific facts and circumstances of the contract.

The Group applies the selected method consistently to each type of variable consideration throughout the contract term and updates the estimated variable consideration at the end of each reporting period. It may also be appropriate for the Group to use different methods (i.e. expected value or most likely amount) for estimating different types of variable consideration within a single contract.

Significant financing component

For some transactions, the receipt of the consideration does not match the timing of the transfer of goods or services to the customer (i.e. the consideration is prepaid or is paid after the services are provided). When the customer pays in arrears, the Group is effectively providing financing to the customer. Conversely, when the customer pays in advance, the Group has effectively received financing from the customer.

IFRS 15 states that in determining the transaction price, the Group shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

Contract balances

Contract assets

Contract assets represent the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the Group's future performance). The Group's contract assets are presented within Other current assets line.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Contract liabilities

Contract liabilities are Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or the amount is due) from the customer. The Group presents contract liabilities within separate line in the consolidated statement of financial position.

Assets and liabilities arising from rights of return

Right of return asset

Right of return asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

Refund liabilities

Refund liability is the obligation to refund some, or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Principal versus agent considerations

The determination of whether the Group is acting as a principal or an agent affects the amount of revenue the Group recognises. The Group is a principal (and, therefore, records revenue on a gross basis) if it controls a promised good or service before transferring that good or service to the customer. The Group is an agent (and, therefore, records as revenue the net amount that it retains for its agency services) if its role is to arrange for another entity to provide the goods or services.

Accounting for underlift and overlift positions

The Group has shareholding interests in the joint operations. The Group may be in the overlift and underlift position in the mentioned joint arrangements. The Group is in the overlift position, when the Group lifted and sold to a customer more product than its proportionate entitlement based on its share in the joint operation. The Group is in the underlift position, when the Group lifted and sold less product than its proportionate entitlement based on its share in the joint operation.

The Group recognises revenue from contracts with customers under IFRS 15 based on its actual sales to customers in that period. No adjustments are recorded in revenue to account for any variance between the actual share of production volumes sold to date and the share of production which the Group has been entitled to sell to date.

The Group adjusts production costs to align volumes for which production costs are recognised with volumes sold (for which revenue has been recognised in accordance with IFRS 15).

The Group applies the physical settlement. In case of physical settlement:

- An overlift liability is recorded in accordance with the provisions under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The overlift liability is recorded at cost;
- An underlift asset gives the Group the right to receive a quantity of product from another participant. This right is equivalent to a prepaid forward commodity purchase or represents a right to additional physical inventory and therefore, IAS 2 *Inventories* is applied. The underlift asset is measured at the lower of cost or net realisable value.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Employee benefits

Wages, salaries, contributions to the State Social Protection Fund of the Azerbaijan Republic, paid annual leave and sick leave, bonuses, and non-monetary benefits (i.e. health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision-maker. The Group reports separate information about an operating segment that meets any of the following quantitative thresholds:

- Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments;
- The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of the combined reported profit of all operating segments that did not report a loss and the combined reported loss of all operating segments that reported a loss;
- Its assets are 10 per cent or more of the combined assets of all operating segments.

No operating segments have been aggregated to form the above reportable operating segments.

Related parties

Related parties are defined in IAS 24 *Related Party Disclosures*.

Governmental economic and social policies affect the Group's financial position, results of operations and cash flows. The Government imposed an obligation on the Group to provide an uninterrupted supply of oil and gas to customers in the Azerbaijan Republic at government-controlled prices. Transactions with the state include taxes which are detailed in Note 22.

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

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

Carry arrangements

A carry arrangement where the Group participates as carried party is an agreement under which the carrying party agrees to pay for a portion or all of the pre-production costs of the carried party on a project in which both parties own participating interest. If the project is unsuccessful then the carrying party will not be reimbursed for the costs that it has incurred on behalf of the carried party. If the project is successful then the carrying party will be reimbursed either in cash out of proceeds of the share of production attributable to the carried party, or by receiving a disproportionately high share of the production until the carried costs are fully recovered.

Depending on the terms of the carry agreements the Group recognises them either as financing-type arrangement or purchase / sale-type arrangement.

The finance-type arrangements presume that carrying party provides funding to the carried party and receives a lender's return on the funds provided, while the right to additional production acts as a security that underpins the arrangement.

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

In the purchase/sale-type arrangement, the carried party effectively sells an interest or a partial interest in a project to the carrying party. The carrying party will be required to fund the project in exchange for an increased share of any proceeds if the project succeeds, while the carried party retains a much reduced share of any proceeds. The Group does not have any purchase / sale-type arrangement recognised in these consolidated financial statements.

During exploration stage of projects when the outcome of projects and probability of the carrying party to recover costs incurred on behalf of the carried party are not certain the Group does not recognise any carry-related transactions and balances in the consolidated financial statements.

Acquisition of an entity that is not a business

When the Group acquires an entity that is not a business, it allocates the cost of acquisition between the individual identifiable assets and liabilities of the acquired entity as following:

- For identifiable asset and liability initially measured at an amount other than cost, an entity initially measures that asset or liability at the amount specified in the applicable IFRS Standard;
- The entity deducts from the transaction price of the acquired entity the amounts allocated to the assets and liabilities initially measured at an amount other than cost, and then allocates the residual transaction price to the remaining identifiable assets and liabilities based on their relative fair values at the date of the acquisition.

Step-acquisition of subsidiary that is not a business

Step-acquisition of subsidiary which has been previously accounted for as investment in associates and joint ventures ("the investee") are recognised in the amount being the carrying value under the equity method related to the original interest in the investee plus cost of additional investments made by the Group in order to obtain control over the investee ("deemed cost"). Upon obtaining control over the investee it becomes subsidiary of the Group and deemed cost is allocated to the individual identifiable assets and liabilities of the subsidiary applying the same approach used for acquisition of an entity that is not a business.

Non-current assets held for sale or for distribution to equity holders of the parent and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale or for distribution to equity holders of the parent if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use. Such non-current assets and disposal groups classified as held for sale or as held for distribution are measured at the lower of their carrying amount and fair value less costs to sell/fair value less costs to distribute.

The criteria for held for distribution classification is regarded as met only when the distribution is highly probable and the asset or disposal group is available for immediate distribution in its present condition. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the decision to distribution will be withdrawn. Management must be committed to the distribution expected within one year from the date of the classification. Similar considerations apply to assets or a disposal group held for sale.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale or as held for distribution. Assets and liabilities classified as held for sale or for distribution are presented separately in the consolidated statement of financial position.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

2. Significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of profit or loss and other comprehensive income. All notes to the consolidated financial statements include amounts for continuing operations.

2.4 Change in critical judgements and accounting estimates

When preparing the financial statements as of and for the year ended 31 December 2022, the Group made following changes in accounting estimate:

Change in critical judgement and accounting estimate in relation to intangible asset with indefinite useful life

The license of UBEP gives right to the Group to produce and sell natural gas and condensate from Umid field and exploit Babek field. Management initially determined the useful life of the license as indefinite, since there was no certain timeline over which Babek field would be exploited. In 2021, management reassessed whether the circumstances and events continue to support the indefinite useful life assessment and changed its estimation of indefinite useful life to finite useful life.

The effect of the change in the accounting estimate was recognised prospectively by the Group by mean of including the amortisation expense related to the license in the amount of AZN 5 in the profit or loss for the reporting period ended 31 December 2021.

During the year ended 31 December 2022, no events occurred that are comparable in nature to the event that occurred in the prior year.

3. Critical accounting estimates and judgements

The preparation of the Group’s consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group’s accounting policies, management has made judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared.

Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Estimation of oil and gas reserves

Oil and gas reserves are key elements in the Group’s investment decision-making process. Changes in proved oil and gas reserves, particularly proved developed reserves, will affect unit-of-production depreciation charges in the consolidated statement of profit or loss and other comprehensive income.

Proved oil and gas reserves are the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Estimates of oil and gas reserves are inherently imprecise, require the application of judgement and are subject to future revision based on new information such as information about drilling and production activities, changes in economic factors like product prices, contract terms and development plans.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

3. Critical accounting estimates and judgements (continued)

Estimation of oil and gas reserves (continued)

Accordingly, financial and accounting measures (such as depletion and amortization charges and provision for asset retirement obligations) that are based on proved developed or proved reserves are also subject to change.

In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are developed and being depleted. As a field goes into production, the amount of proved reserves will be subject to future revision once additional information becomes available through, for example, the drilling of additional wells or the observation of long-term reservoir performance under producing conditions. As those fields are further developed, new information may lead to revisions.

Proved reserves of SOCAR were based on the reserve report as at 31 December 2022. The report was prepared by independent reservoir engineers in accordance with Petroleum Resources Management System rules.

Asset retirement obligations

Management makes provision in respect of the Group’s legal and constructive obligations for the future costs of decommissioning oil and gas production and storage facilities, pipelines and related support equipment and site restoration based on the estimates of future cost and economic lives of those assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgements with respect to removal obligations that will occur in the future. Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation. These costs are expected to be incurred over the useful life of the fields and properties ranging between 6 and 60 years from the reporting date.

The Group assesses its asset retirement obligation liabilities in accordance with the guidelines of International Financial Reporting Interpretations Committee (“IFRIC”) 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current applicable legislation and regulations, and is subject to changes because of modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Consequently, the Group’s ultimate asset retirement liabilities may differ from the recorded amounts. Considering subjectivity of these provisions, there is uncertainty regarding both the amount and estimated timing of incurring such costs. The key assumptions used to measure the amount of the estimated asset retirement obligations and sensitivity analysis, are disclosed in Note 23.

Environmental obligations

The Group records a provision in respect of constructive obligations related to costs of remediation of the damage caused to the natural environment primarily in the Absheron area both by the activities of the Group and its legacy operations in periods preceding the formation of the Group.

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current applicable legislation and regulations, and is also subject to changes because of modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Consequently, the Group’s ultimate liability for environmental remediation may differ from the recorded amounts. Considering subjectivity of these provisions, there is uncertainty regarding both the amount and estimated timing of incurring such costs. The key assumptions used to measure the amount of the estimated environmental obligations and sensitivity analysis, are disclosed in Note 24.

3. Critical accounting estimates and judgements (continued)

Obligation for disability benefits

The Group records a provision in accordance with the Azerbaijan Labour Code and has an obligation to pay compensation for employees damaged at work. The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current applicable legislation and regulations, and is also subject to changes because of modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Considering subjectivity of these provisions, there is uncertainty regarding both the amount and estimated timing of incurring such costs. The key assumptions used to measure the amount of the estimated disability benefit obligations and sensitivity analysis, are disclosed in Note 26.

Useful lives and residual value of property, plant and equipment and intangible assets

Management determines the expected useful lives and related depreciation and amortisation charges for its property, plant and equipment and intangible assets. This estimate is based on projected period over which the Group expects to consume economic benefits from the asset. Management increases the depreciation charge where the useful lives are less than previously expected lives. The expected useful lives are reviewed at least at each financial year-end. Changes in any of the above conditions or estimates may result in adjustments to future depreciation rates.

The expected useful lives of the Group's property, plant and equipment (other than oil and gas properties) and intangible assets are as follows:

Buildings and constructions	5 to 40 years
Plant and machinery	3 to 50 years
Vessels	25 to 30 years
Intangible assets	3 to 50 years

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

Recognition of deferred income tax assets

The net deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are recorded in the consolidated statement of financial position. Deferred income tax assets are recognised to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits whose realisation is probable in the future, management makes judgements and applies estimation based on expectations of future income that are believed to be reasonable under the circumstances.

Impairment of non-financial assets

Management assesses whether there are any indicators of possible impairment of all non-financial assets each reporting date based on events or circumstances that indicate the carrying value of assets may not be recoverable. Such indicators include changes in the Group's business plans, changes in commodity prices leading to unprofitable performances, changes in product mixes, and for oil and gas properties, significant downward revisions of estimated proved reserves. Goodwill and intangible assets with indefinite useful life are tested for impairment annually and at other times when impairment indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

3. Critical accounting estimates and judgements (continued)

Impairment of non-financial assets (continued)

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

In 2022, as a result of underperformance of some CGUs, the Group carried out impairment testing of the carrying amounts of those CGUs resulting in impairment charge amounting to AZN 631 (2021: AZN 830) which was recognised within other operating expenses (Note 31).

The impairment loss of AZN 409 represented the write-down of one of the jackets in the oil and gas segment to the recoverable amount due to the change in business outlook and plans for future utilisation of the asset. The assets are mainly represented by construction in progress classes of assets of one of the jackets located in the Azerbaijan Republic. The Group does not expect future economic benefits from the jacket and recoverable amount of jacket was nil as at 31 December 2022.

Impairment loss of AZN 157 (2021: AZN 143) is represented by write-down of oil & gas properties and equipment & construction in progress classes located in the Azerbaijan Republic, associated with oil & gas segment of the Group in the amounts of AZN 114 (2021: AZN 117) and AZN 43 (2021: 26), respectively. The impairment relates to investments in the non-profitable oil fields located in the Azerbaijan Republic. The Group does not expect future economic benefits from non-profitable fields and recoverable amounts of oil fields were nil as at 31 December 2022 and 2021.

The impairment loss of AZN 39 represented the write-down of certain property, plant and equipment in the other segment to the recoverable amount as a result of adverse changes in the scope of business and timing of cash inflows related to the CGU. The assets are mainly represented by construction in progress class of assets located in Türkiye in the amount of AZN 34. The recoverable amount of AZN 92 as at 31 December 2022 was based on value in use and was determined at the level of the CGU. In determining value in use for the CGU, the cash flows were discounted at a rate of 11.4 per cent on a pre-tax basis.

The impairment loss of AZN 26 (2021: AZN 30) is represented by the write-down of investment in one of Group's joint ventures to its recoverable amount due to the low probability of the future economic benefits expected from the arrangement. The assets of the joint arrangement are located in the Azerbaijan Republic and pertains to oilfield services segment. The recoverable amount of AZN 21 (2021: 71) as at 31 December 2022 was based on value in use and was determined at the level of the CGU. In determining value in use for the CGU, the cash flows were discounted at the rate of 11.5 per cent on a pre-tax basis (31 December 2021: 11.7 per cent) (Note 18).

Additionally, in 2021, the impairment losses in the amounts of AZN 488, AZN 81 and AZN 57 represented the write-down of certain property, plant and equipment in the sales and distribution, oil field services and other segment of the Group, respectively. The assets were mainly represented by plant & machinery (AZN 410), building & construction (AZN 193) and other classes of assets (AZN 21) located in Azerbaijan Republic. The recoverable amounts of nil, AZN 231 and AZN 78 as at 31 December 2021 were based on value in use and were determined at the level of each CGUs. In determining value in use for the CGUs, the cash flows were discounted at the rates of 9.20, 16.87 and 11.64 per cents on a pre-tax basis, respectively.

Moreover, in 2021, impairment amount of AZN 31 was represented by the write-down of one of the plants located in the Azerbaijan Republic, associated with refining segment of the Group. The impairment relates to spare parts and was recognised as a result of low probability of the future economic benefits from their use.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

3. Critical accounting estimates and judgements (continued)

Impairment of non-financial assets (continued)

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

In 2022, as a result of improvement in overall economic environment, change in business and increase in the prices of oil products and petrochemicals, the Group carried out impairment testing of some CGUs, resulting in the reversal of impairment loss of AZN 97 (2021: AZN 223) which was recognised within other operating income (Note 32).

The reversal of impairment loss of AZN 97 (2021: AZN 50) was mainly related to assets of plants within refining segment of the Group as a result of increase in the prices of oil products and petrochemicals. The assets are mainly represented by plant & machinery, building & construction classes of assets located in the Azerbaijan Republic in the amounts of AZN 80 (2021: AZN 41) and AZN 7 (2021: AZN 3) and AZN 10 (2021: 6), respectively. The recoverable amount of AZN 604 as at 31 December 2022 was based on value in use and was determined at the level of the CGU. In determining value in use for the CGU, the cash flows were discounted at a rate of 17.62 per cent on a pre-tax basis.

In 2021, the reversal of impairment loss of AZN 150 mainly related to assets of the plants in the Azerbaijan Republic within refining segment of the Group. The reversal of impairment loss of AZN 23 mainly was related to assets of petrol stations in the Republic of Georgia within sales and distribution segments of the Group. The Group recognised the reversal of impairment within other operating income.

Provision for expected credit losses of financial assets

Trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for the groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

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

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 10.

Other financial assets recognised at amortised cost

The Group calculated ECL for financial assets that met the SPPI criterion other than trade and other receivables using the general approach as disclosed in Note 2. The assessment of ECLs is significant estimate considering that it is sensitive to changes in circumstances and conditions.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

3. Critical accounting estimates and judgements (continued)

Leases

Significant judgement in determining the lease term of contracts with renewal options

The lessee and lessor need to determine whether a contract is a lease at inception of the lease. The inception date is the earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease. The underlying asset is the asset that is subject to a lease, for which the right to use that asset has been provided by a lessor to a lessee. The commencement date of the lease is the date on which the lessor makes an underlying asset available for use by a lessee.

The lease term begins at the commencement date and includes any rent-free periods provided to the lessee by the lessor.

The Group determines the lease term as the non-cancellable period of the lease, together with both:

- Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Purchase options are assessed in the same way as options to extend or terminate the lease. An option to purchase an underlying asset is economically similar to an option to extend the lease term for the remaining economic life of the underlying asset.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option.

Incremental borrowing rate (IBR)

The Group cannot readily determine the interest rate implicit in lease, therefore it uses incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Reverse factoring arrangements

In the normal course of its business, the Group enters the reverse factoring arrangements with financial institutions, in which a financial institution agrees to pay the amounts the Group owes to the suppliers for the purchased goods on invoice due date. The Group agrees to repay these amounts together with interest accrued to the financial institution at a date later than, suppliers have been paid by the financial institution.

The Group generally presents the balances arising from reverse factoring arrangements as short-term borrowings and the related cash flows are presented in the consolidated financial statements as follows:

- At the date when financial institutions pay to the suppliers − both as cash inflows from financial institutions in a financing cash flows section and as cash outflows to suppliers in an operating cash flows section; and
- At the date when the Group pays to the financial institutions – as cash outflows in a financing cash flows section.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

3. Critical accounting estimates and judgements (continued)

Reverse factoring arrangements (continued)

Management believes such presentation of balances and cash flows related to reverse factoring arrangements reflects the substance and economic reality of such transactions because:

- The Group is legally released from its obligation to the supplier upon the financial institutions' payments to the supplier;
- The arrangements provide the Group with the extended credit terms;
- Interests charged under the arrangements are consistent with the Group's general borrowing rates for short-term loans from financial institutions rather than with interest rates payable on overdue invoices from its suppliers;
- The arrangements reduce ability of the Group to borrow additional funds, i.e. reduce existing credit line limits;
- The terms and conditions of the arrangements are negotiated between the financial institutions and the Group (purchaser) and in case the Group did not repay its obligation to the financial institution, the latter does not have the right to request its repayment from the supplier.

In addition, management noted that the arrangements allow the Group to request the financial institution to pay directly to its own account and then they can make immediate payment to the supplier. Management believes that: presentation of the cash flows should not depend solely on the fact whether it would decide to use its right to receive cash on its bank account before transferring funds to the supplier or not, as economically it has the same rights and obligations attached to the funds irrespectively of which way of transfer it selects.

Management also believes that the fact that it cannot use funds received for any other purpose than for paying to supplier does not preclude them from classifying these funds as a cash. This is consistent with treatment of any specific loans received by the entity that can be used only for a defined purpose or project.

In addition, management is of a view that "net" presentation of cash flows (i.e. treatment of payment by financial institution to the supplier as non-cash transaction) would result in an "artificial" increase in operating cash flows and, therefore, would distort both comparability with other entities involved in the same activities (which do not use reverse factoring) and reduce the forecasting value of the information presented in the statement of cash flows.

Management also noted that there is no specific guidance in IFRS for determination of the agent-principal relationships in transactions involving transfer of cash on behalf of the other party. However, it believes that such determination should be based on the general control notion. Therefore, management concluded that because they have control over the funds before they are transferred to the supplier (which is evidenced by their right to request their payment to the Group's current account rather than directly to the current account of the supplier), the Group actually acts as a principal for these payments and the financial institution acts as its agent. This would be different from the situation when, according to the contract, the Group does not have the right to receive cash on its own current account.

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

The Group applied for the first-time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2022. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable of meeting the obligations under the contract costs (i.e., the costs that the Group cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

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

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The application of the amendment did not have any material effect on the consolidated financial statements.

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's *Conceptual Framework* with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of *the Conceptual Framework*, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

In accordance with the transitional provisions, the Group applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

These amendments had no material impact on the consolidated financial statements of the Group.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Group applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

The application of the amendment did not have any material effect on the consolidated financial statements.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

This amendment had no impact on the consolidated financial statements of the Group as it is not a first-time adopter.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

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

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 *Financial Instruments: Recognition and Measurement*.

In accordance with the transitional provisions, the Group applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application).

These amendments had no impact on the consolidated financial statements of the Group as there were no fees during modifications of the Group's financial instruments during the period.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 *Insurance Contracts*.

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group as it does not have any insurance contracts.

Amendments to IAS 1 Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

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

Standards issued but not yet effective (continued)

Definition of Accounting Estimates − Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a new definition of “accounting estimates”. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Additionally, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendment is effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. These amendments are not expected to have a material impact on the consolidated financial statements of the Group.

Disclosure of Accounting Policies − Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their “significant” accounting policies with a requirement to disclose their “material” accounting policies; and
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendment is effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. These amendments are not expected to have a material impact on the consolidated financial statements of the Group.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

In May 2021, the IASB issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. Nevertheless, it is possible that the resulting deferred tax assets and liabilities are not equal (e.g., if the entity is unable to benefit from the tax deductions or if different tax rates apply to the taxable and deductible temporary differences). In such cases, which the Board expects to occur infrequently, an entity would need to account for the difference between the deferred tax asset and liability in profit or loss.

An entity should apply the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, it should also recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

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

Standards issued but not yet effective (continued)

The amendment is effective for annual reporting periods beginning on or after 1 January 2023 with earlier adoption permitted. The Group will apply the amendments to transactions that occur on or after the beginning of the earliest comparative period presented in its consolidated financial statements for the year ended 31 December 2023. The Group is assessing effect of these amendments on their consolidated financial statements.

5. Segment information

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

The Group has four reportable segments:

- Oil and gas – representing extraction of oil and gas products;
- Refining – representing refining of crude oil and production of petrochemicals;
- Oilfield services – representing drilling, well construction and completion services;
- Sales and distribution – representing transportation and marketing of crude oil, natural gas, oil products and petrochemicals.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units and subsidiaries separately for the purpose of making decisions about resource allocation and performance assessment.

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

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

5. Segment information (continued)

Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2022 is set out below:

	Oil and gas	Refining	Oilfield services	Sales and distribution	Unallocated (*)	Adjustments and elimi-nations (**)	Total
2022							
Revenues							
External customers	7,309	5,313	517	105,609	480	–	**119,228**
Inter-segment	3,723	1,532	750	538	597	(7,140)	**–**
Total revenue	**11,032**	**6,845**	**1,267**	**106,147**	**1,077**	**(7,140)**	**119,228**
Raw materials and consumables used	(532)	(4,906)	(224)	(99,108)	(177)	5,600	**(99,347)**
Wages, salaries and social security costs	(391)	(341)	(330)	(1,002)	(431)	143	**(2,352)**
Depreciation of property, plant and equipment	(1,076)	(384)	(85)	(235)	(90)	23	**(1,847)**
Transportation and vehicle maintenance	(999)	(25)	(155)	(1,873)	(79)	303	**(2,828)**
ECL	–	–	–	(256)	11	–	**(245)**
Impairment of fixed assets	(566)	–	(26)	–	(39)	–	**(631)**
Mining tax	(151)	–	–	–	–	–	**(151)**
Depreciation of right-of-use assets	(39)	(7)	(5)	(96)	(10)	–	**(157)**
Taxes other than on income	(245)	(28)	(5)	(43)	(89)	–	**(410)**
Amortization expense	–	(23)	(2)	(38)	(15)	–	**(78)**
Repairs and maintenance expenses	(422)	(98)	(166)	(105)	(49)	255	**(585)**
Utilities expense	(17)	(515)	(2)	(63)	(6)	–	**(603)**
Change in other provisions for liabilities and charges	–	–	(6)	(4)	(11)	–	**(21)**
Gain/(loss) on disposal of property, plant and equipment and intangible assets	76	(10)	–	(2)	(65)	–	**(1)**
Social expenses	(17)	(8)	(4)	(74)	(111)	–	**(214)**
Other operating income	302	129	48	347	257	(84)	**999**
Interest revenue calculated using effective interest method	–	97	–	174	3,565	(3,469)	**367**
Finance costs	(232)	(266)	(3)	(393)	(858)	215	**(1,537)**
Foreign exchange gains/(losses), net	6	(177)	(2)	111	(436)	–	**(498)**
Monetary gain/(loss)	–	64	–	(34)	636	–	**666**
Share of result of joint ventures	7	1,451	14	3	–	–	**1,475**
Share of result of associates	–	–	(2)	1,028	2	–	**1,028**
Other	(489)	(163)	(473)	(769)	(255)	754	**(1,395)**
Income tax benefit/(expenses)	(837)	83	(31)	(647)	(7)	–	**(1,439)**
Net profit/(loss) for the year	**5,410**	**1,718**	**(192)**	**3,068**	**2,820**	**(3,400)**	**9,424**

(*) These figures include unallocated revenues and expenses related to corporate functions that are managed at the group level, as well as the non-primary activities of the Group which do not aggregate to any of the aforementioned segments.

(**) Inter-segment revenues and expenses are eliminated on consolidation. Amounts shown as eliminations include intercompany transactions.

	Oil and gas	Refining	Oilfield services	Sales and distribution	Unallocated (*)	Adjustments and elimi-nations (**)	Total
Investments in associates	–	–	4	4,461	22	–	**4,487**
Investments in joint ventures	37	6,003	247	–	12	–	**6,299**
Other reportable segment assets	27,176	14,736	1,881	26,041	29,366	(29,151)	**70,049**
Total reportable segment assets	**27,213**	**20,739**	**2,132**	**30,502**	**29,400**	**(29,151)**	**80,835**
Total reportable segment liabilities	**(13,761)**	**(8,918)**	**(989)**	**(20,701)**	**(17,253)**	**14,122**	**(47,500)**
Capital expenditure (***)							
Additions - business units and subsidiaries	2,944	1,133	69	269	54	(98)	**4,371**
Additions - JV and associates	–	24	–	92	–	–	**116**
Total capital expenditures	**2,944**	**1,157**	**69**	**361**	**54**	**(98)**	**4,487**

(*) These figures include the activities related to corporate functions that are managed at the group level, as well as the non-primary activities of the Group which do not aggregate to any of the aforementioned segments.

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

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

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

5. Segment information (continued)

Information about reportable segment profit or loss, assets and liabilities (continued)

Segment information for the reportable segments for the year ended 31 December 2021 is set out below:

	Oil and gas	Refining	Oilfield services	Sales and distribution	Unallocated (*)	Adjustments and eliminations (**)	Total
2021							
Revenues							
External customers	4,221	5,606	641	66,719	344	–	**77,531**
Inter-segment	3,700	1,486	569	375	515	(6,645)	**–**
Total revenue	**7,921**	**7,092**	**1,210**	**67,094**	**859**	**(6,645)**	**77,531**
Raw materials and consumables used	(705)	(4,211)	(159)	(64,562)	(115)	5,477	**(64,275)**
Wages, salaries and social security costs	(340)	(338)	(341)	(625)	(374)	194	**(1,824)**
Depreciation of property, plant and equipment	(1,260)	(259)	(103)	(241)	(107)	35	**(1,935)**
Transportation and vehicle maintenance	(731)	(21)	(118)	(595)	(13)	187	**(1,291)**
ECL	2	(1)	(5)	(58)	(6)	–	**(68)**
Impairment of fixed assets	(143)	(31)	(111)	(488)	(57)	–	**(830)**
Mining tax	(139)	–	–	–	–	–	**(139)**
Depreciation of right-of-use assets	(35)	(2)	(5)	(92)	(8)	–	**(142)**
Taxes other than on income	(168)	(40)	(4)	(34)	(49)	–	**(295)**
Amortization expense	–	(10)	(1)	(43)	(16)	–	**(70)**
Repairs and maintenance expenses	(310)	(43)	(130)	(86)	(24)	204	**(389)**
Utilities expense	(18)	(440)	(2)	(72)	(2)	–	**(534)**
Change in other provisions for liabilities and charges	(24)	(2)	(4)	(3)	(3)	–	**(36)**
(Loss)/gain on disposal of property, plant and equipment and intangible assets	(2)	(8)	(2)	24	4	–	**16**
Social expenses	(14)	(6)	(90)	(9)	(142)	–	**(261)**
Other operating income	5	215	48	94	429	–	**791**
Interest revenue calculated using effective interest method	–	68	–	99	1,461	(1,402)	**226**
Other finance income	–	–	–	–	1	–	**1**
Finance costs	(179)	(132)	(5)	(241)	(883)	193	**(1,247)**
Foreign exchange gains/(losses), net	(6)	84	(2)	56	(903)	–	**(771)**
Share of result of joint ventures	12	(361)	46	(4)	4	–	**(303)**
Share of result of associates	–	–	(2)	445	(1)	–	**442**
Other	(550)	(37)	(405)	(508)	(239)	419	**(1,320)**
Income tax expenses	(685)	(330)	(8)	(109)	(30)	–	**(1,162)**
Net profit/(loss) for the year	**2,631**	**1,187**	**(193)**	**42**	**(214)**	**(1,338)**	**2,115**

(*) These figures include unallocated revenues and expenses related to corporate functions that are managed at the group level, as well as the non-primary activities of the Group which do not aggregate to any of the aforementioned segments.

(**) Inter-segment revenues and expenses are eliminated on consolidation. Amounts shown as eliminations include intercompany transactions.

	Oil and gas	Refining	Oilfield services	Sales and distribution	Unallocated (*)	Adjustments and eliminations (**)	Total
Investments in associates	–	–	6	4,204	18	–	**4,228**
Investments in joint ventures	41	4,711	263	–	9	–	**5,024**
Other reportable segment assets	29,403	11,188	2,224	18,907	27,385	(29,002)	**60,105**
Total reportable segment assets	**29,444**	**15,899**	**2,493**	**23,111**	**27,412**	**(29,002)**	**69,357**
Total reportable segment liabilities	**(13,904)**	**(8,134)**	**(1,111)**	**(18,915)**	**(24,674)**	**20,131**	**(46,607)**
Capital expenditure (***)							
Additions - business units and subsidiaries	1,816	1,329	19	336	227	(116)	**3,611**
Additions - JV and associates	–	225	–	–	–	–	**225**
Total capital expenditures	**1,816**	**1,554**	**19**	**336**	**227**	**(116)**	**3,836**

(*) These figures include the activities related to corporate functions that are managed at the group level, as well as the non-primary activities of the Group which do not aggregate to any of the aforementioned segments.

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

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

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

5. Segment information (continued)

Geographical information

Revenues for each individual country are reported separately as follows:

	2022	2021
Switzerland	77,647	44,625
Türkiye	24,268	17,567
Azerbaijan	11,071	7,804
UAE	1,897	2,937
Georgia	1,625	1,240
Other	2,720	3,358
Total consolidated revenues	**119,228**	**77,531**

The analysis is based on the country of incorporation of the selling entity.

Set out below is the disaggregation of the Group's revenue from contracts with customers for the year ended 31 December 2022:

Segments	Oil and gas	Refining	Oilfield services	Sales and distribution	Unallocated (*)	Total
Sale of crude oil, net	2,943	–	–	64,628	–	**67,571**
Sale of oil products, net	1,227	–	–	23,054	–	**24,281**
Sale of natural gas, net	3,120	–	–	14,642	–	**17,762**
Sale of petrochemicals	–	5,313	–	1,466	–	**6,779**
Rent income	–	–	25	–	–	**25**
Other revenue	19	–	492	1,819	480	**2,810**
Total	**7,309**	**5,313**	**517**	**105,609**	**480**	**119,228**
Switzerland	–	–	–	77,647	–	**77,647**
Türkiye	–	5,181	–	18,794	293	**24,268**
Azerbaijan	7,309	132	395	3,048	187	**11,071**
UAE	–	–	122	1,775	–	**1,897**
Georgia	–	–	–	1,625	–	**1,625**
Other	–	–	–	2,720	–	**2,720**
Total	**7,309**	**5,313**	**517**	**105,609**	**480**	**119,228**
Goods transferred at a point in time	7,309	5,313	–	105,300	44	**117,966**
Services transferred over time	–	–	517	309	436	**1,262**
Total revenue from contracts with customers	**7,309**	**5,313**	**517**	**105,609**	**480**	**119,228**
Revenue						
External customer	7,309	5,313	517	105,609	480	**119,228**
Inter-segment	3,723	1,532	750	538	597	**7,140**
Total	**11,032**	**6,845**	**1,267**	**106,147**	**1,077**	**126,368**
Adjustments and eliminations	(3,723)	(1,532)	(750)	(538)	(597)	**(7,140)**
Total revenue from contracts with customers	**7,309**	**5,313**	**517**	**105,609**	**480**	**119,228**

(*) These figures include the activities related to corporate functions that are managed at the group level, as well as the non-primary activities of the Group which do not aggregate to any of the aforementioned segments.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

5. Segment information (continued)

Geographical information (continued)

Set out below is the disaggregation of the Group's revenue from contracts with customers for the year ended 31 December 2021:

Segments	Oil and gas	Refining	Oilfield services	Sales and distribution	Unallocated (*)	Total
Sale of crude oil, net	2,471	–	–	39,594	–	**42,065**
Sale of oil products, net	686	–	–	18,596	–	**19,282**
Sale of natural gas, net	1,046	–	–	6,028	–	**7,074**
Sale of petrochemicals	–	5,606	–	1,142	–	**6,748**
Rent income	–	–	204	–	54	**258**
Other revenue	18	–	437	1,359	290	**2,104**
Total	**4,221**	**5,606**	**641**	**66,719**	**344**	**77,531**
Switzerland	–	–	–	44,625	–	**44,625**
Türkiye	–	5,501	–	11,875	191	**17,567**
Azerbaijan	4,221	105	514	2,811	153	**7,804**
UAE	–	–	127	2,810	–	**2,937**
Georgia	–	–	–	1,240	–	**1,240**
Other	–	–	–	3,358	–	**3,358**
Total	**4,221**	**5,606**	**641**	**66,719**	**344**	**77,531**
Goods transferred at a point in time	4,221	5,606	–	66,022	43	**75,892**
Services transferred over time	–	–	641	697	301	**1,639**
Total revenue from contracts with customers	**4,221**	**5,606**	**641**	**66,719**	**344**	**77,531**
Revenue						
External customer	4,221	5,606	641	66,719	344	**77,531**
Inter-segment	3,700	1,486	569	375	515	**6,645**
Total	**7,921**	**7,092**	**1,210**	**67,094**	**859**	**84,176**
Adjustments and eliminations	(3,700)	(1,486)	(569)	(375)	(515)	**(6,645)**
Total revenue from contracts with customers	**4,221**	**5,606**	**641**	**66,719**	**344**	**77,531**

(*) These figures include the activities related to corporate functions that are managed at the group level, as well as the non-primary activities of the Group which do not aggregate to any of the aforementioned segments.

Non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets for each individual country is reported separately as follows:

	2022	2021
Azerbaijan	30,268	33,455
Türkiye	10,939	6,969
Switzerland	858	898
Georgia	727	536
UAE	268	302
Other	311	323
Total	**43,371**	**42,483**

The analysis is based on the location of assets.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

6. Financial risk management

Financial risk factors

The Group's principal financial liabilities other than derivatives comprise trade and other payables and borrowings. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include cash and cash equivalents and short-term deposits and trade and other receivables that are generated directly from its operations. The Group also holds investments in debt and equity instruments and enters into derivative transactions.

In the ordinary course of business, the Group is exposed to market, credit and liquidity risks. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. To effectively manage the variety of exposures that may impact financial results, the Group's overriding strategy is to maintain a strong financial position. Although there are no structured formal management procedures, management of the Group identifies and evaluates financial risks with reference to the current market position.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange risk, commodity price risk and interest rate risk. Financial instruments affected by market risk include cash and cash equivalents and short-term deposits, trade and other receivables, trade and other payables, borrowings and derivatives.

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various exposures in the normal course of business, primarily with respect to USD. Foreign exchange risk arises primarily from future commercial transactions, recognised assets and liabilities when assets and liabilities are denominated in a currency other than the functional currency of the Group companies.

The majority of the Group's cash and cash equivalents and short-term deposits, trade and other receivables, trade and other payables and borrowings are denominated in USD.

The following table demonstrates the sensitivity to a reasonably possible change in the USD, EUR, TRY exchange rates, with all other variables held constant, of the Group's profit before tax:

2022	**Change in rates (+/-)**	**Effect on profit before tax**
USD/AZN	20.00%/-3.00%	(723)/108
EUR/AZN	21.00%/-9.00%	(100)/43
USD/TRY	35.00%/-20.00%	67/(38)
EUR/TRY	35.00%/-20.00%	(291)/166

2021	**Change in rates (+/-)**	**Effect on profit before tax**
USD/AZN	20.00%/-3.00%	(1,595)/239
EUR/AZN	21.00%/-9.00%	(127)/54
USD/TRY	35.00%/-20.00%	81/(46)
EUR/TRY	35.00%/-20.00%	(221)/126

The sensitivity to a reasonably possible change of other currencies disclosed in Note 2 were not material to of the Group's profit before tax.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

6. Financial risk management (continued)

Market risk (continued)

Group's exposure to foreign currency changes for all other currencies is not material.

(ii) Commodity price risk

The Group is exposed to certain price risk due to volatility of oil prices. Due to the risk the Group's management has developed and enacted a risk management strategy regarding oil price risk and its mitigation.

Based on forecasts about oil purchases and sales, the Group hedges the price using futures, swaps and forward contracts.

As at 31 December 2022 and 2021, sensitivity of the Group's pre-tax profit, based upon derivative price exposures, whereby if oil future prices had moved up or down, with all other variables held constant, was as follows:

	Change in year-end price:	**Effect on profit before tax**
2022	+10.00%/-10.00%	(286)/286
2021	+10.00%/-10.00%	(163)/163

(iii) Interest rate risk

Changes in interest rates impact primarily debt by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's financial assets and financial liabilities with floating interest rates. To mitigate this risk, the Group's management performs periodic analysis of the current interest rate environment and depending on that analysis management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In case where the change in the current market fixed or variable interest rates is considered significant, management may consider refinancing a particular debt on more favourable interest rate terms. Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates.

The floating rate for majority of interest-bearing liabilities and assets exposes the Group to fluctuation in interest payments and receipts mainly due to changes in London Inter-Bank Offered Rate (LIBOR) and Euro Inter-bank Offered Rate (EURIBOR).

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on loans and borrowings, net of loans receivable:

2022	**Increase/ decrease in basis points**	**Effect on profit before tax**
Loans and borrowings, net of loans receivable		
USD	+60/-60	(50)/50
EUR	+45/-45	(12)/12

2021	**Increase/ decrease in basis points**	**Effect on profit before tax**
Loans and borrowings, net of loans receivable		
USD	+100/-25	(106)/26
EUR	+20/-20	(28)/7

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

6. Financial risk management (continued)

Credit risk and concentration of credit risk

Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations.

The Group's financial instruments that are exposed to the concentration of credit risk primarily comprise cash and cash equivalents, restricted cash, and trade receivables and loans receivable.

The Group's maximum exposure to credit risk is represented by gross carrying amount of financial assets and is presented by class of assets as shown in the table below:

	2022	2021
Cash and cash equivalents excluding cash on hand (Note 8)	12,518	9,043
Restricted cash (Note 9)	252	185
Deposits (Note 8)	531	617
Trade and other receivables (Note 10)	8,626	8,248
Other current financial assets	1,476	668
Other non-current financial assets	786	816
Financial guarantees given (Note 38)	883	1,181
Total exposure to credit risk	**25,072**	**20,758**

The Group places its cash with reputable financial institutions in the Azerbaijan Republic. The Group's cash is placed with the International Bank of Azerbaijan ("IBA") which is controlled by the Azerbaijani Government. The balance of cash and cash equivalents and deposit held with the IBA at 31 December 2022 was AZN 4,423 (31 December 2021: AZN 4,003). The Group continually monitors the status of the banks where its accounts are maintained. In addition, the Group's restricted cash balance in the amount of AZN 91 (31 December 2021: AZN 101) was represented by VAT deposit account.

Trade receivables primarily comprise balances with local and foreign customers, including related parties, for crude oil, oil products and natural gas sold. SOCAR has an obligation to secure uninterrupted supply of crude oil, oil products and natural gas to certain customers under control of the Azerbaijani Government, including such companies as Azerenergy OJSC and Azal CJSC Company which operate important public infrastructure facilities in the Azerbaijan Republic. Actual settlement terms applicable to the Group's relationships with these customers are affected to a large extent by the social and economic policies of the Government of the Azerbaijan Republic. The Group's credit risk arising from its trade balance with customers is mitigated by continuous monitoring of their creditworthiness. Management of the Group believes that the Group is not exposed to high credit risk as the impairment provision has already been accrued in the accompanying consolidated financial statements for all debtors which are not expected to be recovered in future.

The Group categorised its gross financial assets as follows:

31 December 2022	Standard	Sub-standard	Past due but not in default	In default
Cash and cash equivalents excluding cash on hand (Note 8)	12,489	–	–	29
Restricted cash (Note 9)	214	–	–	38
Deposits (Note 8)	531	–	–	–
Trade and other receivables (Note 10)	7,014	345	852	415
Other current financial assets	1,476	–	–	–
Other non-current financial assets	–	786	–	–
Total	**21,724**	**1,131**	**852**	**482**

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

6. Financial risk management (continued)

Credit risk and concentration of credit risk (continued)

31 December 2021	Standard	Sub-standard	Past due but not in default	In default
Cash and cash equivalents excluding cash on hand (Note 8)	9,014	–	–	29
Restricted cash (Note 9)	147	–	–	38
Deposits (Note 8)	617	–	–	–
Trade and other receivables (Note 10)	6,793	250	641	564
Other current financial assets	668	–	–	–
Other non-current financial assets	–	816	–	–
Total	**17,239**	**1,066**	**641**	**631**

The standard grade includes counterparties with stable financial position and debt service, which have minimal credit risk exposure. In addition, counterparties in these financial assets normally have a high credit rating or are sufficiently collateralised. Sub-standard grade is represented by financial assets, that are neither past due nor in default, of counterparties not having high credit rating.

The Group considers that there has been a significant increase in credit risk if one of the following criteria is met:

- Contractual payments are more than 30 days past due from the date specified in the contract;
- An external credit rating provided by international rating agencies downgrade for the counterparty for 3 and more notches, relative to the risk grade of the counterparty as of initial recognition date;
- Moody's external rating "Ba1" (or equivalent for S&P or Fitch) and below.

The Group considers a financial asset in default if one of the following criteria is met:

- Contractual payments are more than 90 days past due from the date specified in the contract;
- Existing of information that counterparty will or has enter bankruptcy, insolvency or a similar condition;
- Announcement of default grade to counterparty by international credit rating agencies.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In managing liquidity risk, the Group maintains adequate cash reserves and debt facilities, continuously monitors forecast and actual cash flows.

Prudent liquidity risk management includes maintaining sufficient working capital and the ability to close out market positions. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows.

The Group's financial liabilities represent both derivative and non-derivative financial instruments. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For issued financial guarantee contracts, the maximum amount is allocated to the earliest period in which the contract could be called.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

6. Financial risk management (continued)

Liquidity risk (continued)

The maturity analysis of financial liabilities as at 31 December 2022 and 2021 was as follows:

At 31 December 2022	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade and other financial payables (Note 20)	10,474	443	–	–	**10,917**
Lease liabilities	54	161	514	1,273	**2,002**
Deferred acquisition consideration payable (Note 27)	–	130	–	456	**586**
Other current financial liabilities (Note 26)	5	662	–	–	**667**
Interest-bearing borrowings	4,697	3,840	10,579	2,822	**21,938**
Other non-current financial liabilities (Note 26)	–	–	2,124	73	**2,197**
Financial guarantees given (Note 38)	–	134	749	–	**883**
Total undiscounted financial liabilities	**15,230**	**5,370**	**13,966**	**4,624**	**39,190**

At 31 December 2021	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade and other financial payables (Note 20)	10,755	–	–	–	**10,755**
Lease liabilities	61	183	355	1,353	**1,952**
Deferred acquisition consideration payable (Note 27)	–	202	–	610	**812**
Other current financial liabilities (Note 26)	10	800	–	–	**810**
Interest-bearing borrowings	2,959	3,570	13,065	4,565	**24,159**
Other non-current financial liabilities (Note 26)	–	–	822	67	**889**
Financial guarantees given (Note 38)	–	91	1,090	–	**1,181**
Total undiscounted financial liabilities	**13,785**	**4,846**	**15,332**	**6,595**	**40,558**

The Group expects that not all financial guarantees will be called before the expiry date of the contracts which varies from one to five years.

Capital management

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

The Group considers total capital under management to be as follows:

	2022	2021
Total borrowings (Note 21)	18,880	21,366
Total equity	33,335	22,750
Less: cash and cash equivalents (Note 8)	(12,490)	(9,012)
Total capital under management	**39,725**	**35,104**

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

6. Financial risk management (continued)

Capital management (continued)

The Group is periodically mandated to contribute to the state budget and finance various projects undertaken by the Government of the Azerbaijan Republic. There were no changes to the Group's approach to capital management during the year.

Fair value of financial instruments

The fair value of the financial assets and liabilities is included at the amount 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. 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, the judgement 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.

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

	31 December 2022	
	Carrying amounts	**Fair values**
Cash and cash equivalents (Note 8)	12,490	12,490
Deposits (Note 8)	528	528
Restricted cash (Note 9)	214	214
Trade and other receivables (Note 10)	7,718	7,718
Other current financial assets	2,245	2,245
Other non-current financial assets	3,011	2,977
Total financial assets	**26,206**	**26,172**
Trade and other payables (Note 20)	(10,917)	(10,917)
Other current financial liabilities (Note 26)	(667)	(667)
Short-term and current portion of long-term borrowings (Note 21)	(7,746)	(7,746)
Long-term borrowings (Note 21)	(11,134)	(10,907)
Current portion of deferred acquisition consideration payable	(130)	(130)
Non-current portion of deferred acquisition consideration payable (Note 27)	(456)	(393)
Other non-current financial liabilities (Note 26)	(2,197)	(2,102)
Total financial liabilities	**(33,247)**	**(32,862)**

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

6. Financial risk management (continued)

Fair value of financial instruments (continued)

	31 December 2021	
	Carrying amounts	**Fair values**
Cash and cash equivalents (Note 8)	9,012	9,012
Deposits (Note 8)	614	614
Restricted cash (Note 9)	147	147
Trade and other receivables (Note 10)	7,562	7,562
Other current financial assets	1,558	1,558
Other non-current financial assets	1,975	1,990
Total financial assets	**20,868**	**20,883**
Trade and other payables (Note 20)	(10,755)	(10,755)
Other current financial liabilities (Note 26)	(810)	(810)
Short-term and current portion of long-term borrowings (Note 21)	(5,865)	(5,865)
Long-term borrowings (Note 21)	(15,501)	(15,849)
Current portion of deferred acquisition consideration payable	(202)	(202)
Non-current portion of deferred acquisition consideration payable (Note 27)	(610)	(707)
Other non-current financial liabilities (Note 26)	(889)	(844)
Total financial liabilities	**(34,632)**	**(35,032)**

The following methods and assumptions were used to estimate the fair values:

(i) Fair value of current financial assets and liabilities approximate their carrying amounts largely due to the short maturities of these instruments;

(ii) Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group using Level 3 inputs based on parameters such as interest rates, specific country risk factors, individual creditworthiness of customers and the risk characteristics of the financed project;

(iii) The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Futures, swaps and commodity forward contracts are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations. The models incorporate various inputs including the credit quality of counterparties, interest rate curves and forward rate curves of the underlying commodity. Some derivative contracts are fully cash collateralised, thereby eliminating both counterparty risk and the Group's own non-performance risk. Such derivative contracts are accounted for within other current financial assets and other current financial liabilities.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

6. Financial risk management (continued)

Fair value hierarchy

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2022:

	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value				
Other current financial assets at FVPL	**659**	128	531	–
Other current financial assets at FVOCI	**50**	50	–	–
Trade receivables at FVOCI	**374**	–	374	–
Other non-current financial assets at FVPL	**2,228**	–	585	1,643
Liabilities measured at fair value				
Other current financial liabilities at FVPL	**(598)**	(105)	(493)	–
Other non-current financial liabilities at FVPL	**(1,563)**	–	(615)	(948)
Assets for which fair value are disclosed				
Deposits	**528**	–	528	–
Trade and other receivables	**7,345**	–	–	7,345
Other current financial assets	**1,536**	–	–	1,536
Other non-current financial assets	**749**	–	–	749
Liabilities for which fair values are disclosed				
Trade and other payables	**(10,917)**	–	–	(10,917)
Other current financial liabilities	**(69)**	–	–	(69)
Short-term and current portion of long-term borrowings	**(7,746)**	(1,683)	–	(6,063)
Long-term borrowings	**(10,907)**	(1,294)	–	(9,613)
Deferred acquisition consideration payable	**(523)**	–	–	(523)
Other non-current financial liabilities	**(539)**	–	–	(539)

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

6. Financial risk management (continued)

Fair value hierarchy (continued)

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2021:

	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value				
Other current financial assets at FVPL	**824**	201	623	–
Other current financial assets at FVOCI	**70**	70	–	–
Trade receivables at FVOCI	**903**	–	903	–
Other non-current financial assets at FVPL	**1,161**	–	221	940
Liabilities measured at fair value				
Other current financial liabilities at FVPL	**(678)**	(200)	(478)	–
Other non-current financial liabilities at FVPL	**(242)**	–	(242)	–
Assets for which fair value are disclosed				
Deposits	**614**	–	614	–
Trade and other receivables	**6,659**	–	–	6,659
Other current financial assets	**664**	–	–	664
Other non-current financial assets	**829**	–	–	829
Liabilities for which fair values are disclosed				
Trade and other payables	**(10,755)**	–	–	(10,755)
Other current financial liabilities	**(132)**	–	–	(132)
Short-term and current portion of long-term borrowings	**(5,865)**	–	–	(5,865)
Long-term borrowings	**(15,849)**	(3,594)	–	(12,255)
Deferred acquisition consideration payable	**(909)**	–	–	(909)
Other non-current financial liabilities	**(602)**	–	–	(602)

The following tables show a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	Other current assets at FVPL	Other non-current financial assets at FVPL
At 1 January 2021	**10**	**856**
Purchases	–	149
Settlements	(10)	(13)
Remeasurement recognised in PL (Note 32)	–	365
Translation to presentation currency	–	(417)
At 31 December 2021	**–**	**940**
Purchases	–	740
Settlements	–	–
Remeasurement recognised in PL (Note 32)	–	243
Translation to presentation currency	–	(280)
At 31 December 2022	**–**	**1,643**

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

6. Financial risk management (continued)

Fair value hierarchy (continued)

	Other current liabilities at FVPL	Other non-current financial liabilities at FVPL
At 1 January 2021	**(16)**	**(11)**
Settlement	16	11
At 31 December 2021	**–**	**–**
Purchases	–	(948)
At 31 December 2022	**–**	**(948)**

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions as at 31 December 2022:

	Carrying value	Valuation technique	Significant unobservable inputs	Range	Sensitivity of the input to fair value
Other non-current financial assets at FVPL Commodity forward contracts	873	The optionality of the Novatek deal is modelled as a spread option between JKM and Brent 301 (Novatek). No exact closed form solution exists and the valuation is performed through Monte Carlo simulations.	Japan Korea Market (JKM) and Dutch Title Transfer Facility (TTF) futures spread is unobservable in years 2025-2026	From USD 17.655 to USD 19.632	10% variation in price would result in an increase/decrease in fair value by AZN +90/-90
Equity investment in TANAP	770	Discounted dividend model	Discount rate	From 11.9% to 15.9%	2% variation in discount rate would result in an increase/decrease in fair value by AZN +178/-148
Other non-current financial liabilities at FVPL Commodity forward contracts	(948)	The optionality of the Novatek deal is modelled as a spread option between TTF and Brent 301 (Novatek). No exact closed form solution exists and the valuation is performed through Monte Carlo simulations.	Japan Korea Market (JKM) and Dutch Title Transfer Facility (TTF) futures spread is unobservable in years 2025-2026	From USD 11.565 to USD 13.087	10% variation in price would result in an increase/decrease in fair value by AZN +101/-101

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions as at 31 December 2021:

	Carrying value	Valuation technique	Significant unobservable inputs	Range	Sensitivity of the input to fair value
Other non-current financial assets at FVPL Equity investment in TANAP	800	Discounted dividend model	Discount rate	From 12.1% to 14.1%	1% variation in the discount rate would result in an increase/decrease in fair value by AZN +102/-83
Other non-current financial assets at FVPL Commodity forward contracts	140	The optionality of the Novatek deal is modelled as a spread option between JKM and Brent 301 (Novatek). No exact closed form solution exists and the valuation is performed through Monte Carlo simulations	Japan Korea Market (JKM) and Dutch Title Transfer Facility (TTF) futures spread is unobservable in years 2025-2026	From USD 0 to USD 25	10% variation in price would result in an increase/decrease in fair value by AZN +84/-84

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

6. Financial risk management (continued)

Fair value hierarchy (continued)

Financial assets classified under IFRS 9 as of 31 December 2022 were as follows:

	Amortised cost	FVOCI	FVPL
Cash and cash equivalents (Note 8)	12,490	–	–
Restricted cash (Note 9)	214	–	–
Deposits (Note 8)	528	–	–
Trade and other receivables (Note 10)	7,344	374	–
Other current financial assets	1,536	50	659
Other non-current financial assets	784	–	2,227
Total financial assets after ECL	**22,896**	**424**	**2,886**

Financial assets classified under IFRS 9 as of 31 December 2021 were as follows:

	Amortised cost	FVOCI	FVPL
Cash and cash equivalents (Note 8)	9,012	–	–
Restricted cash (Note 9)	147	–	–
Deposits (Note 8)	614	–	–
Trade and other receivables (Note 10)	6,659	903	–
Other current financial assets	664	70	824
Other non-current financial assets	814	–	1,161
Total financial assets after ECL	**17,910**	**973**	**1,985**

7. Balances and transactions with related parties

Key management compensation

Key management of the Group includes the President of SOCAR, its First Vice-President and nine Vice-Presidents. All of the Group's key management are appointed by the President of the Azerbaijan Republic. Key management individuals are entitled to salaries and benefits of SOCAR in accordance with the approved payroll matrix as well as to compensation for serving as members of the Boards of directors for certain Group companies. During 2022, compensation of key management personnel totalled to AZN 1.844 (2021: AZN 1.342).

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding are detailed below.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

7. Balances and transactions with related parties (continued)

Significant balances and transactions with related parties

At 31 December 2022, the outstanding balances with related parties were as follows:

	Note	Government and entities under government's control	Associates, joint ventures
Trade and other financial receivables		133	2,028
ECL		(40)	(6)
Total financial receivables		**93**	**2,022**
Cash and cash equivalents		4,423	–
Restricted cash		87	89
Other current financial assets		–	31
Total current assets		**4,603**	**2,142**
Other non-current financial assets		947	221
Total assets		**5,550**	**2,363**
Trade and other payables to SOFAZ		2,674	–
Trade and other payables		532	963
Total financial payables		**3,206**	**963**
Advances received for the sale of interest in PSA	13	–	5,270
Deferred consideration payable to SGC	27	–	456
Other provisions for liabilities and charges, current		30	–
Lease liabilities		235	–
Contract Liabilities		73	45
Other non-current liabilities		–	105
Total liabilities (excluding borrowings)		**3,544**	**6,839**

As at 31 December 2022, borrowings balances with related parties were as follows:

Lender name	Interest rate	Maturity date	2022
Ministry of Finance of Azerbaijan Republic	0.1%-3.0%	12 January 2024 – 1 April 2039	386
International Bank of Azerbaijan	4%-4.8%	24 April 2023 – 11 October 2026	382
Aqrarkredit CJSC	0.16%-5.0%	1 March 2027 – 4 January 2041	81
Total borrowings			**849**

As at 31 December 2022, outstanding bonds payable balances with related parties were as follows:

Bond holder	Coupon rate	Maturity date	2022
SOFAZ	3.20%	1 August 2030	861
SOFAZ	LIBOR + 4%	31 December 2029	733
SOFAZ	3.80%	1 September 2028	648
SOFAZ	4.60%	31 December 2029	411
SOFAZ	3.40%	30 December 2030	340
SOFAZ	3.80%	1 November 2029	321
Azerbaijan Investment Company	4%	30 December 2027	158
SOFAZ	LIBOR + 1%	1 December 2024	124
International Bank of Azerbaijan	5%	30 June 2025	111
Total bonds payable			**3,707**

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

7. Balances and transactions with related parties (continued)

Significant balances and transactions with related parties (continued)

The Government, through its Ministry of Finance, acts as a guarantor for certain borrowings of the Group in total amount of AZN 1,021 (31 December 2021: AZN 1,342).

The transactions with related parties for the year ended 31 December 2022 were as follows:

	Government and entities under government's control	Associates, joint ventures
Sales of natural gas	291	3,961
Sales of oil products	668	431
Sales of crude oil	–	12,448
Service rendered	63	222
Interest income on loan receivables from related parties	17	96
Finance cost on loans from related parties	(214)	(52)
Utilities costs	(87)	(3)
Other operating expenses	(43)	(45)
Social expenses	(69)	–
Transportation expenses	(119)	(1,930)
Ecology service and environmental security	–	(4)
Security expenses	(20)	–
Purchases of PPE and inventory	(19,190)	(11,548)
Dividends received from joint ventures (Note 18)	–	38
Dividends received from associates (Note 19, 32)	–	283

"*Finance cost on loans from related parties*" included AZN 141 (31 December 2021: 95) capitalised borrowing cost (Note 16).

At 31 December 2021, the outstanding balances with related parties were as follows:

	Note	Government and entities under government's control	Associates, joint ventures
Trade and other financial receivables		164	3,296
ECL		(37)	(8)
Total financial receivables		**127**	**3,288**
Cash and cash equivalents		3,899	–
Restricted cash		109	–
Deposits		104	–
Other current financial assets		–	1
Total current assets		**4,239**	**3,289**
Other non-current financial assets		1,137	228
Total assets		**5,376**	**3,517**
Trade and other payables to SOFAZ		3,364	–
Trade and other payables		319	1,077
Total financial payables		**3,683**	**1,077**
Advances received for the sale of interest in PSA	13	–	4,308
Deferred consideration payable to SGC	27	–	610
Lease liabilities		285	–
Other provisions for liabilities and charges, current		33	–
Total liabilities (excluding borrowings)		**4,001**	**5,995**

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

7. Balances and transactions with related parties (continued)

Significant balances and transactions with related parties (continued)

As at 31 December 2021, borrowings balances with related parties were as follows:

Lender name	Interest rate	Maturity date	2021
International Bank of Azerbaijan	4%-4.8%	24 April 2023 − 11 October 2026	531
Ministry of Finance of Azerbaijan Republic	0.1%-3.0%	22 June 2022 − 1 April 2039	492
Aqrarkredit CJSC	0.16%	30 June 2022 − 4 January 2041	84
Total borrowings			**1,107**

As at 31 December 2021, outstanding bonds payable balances with related parties were as follows:

Bond holder	Coupon rate	Maturity date	2021
SOFAZ	3.20%	1 August 2030	860
SOFAZ	LIBOR + 4%	31 December 2029	859
SOFAZ	3.80%	1 September 2028	756
SOFAZ	4.60%	31 December 2029	455
SOFAZ	3.80%	1 November 2029	342
SOFAZ	3.40%	30 December 2030	340
SOFAZ	LIBOR + 1.335%	30 December 2027	245
SOFAZ	LIBOR + 1%	1 December 2024	182
International Bank of Azerbaijan	5%	30 June 2025	111
Azerbaijan Investment Company	4%	30 December 2027	167
Total bonds payable			**4,317**

The transactions with related parties for the year ended 31 December 2021 were as follows:

	Government and entities under government's control	Associates, joint ventures
Sales of natural gas	263	1,630
Sales of oil products	320	143
Sales of crude oil	−	6,451
Service rendered	32	229
Interest income on loan receivables from related parties	23	51
Finance cost on loans from related parties	(159)	(39)
Utilities costs	(72)	(4)
Other operating expenses	(45)	(6)
Social expenses	(62)	−
Transportation expenses	(209)	(658)
Ecology service and environmental security	−	(11)
Security expenses	(19)	−
Purchases of PPE and inventory	(13,789)	(6,811)
Dividends received from joint ventures (Note 18)	−	34
Dividends received from associates (Note 19)	−	386

Terms and conditions of transactions with related parties

Main sales to and purchases from the Government and entities under government's control are made at prices regulated by the Azerbaijani Government. Outstanding balances at the year-end are unsecured and settlement occurs in cash.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

8. Cash and cash equivalents and short-term deposits

	2022	2021
USD denominated bank balances	9,950	7,126
AZN denominated bank balances	1,591	1,024
EUR denominated bank balances	420	366
TRY denominated bank balances	438	247
CHF denominated bank balances	85	106
Other currencies' denominated bank balances	28	56
Cash in transit	6	118
Cash on hand	16	14
ECL	(44)	(45)
Total cash and cash equivalents	**12,490**	**9,012**

At 31 December 2022, USD denominated bank balance included AZN 29 (31 December 2021: AZN 29) in one of the local banks, license of which was revoked by the Central Bank of Azerbaijan ("the CBAR") due to failed capital adequacy test. Accordingly, the Group recognised 100 per cent ECL on mentioned bank balance.

Deposits

At 31 December 2022, term deposits included placements in the total amount of AZN 531 (31 December 2021: AZN 617) with maturity of one year, under fixed contractual interest rates ranging from 1 per cent to 3 per cent per annum (31 December 2021: 1 per cent to 3 per cent per annum).

At 31 December 2022, the Group recognised ECL on deposits in the amount of AZN 3 (31 December 2021: AZN 3).

9. Restricted cash

	2022	2021
Restricted cash for purchase of commodities	196	125
VAT Deposit	91	101
Other	56	60
Less: ECL	(38)	(38)
Total restricted cash	**305**	**248**

10. Trade and other receivables

	2022	2021
Trade receivables	8,281	7,998
Other receivables	345	250
Less: ECL	(908)	(686)
Total financial receivables	**7,718**	**7,562**
VAT recoverable	972	948
Prepayments	667	527
Taxes receivable	207	132
Underlift oil balance	61	65
Other	105	184
Total trade and other receivables	**9,730**	**9,418**

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

10. Trade and other receivables (continued)

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

At 31 December 2022, financial receivables of AZN 8,050 (31 December 2021: AZN 8,013) were denominated in foreign currencies, mainly in USD.

VAT recoverable relates to purchases, which have not been settled at the reporting date. VAT recoverable is reclaimable against VAT on sales upon payment for the purchases.

Set out below is the movement in the allowance for ECL of trade receivables:

	2022	2021
At 1 January	**686**	**678**
ECL	243	71
Other (*)	–	(7)
Write-off	(3)	(37)
Currency translation difference	(18)	(19)
At 31 December	**908**	**686**

(*) These figures include ECL charges of the subsidiary held for sale (Note 13).

11. Inventories

	2022	2021
Finished goods	768	636
Raw materials and spare parts	652	687
Crude oil	517	342
Goods in transit	332	981
Work in progress	156	104
Other	79	89
Total inventories	**2,504**	**2,839**

As at 31 December 2022, inventory balances of AZN 231 (31 December 2021: AZN 553) and AZN 2,273 (31 December 2021: AZN 2,286) were measured at fair value and at cost, respectively.

As at 31 December 2022, AZN 99,347 (2021: AZN 64,275) was recognised as an expense for inventories in cost of sales (Note 31).

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

12. Other current assets and other current financial assets

Other current assets

Contract assets

At 31 December 2022, other current non-financial assets comprised contract assets in the amount of AZN 102 (31 December 2021: AZN 59), which were represented by transportation, demurrage, engineering, procurement and construction services.

At 31 December 2022 and 2021, other current financial assets mainly comprised derivative instruments and equity investments at FVOCI and at FVPL.

At 31 December 2022, the Group had balances related to margin deposits and financial derivatives in the amount of AZN 2,089 (31 December 2021: AZN 1,380).

At 31 December 2022, the Group had equity investments at FVOCI in the amount of AZN 50 (31 December 2021: AZN 70).

At 31 December 2022, the Group had equity investments at FVPL in the amount of AZN 27 (31 December 2021: AZN 60).

13. Assets held for sale and liabilities directly associated with the assets held for sale

PSA interest held for sale

In July 2014, the Group (through its subsidiary – AzSD) signed an agreement with a related party to sell its 10 per cent participation interest in “Shah Deniz” production sharing agreement (hereafter “SD PSA”) in exchange for AZN 1,455 (USD 1,855 million). The USD/AZN exchange rate at that date was 0.7844. The consideration was recognised as a liability within Advances received for the sale of interest in PSA and associate.

As at 31 December 2022 the aforementioned consideration was subject to currency translation upon consolidation of AzSD in accordance with IFRS 10, and is equal to AZN 3,154 at the reporting date (at the USD/AZN exchange rate of 1.700) within Advances received for the sale of interest in PSA and associate.

In addition, in December 2021, the Group signed an agreement with Petronas Azerbaijan (Shah Deniz) S.A.R.L. to buy an additional 4.35 per cent participation interest in SD PSA for AZN 870 (USD 512 million). The purchase was conducted on 17 February 2022. On 18 February 2022 the Group signed an agreement with a related party to sell the aforementioned 4.35 per cent participation interest in SD PSA for AZN 870 (USD 512 million), which was received in February, 2022 and recognised as a liability within Advances received for the sale of interest in PSA and associate.

As at 31 December 2022, the assets and liabilities of SD PSA amounting to AZN 4,649 and AZN 603, respectively, (net assets of AZN 4,046) have been presented within Assets Held for Sale and Liabilities directly associated with the assets held for sale, respectively. Major class of Assets Held for Sale and Liabilities directly associated with the assets held for sale comprise of property, plant and equipment and asset retirement obligation balances, respectively. Since carrying value of the net assets was lower than fair value less cost to sell, no impairment loss from re-measurement to fair value was charged to profit or loss.

The sale of the participation interest is finalised in March 2023 (Note 41).

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

13. Assets held for sale and liabilities directly associated with the assets held for sale (continued)

Associate held for sale

In July 2014, the Group (through its subsidiary – AzSCP) signed an agreement with a related party to sell its 10 per cent equity interest in associate - South Caucasus Pipeline project (hereafter "SCP") in exchange for AZN 533 (USD 679 million). The USD/AZN exchange rate at that date was 0.7844. The consideration was recognised as a liability within Advances received for the sale of interest in PSA and associate.

As at 31 December 2022 the aforementioned consideration was subject to currency translation upon consolidation of AzSCP in accordance with IFRS 10, and is equal to AZN 1,154 at the reporting date (at the USD/AZN exchange rate of 1.700) within Advances received for the sale of interest in PSA and associate.

In addition, in December 2021, the Group signed an agreement with Petronas (South Caucasus Pipeline) S.A.R.L. to buy an additional 4.35 per cent equity interest in associate – SCP and SCP Hold Co for AZN 92 (USD 54 million). The purchase was conducted on 17 February 2022. On 18 February 2022 the Group signed an agreement with a related party to sell the aforementioned 4.35 per cent equity interest in SCP for AZN 92 (USD 54 million), which was received in February, 2022 and recognised as a liability within Advances received for the sale of interest in PSA and associate.

The sale of the equity interest in the associate is finalised in March 2023 (Note 41).

As at 31 December 2022, the investment balance of the Group in the associate – SCP, amounting to AZN 878 has been presented within Assets Held for Sale. As of 31 December 2022, the Group has received the dividend in the amount of AZN 247 from SCP during the period after reclassification to asset held for sale and recognised the respective amount within other operating income (Note 32). Since carrying value of the investment was lower than fair value less cost to sell, no impairment loss from re-measurement to fair value was charged to profit or loss.

Subsidiary held for sale

As at 31 December 2021 the Group had a subsidiary "SCR Müşavirlik ve İnşaat A.Ş. ("SCR")" that were held for sale within one year from reporting date, with assets and liabilities amounting to AZN 109 and AZN 83, respectively, (net assets of AZN 26). The sale was expected to be finalised in 2022. As at 31 December 2022 the assets and liabilities of the subsidiary was reclassified back from Assets Held for Sale to respective assets and liabilities prior to presentation as held for sale, since the Group abandoned its plans regarding the sale of the subsidiary and decided to continue to exercise control over it.

Vessels held for sale

As at 31 December 2021 the Group had two vessels that were held for sale within one year from reporting date amounting to AZN 83, which was their fair value less cost to sell. The sale was expected to be finalised in 2022. One of those vessels amounting to AZN 41 was sold during the year ended 31 December 2022. The other vessel was reclassified back to Property, plant and equipment as at 31 December 2022 as the Group changed its plans regarding the vessel and decided to continue using it in the normal course of business.

14. Other non-current assets

At 31 December 2022, other non-current assets were mainly represented by long-term prepayments for purchase of property, plant and equipment in the amount of AZN 235 (31 December 2021: AZN 450), non-current VAT receivable in the amount of AZN 105 (31 December 2021: AZN 89), net defined benefit assets in the amount of AZN 36 (31 December 2021: AZN 23).

15. Other non-current financial assets

At 31 December 2022 and 2021, other non-current financial assets mainly comprised loan receivables from related parties, loan receivables from third parties, equity investment at FVPL, long-term deposits and derivative instruments.

At 31 December 2022, the Group held 7 per cent equity interest in TANAP Doğalgaz İletim A.Ş (TANAP), the fair value of which was AZN 754 (31 December 2021: AZN 791). Additionally, the Group had loan receivable from TANAP in the amount of AZN 193 as at 31 December 2022 (31 December 2021: AZN 347).

At 31 December 2022, the Group's loan receivable from its associates and joint operations was equal to AZN 186 (31 December 2021: AZN 208).

At 31 December 2022, the Group had long-term deposits placed in local banks in the amount of AZN 94 (31 December 2021: AZN 203) and foreign banks in the amounts of AZN 283 (31 December 2021: AZN 37).

The Group has entered into a series of commodity swaps, futures, forward contracts and foreign exchange futures to mitigate price and foreign exchange risks. At 31 December 2022, the Group had derivative instruments fair value of which was equal to AZN 1,457 (31 December 2021: AZN 361). The fair value was determined based on the difference between the market value and contracted fixed value of buy and sell contracts.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

16. Property, plant and equipment

Movements in the carrying amount of property, plant and equipment ("PPE") were as follows:

	Buildings and constructions	Oil & gas properties and equipment	Plant and machinery	Vessels and port facilities	Development costs	Construction in progress	Other	Total
Cost								
At 1 January 2021	**3,299**	**31,983**	**8,157**	**872**	**726**	**3,196**	**2,072**	**50,305**
Additions	66	1,134	153	3	413	1,451	117	**3,337**
Disposals	(7)	(41)	(82)	(68)	–	(48)	(37)	**(283)**
Change in estimate in decommissioning liabilities	–	(54)	–	–	–	(1)	–	**(55)**
Reclassification to assets held for sale	(89)	–	(7)	(118)	–	–	(15)	**(229)**
Transfers	144	281	394	84	(53)	(725)	(125)	**–**
Translation to presentation currency	(150)	(56)	(459)	24	–	(149)	(364)	**(1,154)**
At 31 December 2021	**3,263**	**33,247**	**8,156**	**797**	**1,086**	**3,724**	**1,648**	**51,921**
Additions	21	945	240	2	536	1,557	9	**3,310**
Acquisition of additional interest of 4.35% in SD PSA	–	1,041	–	–	–	–	–	**1,041**
Disposals	(39)	(254)	(71)	(8)	–	(7)	(10)	**(389)**
Change in estimate in decommissioning liabilities	–	(549)	–	–	(10)	–	–	**(559)**
Reclassification from/ (to) assets held for sale	61	(5,837)	5	42	–	–	(21)	**(5,750)**
Transfers	(113)	146	422	5	–	(552)	92	**–**
Translation to presentation currency*	169	523	1,522	26	–	156	800	**3,196**
At 31 December 2022	**3,362**	**29,262**	**10,274**	**864**	**1,612**	**4,878**	**2,518**	**52,770**
Depreciation and impairment								
At 1 January 2021	**(1,803)**	**(11,895)**	**(3,592)**	**(174)**	**–**	**(562)**	**(935)**	**(18,961)**
Depreciation charge for the year	(180)	(1,352)	(331)	(53)	–	–	(67)	**(1,983)**
Disposal	3	24	64	39	–	–	33	**163**
Reclassification to assets held for sale	6	–	4	34	–	–	2	**46**
Impairment (Notes 3, 31)	(193)	(121)	(410)	(9)	–	(63)	(2)	**(798)**
Reversal of impairment (Notes 3, 32)	15	22	177	–	–	–	9	**223**
Transfers	–	(119)	(7)	–	–	119	7	**–**
Translation to presentation currency	18	–	243	–	–	–	29	**290**
At 31 December 2021	**(2,134)**	**(13,441)**	**(3,852)**	**(163)**	**–**	**(506)**	**(924)**	**(21,020)**
Depreciation charge for the year	(181)	(1,174)	(395)	(37)	–	–	(78)	**(1,865)**
Disposal	35	244	62	8	–	–	7	**356**
Reclassification (from)/to assets held for sale	(4)	1,440	(2)	–	–	–	30	**1,464**
Impairment (Notes 3, 31)	–	(114)	–	–	–	(486)	(5)	**(605)**
Reversal of Impairment (Notes 3,32)	7	–	80	–	–	–	10	**97**
Transfers	(3)	(24)	(46)	–	–	17	56	**–**
Translation to presentation currency*	(28)	(255)	(968)	(5)	–	–	(40)	**(1,296)**
At 31 December 2022	**(2,308)**	**(13,324)**	**(5,121)**	**(197)**	**–**	**(975)**	**(944)**	**(22,869)**
Net book value								
At 1 January 2021	**1,496**	**20,088**	**4,565**	**698**	**726**	**2,634**	**1,137**	**31,344**
At 31 December 2021	**1,129**	**19,806**	**4,304**	**634**	**1,086**	**3,218**	**724**	**30,901**
At 31 December 2022	**1,054**	**15,938**	**5,153**	**667**	**1,612**	**3,903**	**1,574**	**29,901**

** The translation to presentation currency included the hyperinflation effect (Note 2).*

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

16. Property, plant and equipment (continued)

During 2022, the Group capitalised finance costs in the amount of AZN 141, which were attributable to the construction of assets (31 December 2021: AZN 95), which was fully paid during the year (31 December 2021: AZN 48).

17. Intangible assets other than goodwill

Movements in the carrying amount of intangible assets, other than goodwill were as follows:

	Land and property rights	Water rights	Trade name	Customer relationship	Licence and concession rights	Other intangible assets	Total
Cost							
At 1 January 2021	**71**	**88**	**26**	**312**	**463**	**351**	**1,311**
Additions	–	–	–	–	2	19	**21**
Translation to presentation currency	(36)	(37)	(7)	(29)	(152)	(38)	**(299)**
At 31 December 2021	**35**	**51**	**19**	**283**	**313**	**332**	**1,033**
Additions	–	–	–	2	2	38	**42**
Translation to presentation currency*	111	141	39	60	56	31	**438**
Transfers	–	–	–	–	–	8	**8**
Disposal	–	–	–	–	–	(9)	**(9)**
At 31 December 2022	**146**	**192**	**58**	**345**	**371**	**400**	**1,512**
Amortization and impairment							
At 1 January 2021	**(23)**	**(25)**	**(5)**	**(128)**	**(38)**	**(155)**	**(374)**
Amortization charge for the year (Note 31)	(1)	(1)	–	(13)	(29)	(26)	**(70)**
Impairment (Note 3, 31)	–	–	–	–	–	(2)	**(2)**
Translation to presentation currency	16	10	1	16	22	19	**84**
At 31 December 2021	**(8)**	**(16)**	**(4)**	**(125)**	**(45)**	**(164)**	**(362)**
Amortization charge for the year (Note 31)	–	–	–	(15)	(21)	(42)	**(78)**
Disposal	–	–	–	–	–	1	**1**
Translation to presentation currency *	7	5	–	(17)	(20)	(20)	(45)
At 31 December 2022	**(1)**	**(11)**	**(4)**	**(157)**	**(86)**	**(225)**	**(484)**
Net book value							
At 1 January 2021	**48**	**63**	**21**	**184**	**425**	**196**	**937**
At 31 December 2021	**27**	**35**	**15**	**158**	**268**	**168**	**671**
At 31 December 2022	**145**	**181**	**54**	**188**	**285**	**175**	**1,028**

* *The translation to presentation currency included the hyperinflation effect (Note 2).*

Lands and property rights

Software is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the estimated useful lives of such assets. Land property rights comprise the rights over the general infrastructure. Land property rights obtained at the acquisition of Petkim Petrokimya Holding A.Ş. ("Petkim") were initially recognised at their fair values in accordance with IFRS 3 as at 30 May 2008 and amortised over their remaining useful lives commencing from the date of acquisition.

Water rights

Water rights acquired with the Petkim acquisition were initially recognised at their fair value in accordance with IFRS 3 as at 30 May 2008 and amortised over their remaining useful lives of 47 years commencing from the date of the acquisition.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

17. Intangible assets other than goodwill (continued)

Petkim trade name

Trade name in the amount of AZN 48 (31 December 2021: AZN 10) has been recognised upon acquisition of Petkim at 30 May 2008. The asset has initially been recognised at its fair value in accordance with IFRS 3. Petkim trade name is not amortised as it is deemed to have an indefinite useful life (Note 39).

Customer relationships

Customer relationships acquired as part of net assets of Petkim were initially recognised at their fair values in accordance with IFRS 3 as on 30 May 2008 and amortised over their remaining useful lives of 22 years commencing from the date of the acquisition.

Customer relationships acquired as part of net assets of SOCAR Energy Holdings AG were initially recognised at their fair values in accordance with IFRS 3 as at 30 June 2012 and amortised over their remaining useful lives commencing from the date of acquisition. The estimated useful life of retail card customers is 18 years, retail distribution network and fuel customers are 30 years.

Licence and concession rights

At 31 December 2022, carrying value of intangible assets included licence of “Umid Babek Exploration and Production Company” (“UBEP”) in the amount of AZN 100 (31 December 2021: AZN 100). The license is amortised using unit-of-production method over the useful life of Umid field.

Additionally, carrying value of intangible assets included concession rights of EWE Holding in the amount of AZN 314 (31 December 2021: AZN 169) acquired through business combination on 17 June 2019 and amortised over the remaining useful lives of 15 years commencing from the date of the acquisition.

During 2022, total amortization expense amounting to AZN 78 (2021: AZN 70) have been allocated to general and administrative expenses by AZN 19 (2021: AZN 29), cost of sales by AZN 37 (2021: AZN 36) and to marketing, selling and distribution expenses by AZN 22 (2021: AZN 5).

18. Investments in joint ventures

The table below summarises movements in the carrying amount of the Group’s investment in joint ventures:

	Note	2022	2021
Carrying amount at 1 January		**5,024**	**4,942**
Additions to investments in joint ventures		24	225
Share of after-tax results of joint ventures		1,475	(303)
Dividends received from joint ventures	7	(38)	(34)
Impairment of investments in joint ventures	3, 31	(26)	(30)
Exchange differences		(183)	205
Other		23	19
Carrying amount at 31 December		**6,299**	**5,024**

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

18. Investments in joint ventures (continued)

At 31 December 2022, the summarised financial information of the Group's principal joint ventures, based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements was mainly as follows:

	Azgerneft LLC	AZFEN	Azeri MI Drilling Fluids	SOCAR AQS	Azerbaijan Rigs	SOCAR CAPE	STYAS
Country of incorporation	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Türkiye**
Current assets	77	296	80	185	188	58	3,658
including cash and cash equivalents	*4*	*161*	*2*	*6*	*98*	*14*	*1,070*
Non-current assets	77	25	3	296	590	9	12,833
Current liabilities	(61)	(81)	(52)	(271)	(70)	(22)	(3,641)
including current financial liabilities (except trade and other payables and provisions)	–	*(32)*	*(24)*	*(80)*	–	–	*(1,618)*
Non-current liabilities	–	–	(5)	(18)	(23)	–	(3,282)
including non-current financial liabilities (except other payables and provisions)	–	–	*(5)*	*(19)*	–	–	*(3,272)*
Net assets	**93**	**240**	**26**	**192**	**685**	**45**	**9,568**
Proportion of the Group's ownership	40%	60%	51%	13%	10%	51%	60%
Interest in the net assets	**37**	**144**	**13**	**26**	**69**	**23**	**5,741**
Adjustments	–	–	–	–	(56)	–	260*
Carrying value	**37**	**144**	**13**	**26**	**13**	**23**	**6,001**
Dividends received	**(11)**	**–**	**(18)**	**–**	**–**	**(6)**	**–**

* *The adjustment includes additional contributions in share capital of Group's joint ventures, which is represented by inception-to-date commission paid on letter of credit in the amount of AZN 246. Remaining amount of AZN 14 represents over-financing by the Group since the other shareholder did not make capital injections in line with its proportionate shareholding interest.*

	Azgerneft LLC	AZFEN	Azeri MI Drilling Fluids	SOCAR AQS	Azerbaijan Rigs	SOCAR CAPE	STYAS
Revenue	74	571	103	88	10	104	19,305
Cost of sales	(36)	(456)	(91)	(93)	–	(82)	(15,269)
Including depreciation	*(7)*	*(8)*	*(1)*	*(15)*	*(33)*	*(3)*	*(248)*
General and administrative expenses	(12)	(8)	(3)	(23)	(300)	(5)	(148)
Other income	–	1	–	1	–	–	8
Other expense	–	–	–	–	–	–	(6)
Forex (loss)/gain, net	–	(2)	–	5	–	–	(204)
Interest revenue calculated using effective interest method	–	–	–	24	1	–	116
Finance costs	–	–	–	(5)	–	–	(951)
Profit/(loss) before tax	**26**	**106**	**9**	**(3)**	**(289)**	**17**	**2,851**
Income tax (expense)/benefit	(8)	(23)	(2)	5	–	(3)	**(436)**
Profit/(loss) for the year	**18**	**83**	**7**	**2**	**(289)**	**14**	**2,415**
Group's share of profit/(loss) for the year	**7**	**50**	**4**	**–**	**(29)***	**7**	**1,449**

* *Included in share of after-tax results of joint ventures was AZN 24 which represents the Group's portion of impairment charge of the investee.*

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

18. Investments in joint ventures (continued)

At 31 December 2022, the Group's interests in other joint ventures that are not significant both individually and in aggregate and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Interest held	Country of incorpo-ration
Oil and Gas ProServ LLC	8	1	(6)	(2)	4	1	55%	Azerbaijan
SOCAR STP LLC	32	2	(28)	(24)	17	(14)	8%	Azerbaijan
Sarmatia LLC	–	–	–	–	–	–	27%	Poland
SOCAR Baglan LLC	1	14	(13)	(6)	–	–	51%	Azerbaijan
SOCAR Foster Wheeler Engineering	2	1	(2)	–	8	(1)	65%	Azerbaijan
SOCAR KBR	31	–	(12)	–	45	4	51%	Azerbaijan
SOCAR Dalgic LLC	13	6	(1)	(14)	12	2	51%	Azerbaijan
AAS-Ekol	2	–	–	–	3	1	48%	Azerbaijan
SOCAR Uniper	8	77	(16)	(29)	43	6	51%	Azerbaijan
SOCAR Fugro	8	–	(3)	–	12	2	51%	Azerbaijan
SOCAR Construction	–	–	–	–	–	–	0%	Azerbaijan
SOCAR KCM Adi Ortaklığı	28	–	(16)	–	331	8	10%	Türkiye
SOCAR Petrofac	19	–	(24)	(4)	89	1	51%	Azerbaijan
Caspian Geo	10	3	(1)	–	13	–	51%	Azerbaijan
SOCAR-Nefteqazstroy LLC	4	–	–	–	3	–	10%	Azerbaijan
BOS Enerji	14	–	–	–	–	–	50%	Türkiye
Total	**180**	**104**	**(122)**	**(79)**	**580**	**10**		

At 31 December 2021, the summarised financial information of the Group's principal joint ventures, based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements was mainly as follows:

	Azgerneft LLC	AZFEN	Azeri MI Drilling Fluids	SOCAR AQS	Azerbaijan Rigs	SOCAR CAPE	STYAS
Country of incorporation	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Türkiye**
Current assets	79	340	102	335	176	54	2,453
including cash and cash equivalents	*2*	*224*	*12*	*85*	*124*	*4*	*474*
Non-current assets	70	53	6	166	871	10	13,949
Current liabilities	(46)	(236)	(45)	(331)	(10)	(21)	(4,376)
including current financial liabilities (except trade and other payables and provisions)	*(20)*	*(94)*	*(22)*	*(151)*	–	*(1)*	*(4,158)*
Non-current liabilities	–	(1)	(1)	(25)	(23)	–	(4,570)
including non-current financial liabilities (except other payables and provisions)	–	–	*(1)*	*(10)*	*(23)*	–	*(4,380)*
Net assets	**103**	**156**	**62**	**145**	**1,014**	**43**	**7,456**
Proportion of the Group's ownership	40%	60%	51%	13%	10%	51%	60%
Interest in the net assets	**41**	**94**	**32**	**19**	**101**	**22**	**4,474**
Adjustments	–	–	–	–	(30)	–	233*
Carrying value	**41**	**94**	**32**	**19**	**71**	**22**	**4,707**
Dividends received	–	**(12)**	**–**	**–**	**–**	**(6)**	**–**

* *The adjustment includes additional contributions in share capital of Group's joint ventures, which is represented by inception-to-date commission paid on letter of credit in the amount of AZN 226. Remaining amount of AZN 7 represents over-financing by the Group since the other shareholder did not make capital injections in line with its proportionate shareholding interest.*

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

18. Investments in joint ventures (continued)

	Azgerneft LLC	AZFEN	Azeri MI Drilling Fluids	SOCAR AQS	Azerbaijan Rigs	SOCAR CAPE	STYAS
Revenue	63	716	91	121	32	108	10,439
Cost of sales	(30)	(559)	(79)	(122)	(33)	(90)	(10,094)
Including depreciation	*(7)*	*(6)*	*(1)*	*(18)*	*(33)*	*(2)*	*(241)*
General and administrative expenses	–	(8)	(3)	(16)	(1)	(1)	(63)
Other income	5	2	6	20	29	–	243
Other expense	–	(6)	–	(204)	–	–	(90)
Forex gain/(loss), net	–	(2)	–	6	–	–	(194)
Interest revenue calculated using effective interest method	–	–	–	–	–	–	51
Finance costs	–	–	–	(6)	–	–	(264)
Profit/(loss) before tax	**38**	**143**	**15**	**(201)**	**27**	**17**	**28**
Income tax (expense)/benefit	(9)	(32)	(3)	4	(4)	(4)	(630)
Profit/(loss) for the year	**29**	**111**	**12**	**(197)**	**23**	**13**	**(602)**
Group's share of profit/(loss) for the year	**12**	**67**	**6**	**(26)**	**2**	**7**	**(361)**

At 31 December 2021, the Group's interests in other joint ventures that are not significant both individually and in aggregate and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Interest held	Country of incorpo-ration
Oil and Gas ProServ LLC	9	1	(9)	(2)	7	(11)	55%	Azerbaijan
SOCAR STP LLC	17	2	(18)	(8)	32	(6)	50%	Azerbaijan
Sarmatia LLC	1	–	–	–	–	–	27%	Poland
SOCAR Baglan LLC	1	14	(13)	(6)	–	–	51%	Azerbaijan
SOCAR Foster Wheeler Engineering	4	1	(3)	–	10	–	65%	Azerbaijan
SOCAR KBR	35	1	(20)	–	74	6	51%	Azerbaijan
SOCAR Dalgic LLC	10	7	–	(14)	9	(1)	51%	Azerbaijan
AAS-Ekol	3	1	(1)	–	8	1	48%	Azerbaijan
SOCAR Uniper	14	74	(15)	(38)	52	10	51%	Azerbaijan
SOCAR Fugro	13	–	(10)	–	16	–	51%	Azerbaijan
SOCAR Construction	–	–	–	–	–	–	97%	Azerbaijan
SOCAR KCM Adi Ortaklığı	37	–	(30)	–	213	10	10%	Türkiye
SOCAR Petrofac	15	1	(22)	(3)	51	(6)	51%	Azerbaijan
Caspian Geo	10	4	(3)	–	79	6	51%	Azerbaijan
SOCAR-Nefteqazstroy LLC	2	–	–	–	1	–	25%	Azerbaijan
Total	**171**	**106**	**(144)**	**(71)**	**552**	**9**		

During 2022, the Group has made additional contributions in share capital of its joint venture, SOCAR Türkiye Yatırım A.Ş. ("STYAS") in the amount AZN 24 (2021: AZN 186).

In 2015, the Group signed letters of credit agreements in relation to the construction of Star Refinery complex (subsidiary of STYAS). Commission and interest expenses paid by the Group in 2022 in total amount of AZN 19 (2021: AZN 35) were recognised as additional investment in STYAS. Contingent liabilities and commitments of joint ventures are described in Note 38.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

18. Investments in joint ventures (continued)

Accounting for investments with the ownership interest of more than 50 per cent or less than 20 per cent as joint ventures is based on the fact that decisions about the relevant activities of the investee require the unanimous consent of the parties sharing control.

19. Investments in associates

The table below summarises movements in the carrying amount of the Group's investment in associates.

	Note	2022	2021
Carrying amount at 1 January		**4,228**	**4,173**
Additions	13	92	–
Share of after-tax results of associates		1,028	442
Dividends received from associates	7	(36)	(386)
Exchange differences		(13)	(22)
Reclassified to assets held for sale	13	(878)	–
Other		66	21
Carrying amount at 31 December		**4,487**	**4,228**

As at 31 December 2022, whole participation interest of the Group in SCP and SCP Hold Co by 14.35 per cent equity investment has been presented within Assets Held for Sale in the amount of AZN 878 (Note 13).

At 31 December 2022, the summarised financial information of the Group's principal associates, based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements was as follows:

2022	**SCP**	**BTC Co**	**SGC**
Country of incorporation	**Cayman Islands**	**Cayman Islands**	**Azerbaijan**
Current assets	1,051	374	2,794
Non-current assets	7,700	7,415	20,611
Current liabilities	(990)	(482)	(1,520)
Non-current liabilities	(596)	(577)	(12,213)
Total net assets	**7,165**	**6,730**	**9,672**
Less net assets attributable to the associate's NCI	–	–	(3,890)
Net assets, net-off associate's NCI	**7,165**	**6,730**	**5,782**
Proportion of the Group's ownership	14%	25%	49%
Interest in the net assets	**1,028**	**1,683**	**2,833**
Reclassification to Asset held for sale (Note 13)	(878)	–	–
Adjustments	(150)*	–	(77)**
Carrying value	**–**	**1,683**	**2,756**
Dividends received	**(247)*** **	**(36)**	**–**

* *As at 31 December 2022, the adjustment includes the amount of AZN 150 which represents the share of results of SCP not recognised because of reclassification to assets held for sale.*

** *As at 31 December 2022, the adjustment included the amount of AZN 34 which represents over-financing to SGC by the Group, and AZN 16 represented the Group's share in loss on sale of its additional interests in Shah Deniz PSA to SGC in 2014. In addition, the amount of AZN 127 represented elimination of unrealised gain arisen from sale of SGC's 7 per cent equity interest in TANAP Doğalgaz İletim A.Ş in 2018.*

*** *As at 31 December 2022, the Group has received a dividend in the amount of AZN 247 form SCP during the period after reclassification to asset held for sale. The Group recognised the respective amount within other operating income (Note 32).*

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

19. Investments in associates (continued)

2022	SCP	BTC Co	SGC
Revenue	2,247	829	4,494
Cost of sales	(541)	(378)	(587)
General and administrative expenses	–	(295)	(528)
Distribution expenses	–	–	(114)
Other expenses	(2)	(19)	–
Other income	–	8	217
Interest revenue calculated using effective interest method	5	–	148
Finance costs	–	(21)	(938)
Forex gain	–	–	2
Share of results of associates	–	–	106
Profit before tax	**1,709**	**124**	**2,800**
Income tax expense	(437)	–	29
Profit for the year	**1,272**	**124**	**2,829**
Profit attributable to NCI	**–**	**–**	**849**
Group's share of profit for the year	**183**	**31**	**970**
Adjustments	(150)*	(7)	–
Total	**33**	**24**	**970**

* *As at 31 December 2022, the adjustment includes the amount of AZN 150 which represents the share of results of SCP not recognised because of reclassification to assets held for sale.*

At 31 December 2022, the Group's interests in other associates that are not significant both individually and in aggregate and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/(Loss)	Interest held	Country of incor-poration
Caspian Geophysical Company	15	(12)	5	2	45%	Azerbaijan
AzLab	3	(3)	5	(1)	50%	Azerbaijan
South Caucasus Pipeline Holding Company	149	(10)	35	35	10%	Cayman Islands
Cross Caspian Oil and Gas Logistics LLC	3	(2)	–	–	34%	Azerbaijan
Ateshgah Insurance Company	47	(30)	30	–	10%	Azerbaijan
Caspian Pipe Coatings LLC	20	(12)	7	(4)	50%	Azerbaijan
Tankanlagen Mellingen AG ("TAMAG")	15	(4)	6	–	33%	Switzerland
Tanklager Taegerschen AG ("TLT")	4	(2)	3	–	21%	Switzerland
SOGEP AG	10	(9)	8	–	34%	Switzerland
UBAG AG	37	(31)	19	2	24%	Switzerland
SAPPRO SA	9	(6)	6	–	17%	Switzerland
SARACO SA	37	(30)	14	3	20%	Switzerland
Azerbaijan Gas Supply Company	7,075	(7,075)	35,906	–	28%	Cayman Islands
Electrogas Malta	1,105	(1,256)	476	2	33%	Malta
Octogone	56	(54)	17	10	20%	Benin
CI GNL	–	(37)	–	–	26%	Ivory Coast
Total	**8,585**	**(8,573)**	**36,537**	**49**		

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

19. Investments in associates (continued)

At 31 December 2021, the summarised financial information of the Group's principal associates, based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements was as follows:

2021	SCP	BTC Co	SGC
Country of incorporation	**Cayman Islands**	**Cayman Islands**	**Azerbaijan**
Current assets	791	306	1,394
Non-current assets	8,035	7,817	20,037
Current liabilities	(679)	(495)	(1,460)
Non-current liabilities	(587)	(785)	(13,247)
Total net assets	**7,560**	**6,843**	**6,724**
Less net assets attributable to the associate's NCI	–	–	(3,043)
Net assets, net-off associate's NCI	**7,560**	**6,843**	**3,681**
Proportion of the Group's ownership	10%	25%	49%
Interest in the net assets	**756**	**1,711**	**1,804**
Adjustments	1	(2)	(77)*
Carrying value	**757**	**1,709**	**1,727**
Dividends received	**(130)**	**(256)**	**–**

* *At 31 December 2021, the adjustment included the amount of AZN 34 which represents over-financing to SGC by the Group, and AZN 16 represented the Group's share in loss on sale of its additional interests in Shah Deniz PSA to SGC in 2014. In addition, the amount of AZN 127 represented elimination of unrealised gain arisen from sale of SGC's 7 per cent equity interest in TANAP Doğalgaz İletim A.Ş in 2018.*

2021	SCP	BTC Co	SGC
Revenue	1,904	1,138	2,998
Cost of sales	(492)	(466)	(671)
General and administrative expenses	–	(433)	(446)
Distribution expenses	–	–	(109)
Other expenses	–	(87)	–
Other income	–	15	39
Interest revenue calculated using effective interest method	–	–	57
Finance costs	–	(29)	(709)
Forex loss	–	–	(5)
Share of results of associates	–	–	116
Profit before tax	**1,412**	**138**	**1,270**
Income tax expense	(500)	–	(37)
Profit for the year	**912**	**138**	**1,233**
Profit attributable to NCI	**–**	**–**	**577**
Group's share of profit for the year	**91**	**35**	**321**
Adjustments	(2)	–	–
Total	**89**	**35**	**321**

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

19. Investments in associates (continued)

At 31 December 2021, the Group's interests in other associates that are not significant both individually and in aggregate and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	(Loss)	Interest held	Country of incorporation
Caspian Geophysical Company	1	−	−	−	45%	Azerbaijan
AzLab	4	(4)	3	−	50%	Azerbaijan
Cross Caspian Oil and Gas Logistics LLC	3	(2)	−	−	34%	Azerbaijan
Ateshgah Insurance Company	40	(24)	25	−	10%	Azerbaijan
Caspian Pipe Coatings LLC	20	(8)	17	(5)	50%	Azerbaijan
Tankanlagen Mellingen AG ("TAMAG")	16	(5)	−	−	33%	Switzerland
Tanklager Taegerschen AG ("TLT")	3	(3)	−	−	21%	Switzerland
SOGEP AG	11	(10)	−	−	34%	Switzerland
UBAG AG	39	(35)	−	−	24%	Switzerland
SAPPRO SA	6	(3)	−	−	17%	Switzerland
SARACO SA	27	(24)	−	−	20%	Switzerland
Azerbaijan Gas Supply Company	3,109	(3,109)	14,885	−	28%	Cayman Islands
Electrogas Malta	1,067	(1,305)	400	(37)	33%	Malta
Octogone	23	(32)	4	(1)	20%	Benin
CI GNL	3	(42)	−	−	26%	Ivory Coast
Total	**4,372**	**(4,606)**	**15,334**	**(43)**		

The Group had cumulative unrecognised share of losses of zero-balance associates in the amount of AZN 59 as of 31 December 2022 (31 December 2021: AZN 90). Associates with zero carrying value represented the associates which had negative net assets balances as at the reporting date. Considering that the Group has no formal obligation to fulfil its share of associates liabilities, the carrying value of the investment in respective associates are kept at zero in the financial statements. Contingent liabilities and commitments of associates are described in Note 38.

Accounting for investments with the ownership interest of less than 20 per cent as associates is based on the fact that the Group is represented on the board of directors of the investee, participates in policy-making processes or in provision of essential technical information.

20. Trade and other payables and contract liabilities

	2022	2021
Trade payables	7,269	8,032
Accrued liabilities	2,350	1,658
Other payables	1,298	1,065
Total financial payables	**10,917**	**10,755**
Payable to employees	591	294
Total trade and other payables	**11,508**	**11,049**

Financial payables in the amount of AZN 9,928 (31 December 2021: AZN 9,837) are denominated in foreign currencies, mainly in USD. Trade payables mainly represent payables for crude oil, oil products, gas, construction, drilling, transportation and utilities provided by vendors of the Group.

Accrued liabilities of the Group represent obligations for purchased crude oil and oil products, for which invoices have not been received yet.

As at 31 December 2022, current portion of liabilities for disability benefit payments in the amount of AZN 27 (31 December 2021: AZN 24) was included in payables to employees (Note 26).

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

20. Trade and other payables and contract liabilities (continued)

Contract liabilities

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December, are as follows:

	2022	2021
Within one year	1,336	657
More than one year (Note 26)	107	60
Total contract liabilities	**1,443**	**717**

Short-term contract liabilities are mainly represented by advances received for construction projects and sale of goods and services in the amounts of AZN 244 (31 December 2021: AZN 210) and AZN 1,078 (31 December 2021: AZN 442), respectively.

During 2022, short-term contract liabilities balance increased by AZN 4,478 because new advances were received from customers. Upon satisfaction of performance obligations, AZN 3,799 of contract liabilities was released to consolidated statement of profit or loss and other comprehensive income and recognised as revenue during 2022.

The majority of the remaining performance obligations expected to be satisfied in more than one year relate to the fees received for gasification works by Bursagaz and Kayserigaz. These liabilities are presented within other non-current liabilities.

21. Borrowings

At 31 December 2022, short-term borrowings and current portion of long-term borrowings of the Group were represented by the following facilities:

Facilities	Interest rate	Maturity	Total borrowed in original currency	Balance as at 31 December 2022
Short-term facilities in USD	1.00%-12.00%	January 2023 − December 2023	5,153	4,812
Short-term facilities in TRY	11.90%-37.00%	January 2023 − December 2023	7,467	727
Short-term facilities in GEL	8.25%-16.25%	January 2023 − December 2023	317	180
Short-term facilities in EUR	1.64%-8.50%	January 2023 – December 2023	102	88
Short-term facilties in other currencies	4.00%-23.00%	January 2023 − December 2023	4,760	179
Current portion of long-term borrowings				1,760
Total short-term borrowings and current portion of long-term borrowings				**7,746**

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

21. Borrowings (continued)

At 31 December 2022, long-term borrowings of the Group were represented by the following facilities:

			Balance as at 31 December 2022	
Facilities	**Interest rate***	**Maturity**	**Non-current portion**	**Current portion**
USD 750 million	6.95%	March 2030	1,082	28
USD 500 million	3.20%	August 2030	797	64
USD 500 million	SOFR+3.75%	December 2026	782	66
USD 431 million	LIBOR+4%	December 2029	623	110
USD 565 million	3.80%	September 2028	534	115
USD 300 million	LIBOR+3.7%	March 2026	511	1
USD 300 million	LIBOR+3.45%	August 2026	508	12
USD 300 million	SOFR+3.95%	December 2026	463	39
USD 242 million	4.60%	December 2029	350	62
USD 200 million	5.00%	June 2025	340	–
USD 200 million	3.40%	December 2030	319	21
USD 200 million	3.80%	November 2029	273	48
USD 155 million	LIBOR+3.45%	August 2026	262	6
USD 489 million	LIBOR+5.95%	June 2025	260	–
USD 150 million	10.26%	March 2024	255	–
USD 150 million	LIBOR+3.45%	August 2026	254	6
USD 212 million	4.92%	March 2028	242	38
EUR 122 million	EURIBOR+3.45%	August 2026	221	3
USD 130 million	LIBOR+3.45%	August 2026	220	5
EUR 122 million	EURIBOR+3.45%	August 2026	220	3
EUR 251 million	EURIBOR+3.03%	January 2027	201	54
EUR 249 million	EURIBOR+0.95%	January 2027	184	53
EUR 100 million	EURIBOR+3.45%	August 2026	181	2
USD 100 million	4.50%	November 2026	170	2
USD 100 million	11.36%	August 2027	170	–
USD 300 million	LIBOR+2.50%	November 2024	159	180
USD 150 million	4.60%	December 2024	128	90
USD 75 million	LIBOR+3.45%	August 2026	127	3
USD 427 million	LIBOR+2.70%	February 2024	118	250
USD 82 million	0.10%	December 2029	114	4
USD 82 million	0.10%	December 2029	108	8
JPY 15398 million	1.50%	April 2039	104	6
USD 90 million	4.80%	August 2026	92	33
USD 60 million	4.50%	October 2026	87	16
USD 78 million	4.00%	December 2027	86	72
USD 68 million	LIBOR+3%	January 2026	69	10
EUR 38 million	EURIBOR+3.45%	August 2026	68	1
AZN 144 million	0.16% (0.15%+0.01%)	January 2041	65	6
USD 485 million	LIBOR+1%	December 2024	59	65
USD 150 million	LIBOR+2.70%	June 2024	42	85
USD 260 million	LIBOR+3.95%	December 2024	32	38
USD 29 million	4.00%	December 2027	32	32
USD 52 million	4.40%	November 2024	29	31
TRY 300 million	LIBOR+5.2%	June 2027	19	3
TRY 300 million	LIBOR+5.2%	June 2027	19	3
EUR 10 million	EURIBOR+3.45%	August 2026	18	–
CHF 10 million	3.00%	October 2027	18	–
EUR 9 million	EURIBOR + 3.45%	August 2026	16	–
USD 65 million	LIBOR + 4.95%	December 2024	13	15
USD 7 million	0.10%	December 2029	12	–
USD 6 million	LIBOR + 3.45%	August 2026	10	–
USD 62 million	LIBOR + 5.25%	September 2024	9	14
EUR 10 million	2.25%	March 2027	9	3
GEL 45 million	14.00%	August 2024	8	10
USD 6 million	5.00%	March 2027	7	2
EUR 5 million	3.58%	May 2027	6	1
Other long-term borrowings			29	41
Total long-term borrowings			**11,134**	**1,760**

(*) LIBOR and EURIBOR vary from 3 to 12 months.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

21. Borrowings (continued)

At 31 December 2021, short-term borrowings and long-term borrowings of the Group were represented by the following facilities:

Facilities	Interest rate	Maturity	Total borrowed in original currency	Balance as at 31 December 2021
Short-term facilities in USD	0.1%-18.58%	January 2022 – December 2022	2,679	3,421
Short-term facilities in TRY	10.5%-26.2%	January 2022 – December 2022	2,379	320
Short-term facilities in GEL	11.75%-14.75%	January 2022 – December 2022	338	139
Short-term facilities in EUR	0.10%-3%	January 2022 – December 2022	69	126
Short-term facilties in other currencies	0.16%-13%	January 2022 – December 2022	2,071	74
Current portion of long-term borrowings				1,785
Total short-term borrowings and current portion of long-term borrowings				**5,865**

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

21. Borrowings (continued)

At 31 December 2021, long-term borrowings of the Group were represented by the following facilities:

			Balance as at 31 December 2021	
Facilities	**Interest rate***	**Maturity**	**Non-current portion**	**Current portion**
USD 750 million	6.95%	March 2030	1,217	27
USD 1,000 million	4.75%	March 2023	1,084	20
USD 500 million	3.20%	August 2030	850	10
USD 500 million	SOFR + 3.75%	December 2026	847	1
USD 499 million	5.88%	January 2023	744	24
USD 431 million	LIBOR + 4%	December 2029	724	133
USD 565 million	3.80%	September 2028	640	117
USD 300 million	SOFR + 3.7%	March 2026	532	1
USD 300 million	LIBOR + 3.45%	August 2026	526	6
USD 300 million	SOFR + 3.95%	December 2026	503	−
USD 242 million	4.60%	December 2029	413	42
USD 489 million	LIBOR + 6.95%	June 2025	386	−
USD 427 million	LIBOR + 2.70%	February 2024	359	249
USD 200 million	5.00%	June 2025	340	−
USD 200 million	3.40%	December 2030	340	−
USD 300 million	LIBOR + 2.50%	November 2024	331	177
USD 200 million	3.80%	November 2029	319	23
USD 155 million	LIBOR + 3.45%	August 2026	271	2
EUR 251 million	EURIBOR + 3.03%	January 2027	268	54
USD 150 million	LIBOR + 3.45%	August 2026	263	3
USD 150 million	3.22%	June 2023	255	−
EUR 249 million	EURIBOR + 0.95%	January 2027	249	53
EUR 122 million	EURIBOR + 3.45%	August 2026	244	2
EUR 122 million	EURIBOR + 3.45%	August 2026	242	2
USD 200 million	LIBOR + 1.335%	December 2027	231	14
USD 130 million	LIBOR + 3.45%	August 2026	228	2
USD 150 million	4.60%	December 2024	213	49
EUR 100 million	EURIBOR + 3.45%	August 2026	199	2
USD 100 million	4.50%	November 2026	170	1
USD 106 million	4.92%	March 2028	146	12
USD 75 million	LIBOR + 3.45%	August 2026	132	1
JPY 15,398 million	1.50%	April 2039	128	7
USD 150 million	LIBOR + 2.70%	June 2024	127	85
USD 90 million	4.80%	August 2026	122	33
USD 485 million	LIBOR + 1%	December 2024	118	64
USD 82 million	0.10%	December 2029	114	−
USD 82 million	0.10%	December 2029	112	−
USD 60 million	2.60%	January 2023	107	1
USD 60 million	4.50%	October 2026	102	1
USD 190 million	LIBOR + 2.20%	November 2023	98	101
USD 78 million	4.00%	December 2027	91	76
USD 68 million	LIBOR + 3%	January 2026	78	10
EUR 38 million	EURIBOR + 3.45%	August 2026	75	1
USD 40 million	2.65%	February 2023	71	−
CHF 38 million	LIBOR + 0.0714% or 0%	January 2023	71	−
USD 260 million	LIBOR + 3.95%	December 2024	69	38
AZN 144 million	0.16% (0.15% + 0.01%)	January 2041	66	6
USD 110 million	4.80%	December 2023	62	63
USD 52 million	4.40%	November 2024	59	31
USD 77 million	4.80%	December 2023	43	44
USD 23 million	2.70%	April 2023	41	−
USD 29 million	4.00%	December 2027	34	31
TRY 300 million	LIBOR + 5.2%	June 2027	32	4
TRY 300 million	LIBOR + 5.2%	June 2027	32	4
AZN 350 million	3.00%	January 2024	29	29
USD 19 million	4.92%	March 2028	26	2
USD 18 million	4.92%	March 2028	25	−
USD 15 million	4.92%	March 2028	20	2
USD 15 million	4.92%	March 2028	20	2
EUR 10 million	EURIBOR + 3.45%	August 2026	20	−
CHF 10 million	3.00%	October 2027	18	−
EUR 9 million	EURIBOR + 3.45%	August 2026	18	−
USD 12 million	4.92%	March 2028	17	1
USD 12 million	4.92%	March 2028	17	1
USD 10 million	4.50%	June 2023	17	−
GEL 45 million	14.00%	August 2024	13	8
EUR 10 million	2.25%	March 2027	12	3
USD 7 million	0.10%	December 2029	12	−
USD 38 million	4.01%	December 2023	11	11
USD 6 million	LIBOR + 3.45%	August 2026	11	−
AZN 460 million	4.00%	April 2023	6	53
Other long-term borrowings			91	46
Total long-term borrowings			**15,501**	**1,785**

(*) LIBOR and EURIBOR vary from 3 to 12 months.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

22. Taxes payable

	2022	2021
Corporate Income tax payable	754	518
Total corporate income tax payable	**754**	**518**
Accrued VAT	458	471
Payable to SOFAZ	–	46
Social security contributions	18	16
Other taxes payable	261	307
Total other taxes payable	**737**	**840**
Total taxes payable	**1,491**	**1,358**

In 2008, in addition to regular export tax, the Group was liable to transfer a certain share of proceeds from sales of crude oil priced at the level exceeding the price determined by the government (USD 50 per barrel for 2009) to SOFAZ. No such taxes were imposed on the Group in 2009-2022.

Taxpayer components of the Group operating under the Azerbaijani tax legislation are eligible for offsetting their taxes payable with taxes receivable and tax prepayments. Other taxes payable balance consists of VAT, property tax, excise tax, personal income tax, price margin tax liabilities offset with tax receivables and prepayments.

23. Asset retirement obligations

The Group has a legal and constructive obligation with respect to decommissioning of oil and gas production and storage facilities and environmental clean-up. Movements in provisions for the related asset retirement obligations are as follows:

	2022	2021
Carrying amount at 1 January	**2,066**	**1,955**
Additions	117	95
Acquisition of additional interest of 4.35% in SD PSA	160	–
Unwinding of the present value discount	91	90
Effect of change in estimates	(842)	(74)
Liabilities directly associated with the assets held for sale	(449)	–
Carrying amount at 31 December	**1,143**	**2,066**

Asset retirement obligations related to the PSAs are determined with reference to capital costs incurred by contractor parties and they are limited to the maturities of respective PSAs.

The maximum costs in respect of asset retirement obligations of the Group mainly represented by the following oil and gas exploration, evaluation and development fields in the Azerbaijan Republic:

The estimated cost to Azneft Production Union ("Azneft PU") to abandon the production facilities employed was AZN 1,802 as at 31 December 2022 (31 December 2021: AZN 1,465). The Company used 8.90 per cent rate to discount this obligation (31 December 2021: 6.42 per cent).

The maximum estimated cost to AzACG to abandon the production facilities employed in ACG project was AZN 1,901 as at 31 December 2022 (31 December 2021: AZN 1,832). The Company used 7.03 per cent rate to discount this obligation (31 December 20221: 4.46 per cent).

The maximum estimated cost to Azerbaijan Shah Deniz ("AzSD") to abandon the production facilities employed in Shah Deniz project was AZN 896 as at 31 December 2022 (31 December 2021: AZN 604). The Company used 6.99 per cent rate to discount this obligation (31 December 2021: 4.50 per cent). Asset retirement obligations of AzSD as of 31 March 2022 was reclassified to liabilities directly associated with the assets held for sale. Further movement in the liability balance has been directly recognised in liabilities directly associated with the assets held for sale.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

23. Asset retirement obligations (continued)

The maximum estimated cost to the Group to abandon the production facilities employed in Absheron project was AZN 286 as at 31 December 2022 (31 December 2021: AZN 250). The Company used 7.20 per cent rate to discount this obligation (31 December 2021: 4.50 per cent).

The maximum estimated cost to the Group to abandon the production facilities employed in Umid-Babek Exploration and Production project was AZN 175 as at 31 December 2022 (31 December 2021: AZN 145). The Company used 6.99 per cent rate to discount this obligation (31 December 2021: 4.46 per cent).

As at 31 December 2022, the net book value of oil and gas properties and equipment of the Group included the costs of dismantling oil and gas production facilities, pipelines and related processing and storage facilities, including abandonment and site restoration costs in the amount of AZN 519 (31 December 2021: AZN 1,020) (Note 16).

Asset retirement obligations are measured by the Group using the present value of the estimated future costs of decommissioning of the assets. Management determines discount rates that reflect current market assessments of the time value of money and where appropriate, the risks specific to the liability. Discount rates are reviewed at each reporting date and used for discounting abandonment and site restoration costs. The discount rate used as at 31 December 2022 was in range of 6.99-8.90 per cent (31 December 2021: 4.46- 6.42 per cent).

If the estimated discount rate used in the calculation had been 1 per cent higher/lower than management's estimate, the carrying amount of the provision would have been AZN 198 lower / AZN 254 higher, respectively.

The following inflation rates were applied in calculation of discounted cash flows in respect of abandonment and site restoration costs:

Azerbaijan:

Year	**2023**	**2024**	**2025**	**2026**	**2027**	**2028 and later**
Inflation rate	5.81%	3.96%	3.53%	3.84%	3.93%	3.90%

United States:

Year	**2023**	**2024**	**2025**	**2026**	**2027**	**2028 and later**
Inflation rate	4.39%	2.40%	2.08%	2.09%	2.10%	2.07%

If the estimated inflation rates used in the calculation had been 1 per cent higher/lower than management's estimate, the carrying amount of the provision would have been AZN 101 higher/ AZN 61 lower, respectively.

While the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines, there is uncertainty regarding both the amount and timing of incurring these costs.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

24. Other provisions for liabilities and charges

Movements in other provisions for liabilities and charges are as follows:

	Note	Environmental obligations	Other provisions	Total
Carrying amount at 1 January 2021		**83**	**44**	**127**
Disposals		(1)	(10)	**(11)**
Utilisation		(26)	(2)	**(28)**
Unwinding of the present value discount	34	3	–	**3**
Carrying amount at 31 December 2021		**59**	**32**	**91**
Of which:				
Current		44	32	**76**
Non-current		15	–	**15**
Carrying amount at 1 January 2022		**59**	**32**	**91**
(Disposals)/additions		(4)	2	**(2)**
Utilisation		(34)	(1)	**(35)**
Unwinding of the present value discount	34	2	–	**2**
Carrying amount at 31 December 2022		**23**	**33**	**56**
Of which:				
Current		8	33	**41**
Non-current		15	–	**15**

Environmental obligation

In 2018, management approved Action Plan (2019-2023) in respect of environmental restoration related to expected, damage and contamination caused to the environment as a result of activities within Absheron area. Management estimated the Group's environmental obligations based on historic trend of respective expenses and estimated production profile of the Group's oil and gas assets.

Environmental obligations are measured by the Group using the present value of the estimated future costs of environmental restorations. Management determines discount rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability as of the reporting date. The Group calculated the present value of the environmental obligation using a discount rate of 9.85 per cent (31 December 2021: 4.57 per cent).

25. Deferred income

	2022	2021
Carrying amount at 1 January	**65**	**75**
Released to the profit or loss	(6)	(10)
Received during the year	11	–
Carrying amount at 31 December	**70**	**65**
Of which:		
Non-current	70	65

At 31 December 2022 and 2021, the non-current portion of deferred income mainly represented government grants obtained In 2006 for the purpose of gasification of Baku sub-urban area and regions of the Azerbaijan Republic, and grant received for the purpose of gasification of rural areas of Georgia in the amounts of AZN 32 (31 December 2021: AZN 37) and AZN 38 (31 December 2021: AZN 28), respectively.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

26. Other current and non-current liabilities

Other liabilities comprise the followings:

	2022	2021
Derivative liabilities	2,198	1,048
Liabilities under carry arrangements	626	611
Other liabilities	40	40
Total other financial liabilities	**2,864**	**1,699**
Of which:		
Current	667	810
Non-current	2,197	889
Disability benefit	102	114
Contract liability (Note 20)	107	60
Net defined benefit liability	52	24
Other liabilities	160	101
Total other non-current non-financial liabilities	**421**	**299**
Total other liabilities	**3,285**	**1,998**

Derivative liabilities

The Group has financial liabilities related to margin calls in the amount of AZN 105 (31 December 2021: AZN 84), unrealised losses on paper positions in the amount of AZN 1,633 (31 December 2021: AZN 560) and unrealised losses on physical positions in the amount of AZN 381 (31 December 2021: AZN 404). Current portion of these liabilities as at 31 December 2022 was AZN 584 (31 December 2021: AZN 763).

Liabilities under carry arrangements

The Group's liabilities under carry arrangements were mainly related to Absheron PSA. In February 2017, exploration and evaluation stage of Absheron PSA was completed successfully and the Group started to recognise liability with respect to its participating interest Absheron Offshore 2 PSA ("Absheron PSA") which was carried by other parties under the carry arrangement until the commencement of development stage. As at 31 December 2022 the Group's carried liability under Absheron PSA was AZN 470 (31 December 2021: AZN 457).

Provision for post-employment benefit – defined benefit plan

Under *Turkish Labour Law*, the Group is required to pay post-employment benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women). The provision is calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. IAS 19 requires actuarial valuation methods to be developed to estimate the companies' obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	2022	2021
Discount rate (per cent)	0.5	4.4
Probability of retirement (per cent)	97.8	97.6

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. The decrease in discount rate from prior year is associated with considerably higher inflation expectations.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

26. Other current and non-current liabilities (continued)

Movement of the net defined benefit liability was as follows:

	Note	2022	2021
Carrying amount at 1 January		**24**	**30**
Actuarial losses		35	5
Payments during the year		(1)	(3)
Interest cost	34	3	4
Current service cost		3	3
Translation to presentation currency		(12)	(15)
Carrying amount at 31 December		**52**	**24**

Liabilities for disability benefit payments

	Note	2022	2021
Carrying amount at 1 January		**138**	**134**
Additions		22	21
Utilisation		(23)	(21)
Unwinding of the present value discount	34	10	8
Effect of change in estimates		(18)	(4)
Carrying amount at 31 December		**129**	**138**
Of which:			
Current		27	24
Non-current		102	114

Disability Benefits

The Group has an obligation to compensate its employees for the damage caused to their health at workplace up to January 2012 (payments to employees injured after January 2012 are made by insurance company, based on insurance contract), as well as to compensate dependants of died employees. The compensations provided are linked to the salaries paid to the affected employees. The Group calculated the present value of the disability benefit to employees using a discount rate of 9.08 per cent (31 December 2021: 6.43 per cent).

For the purpose of calculation of the lifetime payments to injured employees, the Group estimated a life expectancy as 71 and 76 for men and women, respectively.

The inflation rates in Note 23 were applied to reflect the escalation in average salaries.

27. Deferred acquisition consideration payable

At 31 December 2022, the Group had current deferred consideration payable in the amount of AZN 65 (31 December 2021: AZN 65) and AZN 65 (31 December 2021: AZN 65) for the purchase of remaining 49 per cent shares of SOCAR Petroleum CJSC and acquisition of SOCAR Trading, respectively. In addition, deferred consideration payable for the acquisition of 16.3 per cent equity interest in SOCAR Energy Georgia LLC was nil (31 December 2021: AZN 56).

Additionally, the Group had non-current deferred consideration payable in the amount of AZN 456 (31 December 2021: AZN 610) for the acquisition of 7 per cent equity interest in TANAP Doğalgaz İletim A.Ş. (Note 7).

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

28. Leases

The following tables show the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

Right-of-use-assets	**Buildings and con-structions**	**Oil & gas properties and equipment**	**Plant and machinery**	**Vessels and port facilities**	**Other**	**Total**
Balance at 1 January 2021	**189**	**1**	**161**	**283**	**83**	**717**
Additions	33	194	–	92	8	**327**
Early terminated lease contracts	(4)	–	–	–	(2)	**(6)**
Remeasurement during the year	1	–	–	39	3	**43**
Depreciation charge for the period (Note 31)	(28)	(6)	(1)	(94)	(13)	**(142)**
Translation to presentation currency	(5)	(56)	(65)	–	(6)	**(132)**
Balance at 31 December 2021	**186**	**133**	**95**	**320**	**73**	**807**
Additions	47	1	–	139	6	**193**
Variable Lease payment adjustment	(1)	–	2	–	1	**2**
Early terminated lease contracts	(34)	(1)	–	–	(6)	**(41)**
Impairment (included in other - Note 31)	–	(48)	–	–	–	**(48)**
Remeasurement during the year	11	2	–	(15)	–	**(2)**
Depreciation charge for the period (Note 31)	(28)	(11)	(1)	(102)	(15)	**(157)**
Translation to presentation currency	16	149	(22)	–	(2)	**141**
Balance at 31 December 2022	**197**	**225**	**74**	**342**	**57**	**895**

Lease liabilities	**Buildings and con-structions**	**Oil & gas properties and equipment**	**Plant and machinery**	**Vessels and port facilities**	**Other**	**Total**
Balance at 1 January 2021	**209**	**6**	**219**	**333**	**62**	**829**
Additions	33	194	–	92	8	**327**
Early terminated lease contracts	(4)	–	–	–	(2)	**(6)**
Remeasurement during the year	1	–	–	39	3	**43**
Interest expense	15	19	3	16	2	**55**
Payments	(41)	(28)	(2)	(90)	(10)	**(171)**
Foreign exchange (gain)/loss	21	163	47	–	(2)	**229**
Translation to presentation currency	(9)	(125)	(98)	(1)	(7)	**(240)**
Balance at 31 December 2021	**225**	**229**	**169**	**389**	**54**	**1,066**
Additions	47	1	–	139	6	**193**
Early terminated lease contracts	(34)	(1)	–	–	(6)	**(41)**
Remeasurement during the year	11	2	–	(15)	–	**(2)**
Interest expense	14	19	1	15	6	**55**
Payments	(40)	(44)	(8)	(116)	(9)	**(217)**
Foreign exchange loss	3	134	–	4	–	**141**
Translation to presentation currency	(7)	(89)	(49)	(1)	3	**(143)**
Balance at 31 December 2022	**219**	**251**	**113**	**415**	**54**	**1,052**

	2022	**2021**
Of which:		
Current lease liabilities	178	208
Non-current lease liabilities	874	858

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

28. Leases (continued)

The following are the amounts recognised in the consolidated statement of profit or loss and other comprehensive income:

	2022	2021
Interest expense on lease liabilities (Note 34)	55	55
Foreign exchange loss	141	229
Depreciation expense of right-of-use assets (Note 31)	157	142
Expense relating to variable lease payments (included in general and administrative expenses)	13	6
Impairment (included in other - Note 31)	(48)	–
Translation to presentation currency, net	(73)	(108)
Expenses relating to short-term leases (included in cost of sales)	145	141
Total	**390**	**465**

The following are the amounts recognised in the statement of cash flows:

	2022	2021
Cash payments for the principal portion of the lease liability within financing activities	(151)	(123)
Cash payments for the interest portion of the lease liability for interest paid within operating activities	(66)	(48)
Short-term lease payments within operating activities	(162)	(147)
Variable lease payments within operating activities	(5)	(6)
Total	**(384)**	**(324)**

Group as a lessor

The Group has entered into operating leases mainly consisting of drilling units in the amount of AZN 165 (31 December 2021: AZN 116) which are classified as building and construction within property, plant and equipment. The drilling units are used to carry out drilling works in oil and gas fields in Azerbaijan sector of Caspian Sea.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December	**2022**	**2021**
Less than one year	38	231
One to two years	8	36
Two to three years	6	5
Three to four years	6	6
Four to five years	6	4
More than five years	25	7
Total	**89**	**289**

29. Charter capital, additional paid-in capital, retained earnings and gain on sale of subsidiary share

Charter capital

SOCAR as a holding company of the Group has a legal status of a state enterprise. The increase in charter capital was registered by Ministry of Economy of Azerbaijan Republic in the year ended 31 December 2022 and accordingly the additional paid in capital of AZN 12 was reclassified from additional paid in capital to the charter capital (31 December 2021: AZN 52).

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

29. Charter capital, additional paid-in capital, retained earnings and gain on sale of subsidiary share (continued)

Additional paid-in capital ("APIC")

During the year ended 31 December 2022, the Government contributed to the charter capital of the Group AZN 267 (31 December 2021: AZN 15). Until registration of the increase in the charter capital this amount was included in APIC.

In 2021, Ministry of Finance provided the loan to the Group in the amount of AZN 139 (USD 82 million) with an interest rate of 0.1 per cent and maturity date of 15 December 2029. During the year ended 31 December 2021 the difference between fair value and carrying value of the loan in the amount of AZN 26 (USD 15 million) was recognised as APIC addition. There was no similar transaction in 2022.

Distribution to the Government

Based on decisions of the Government, the Group is periodically mandated to make direct cash contributions or finance construction and repair works for the Government (including transfer of assets). During 2022, such direct cash transfers to the Government amounted to AZN 527 (31 December 2021: AZN 665), which is mainly for repair, construction and reconstruction of recreational, transport, educational and medical infrastructure of the Azerbaijan Republic.

Dividend paid to the Government

During the year ended 31 December 2022, the Group paid AZN 200 dividend to the Government (31 December 2021: nil).

30. Analysis of revenue by categories

	2022	2021
Crude oil, net	67,571	42,065
Oil products, net	24,281	19,282
Natural gas, net	17,762	7,074
Petrochemicals	6,779	6,748
Rent income	25	258
Other revenue	2,810	2,104
Total revenue	**119,228**	**77,531**

Revenue from crude oil and natural gas sales is stated net of export tax which is levied in the Azerbaijan Republic on the margins between the international market price and internal state-regulated price on crude oil. The difference between the market price and the internal state-regulated price is taxed at the rate of 30 per cent and the amount of tax is transferred to the State Budget.

Revenue from oil product sales is stated net of excise tax of AZN 667 (2021: AZN 582).

Revenue from all PSAs, including ACG PSA and Shah Deniz PSA are not subject to excise and export taxes mentioned above.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

31. Analysis of expenses by nature

The table below summarises expenses by nature of the Group:

	Note	2022	2021
Raw materials and consumables used	11	99,347	64,275
Transportation and vehicle maintenance		2,828	1,291
Wages, salaries and social security costs		2,352	1,824
Depreciation of property, plant and equipment		1,847	1,935
Impairment of PPE and investment in joint ventures	3	631	830
Utilities expense		603	534
Repairs and maintenance expenses		585	389
Taxes other than on income		410	295
ECL		245	68
Depreciation of right-of-use assets	28	157	142
Mining tax		151	139
Amortization expense	17	78	70
Change in other provisions for liabilities and charges		21	36
Other		1,395	1,320
Total cost of sales, exploration and evaluation, distribution, general and administrative, ECL and other operating expenses		**110,650**	**73,148**

"Other" line mainly includes expenses related to fixed overheads, short-term and low-value rent, insurance, consulting, success fees related to new business development, sales and marketing, communication, and IT services, etc.

The table below summarises impairment of fixed assets of the Group:

	Note	2022	2021
Impairment of property, plant and equipment, and intangible asset	3,16,17	605	800
Impairment of investment in joint ventures	3,18	26	30
Total impairment		**631**	**830**

32. Other operating income

	Note	2022	2021
Dividend received from associate held for sale	13, 7	247	–
Fair value gain on equity instrument at FVPL	6	243	365
Change in discount rate		196	–
Gain on reversal of impairment charge	3, 16	97	223
Government grant		6	10
Other		210	193
Total other operating income		**999**	**791**

33. Interest revenue calculated using effective interest method

	2022	2021
Interest income on time deposits and bank accounts	220	117
Other	147	109
Total interest revenue calculated using effective interest method	**367**	**226**

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

34. Finance costs

	Note	2022	2021
Interest expenses		1,365	1,087
Provisions for asset retirement obligations: unwinding of the present value discount		102	90
Lease liability: unwinding of the present value discount	28	55	55
Obligation for disability payments: unwinding of the present value discount	26	10	8
Interest expenses for employee benefits	26	3	4
Environmental provision: unwinding of the present value discount	24	2	3
Total finance costs		**1,537**	**1,247**

35. Income taxes

Income tax expense comprises the following:

	2022	2021
Current tax expense	1,298	1,046
Deferred tax charge	141	116
Income tax expense reported in profit or loss	**1,439**	**1,162**
Deferred tax recognised in OCI	**(30)**	**–**

Reconciliation between the expected and the actual tax charge is provided below:

	2022	2021
Profit before tax	**10,863**	**3,277**
Theoretical tax charge at statutory rate of 20 per cent	**2,173**	**655**
Effects of different tax rates for certain subsidiaries (22, 25 and 27 per cent)	3	49
Undistributed profits of JVs and associates taxed at 10 per cent	(2)	(7)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- income which is exempt from taxation	(1,236)	(117)
- non-deductible expenses	210	218
Deferred tax asset not recognised	271	402
Recognition of previously unrecognised deferred tax asset	(36)	(41)
Tax rebasement	14	–
Deferred tax effect arising from revaluation of PPE	(245)	–
Unused investment incentives on which deferred income tax assets are recognised	(72)	(29)
Potential income tax on retained profit of subsidiaries	251	16
Income not recognised in IFRS	60	–
Other	48	16
Income tax expense reported in profit or loss	**1,439**	**1,162**

Non-deductible expenses mainly comprise the social, employee-related expenses and limitation on financial expenses deductibility. Unrecognised deferred tax assets are mainly related to the current year tax losses of the Group’s subsidiaries which are not expected to utilise these losses.

At 31 December 2022, cumulative balance of unrecognised deferred tax asset was AZN 1,039 (31 December 2021: AZN 804).

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

35. Income taxes (continued)

The benefits arising from previously unrecognised deferred tax assets were used during the year to reduce current tax expenses by the amount of AZN 36 (2021: AZN 41).

Differences between IFRS and applicable domestic tax regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below:

	1 January 2022	Credited/ (charged) to profit or loss	Credited/ (charged) to OCI	Translation difference	31 December 2022
Tax effect of deductible/(taxable) temporary differences					
Carry forward tax losses	23	42	–	(3)	62
Accruals	–	26	(8)	9	27
Trade and other receivables	1	(5)	–	–	(4)
Trade and other payables	11	(29)	–	–	(18)
Inventory	24	9	–	(3)	30
Property, plant and equipment	681	67	–	(167)	581
Provisions for liabilities and charges	112	(54)	–	(2)	56
Unused Investment incentives	27	70	11	(9)	99
Net defined benefit liability	1	–	–	–	1
Other	56	86	27	(17)	152
Deferred tax assets	**936**	**212**	**30**	**(192)**	**986**

	1 January 2022	Credited/ (charged) to profit or loss	Credited/ (charged) to OCI	Translation difference	31 December 2022
Tax effect of deductible/(taxable) temporary differences					
Accruals	50	–	–	(2)	48
Investments in associates and joint ventures	(100)	(1)	–	–	(101)
Intangible assets	(68)	6	–	(8)	(70)
Trade and other payables	28	(13)	–	(4)	11
Trade and other receivables	(68)	(3)	–	–	(71)
Inventory	(67)	26	–	–	(41)
Property, plant and equipment	(1,401)	(24)	–	(166)	(1,591)
Provisions for liabilities and charges	262	(60)	(3)	(1)	198
Other	(324)	(284)	3	2	(603)
Deferred tax liabilities	**(1,688)**	**(353)**	**–**	**(179)**	**(2,220)**

	1 January 2021	Credited/ (charged) to profit or loss	Credited/ (charged) to OCI	Translation difference	31 December 2021
Tax effect of deductible/(taxable) temporary differences					
Carry forward tax losses	58	(35)	–	–	23
Trade and other receivables	31	(30)	–	–	1
Trade and other payables	20	(9)	–	–	11
Inventory	17	12	–	(5)	24
Property, plant and equipment	691	10	–	(20)	681
Provisions for liabilities and charges	121	(6)	–	(3)	112
Unused Investment incentives	50	(18)	–	(5)	27
Net defined benefit liability	1	–	–	–	1
Other	23	62	–	(29)	56
Deferred tax assets	**1,012**	**(14)**	**–**	**(62)**	**936**

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

35. Income taxes (continued)

	1 January 2021	Credited/ (charged) to profit or loss	Credited/ (charged) to OCI	Translation difference	31 December 2021
Tax effect of deductible/(taxable) temporary differences					
Accruals	35	1	–	14	50
Investments in associates and joint ventures	(102)	2	–	–	(100)
Intangible assets	(103)	8	–	27	(68)
Trade and other payables	34	2	–	(8)	28
Trade and other receivables	(86)	35	–	(17)	(68)
Inventory	(65)	(2)	–	–	(67)
Property, plant and equipment	(1,293)	(133)	–	25	(1,401)
Provisions for liabilities and charges	241	25	(2)	(2)	262
Other	(295)	(40)	2	9	(324)
Deferred tax liabilities	**(1,634)**	**(102)**	**–**	**48**	**(1,688)**

The Group does not file a consolidated tax return. In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even when there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

In accordance with Azerbaijani tax legislation, tax losses arising in one period can be carried forward for five years.

The Group is a participant to ACG PSA through its subsidiary AzACG. During 2022, AzACG accrued and paid its income tax at the rate of 25 per cent.

The governments of the Azerbaijan Republic, Türkiye and Georgia together with the Group's subsidiary AzBTC and other BTC Project participants entered into Host Government Agreements ("HGAs"). The HGAs set out the legal and fiscal regime for the BTC Project and the mutual rights and obligations of the parties, including grants of rights and guarantees from the respective Countries to the investors in respect of matters necessary to ensure the success of the BTC Project. In accordance with the provisions of the HGAs, the BTC Project participants are individually liable for income taxes in Georgia and the Azerbaijan Republic and are responsible for filing returns for each taxable period. Accordingly, the Company is liable for Azerbaijani income taxes arising from participation in the BTC Project. In accordance with the provisions of the HGA, Azerbaijani income tax rate is twenty-seven per cent (27 per cent) which was effective at 31 December 2022 and 2021.

In addition, the Group is a participant to Shah Deniz PSA through its subsidiary AzSD. According to the provisions of Shah Deniz PSA, AzSD is liable for corporate income tax payments. However, in accordance with PSA, the Government makes profit tax payments on behalf of contractor parties from the proceeds from sales of profit petroleum attributable to the Government. Therefore, no corporate income tax related to Shah Deniz project was recognised for 2022 and 2021. At 31 December 2022 and 2021, deferred tax balance of AzSD was nil. AzSD is also exempt from certain ordinary operational taxes in the Azerbaijan Republic.

The Group operates in the tax environment of Türkiye through its subsidiary, STEAS. On 22 April 2021, a new Law on Amendment of The Law on Collection Procedures of Public Receivables and Other Certain Laws (the Law) has entered into force. The Law has increased the corporate tax rate to be applied at the rate of 25 per cent for the 2021 tax year (retrospectively) and 23 per cent for the 2022 tax year. Thereafter, the corporate tax rate of 20 per cent is accepted as enacted tax rate for the income derived in 2023 and onwards. In addition, according to the amendments on tax legislation of Türkiye published on June 9, 2021, Turkish resident individuals and companies are given the option to update the tax base of their depreciable assets, based on revaluation factor prescribed in the law and to enjoy a higher depreciation deduction for the remaining useful life of the asset. The amendments also reduce taxable capital gains when revalued assets are sold. The mechanism requires payment of a one-time, 2 per cent tax on the revaluation surplus.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

35. Income taxes (continued)

The Group operates in tax environment of Switzerland through its subsidiaries, SOCAR Energy Holding AG and SOCAR Trading. Corporate tax rate in the canton of Zurich, which is applied to SOCAR Energy Holding AG has been 19.7 per cent (31 December 2021: 19.7 per cent). The tax rate applied to SOCAR Trading, which is register in the canton of Geneva, was set up at 13.9 per cent as of 31 December 2022 (31 December 2021: 13.9 per cent).

The Group's subsidiaries − SOCAR Overseas LLC, Gacrux Middle East Investments Holding LTD, Azerbaijan (SCP) LTD and Sermaye Investment Limited are exempt from taxation.

The Group's subsidiaries − SOCAR Polymer LLC, Carbamide Plant and Baku Shipyard LLC are members of Sumgait Chemical Industrial Park and Garadagh Industrial Park. Residents of such parks are exempt from paying the property tax, land tax, profit tax and VAT. These privileges expire in 2023, 2027 and 2025 for SOCAR Polymer LLC, Carbamide Plant and Baku Shipyard LLC respectively.

As at 31 December 2022, the Group have temporary difference associated with investments in Group's subsidiaries and joint ventures, for which a deferred tax liability has not been recognised aggregated to AZN 1,287 (31 December 2021: AZN 1,287). The Group has determined that the undistributed profits of its subsidiaries will not be distributed in the foreseeable future.

Additionally, based on the resolution between Black Sea Terminal and Ministry of Finance of Georgia, return of capital by former to the Group, would trigger tax liability in the amount of AZN 134. The Group has determined that they will not distribute return of capital in the foreseeable future and accordingly has not recognised deferred tax liability.

36. Significant non-cash investing and financing activities

Investing and financing transactions that do not require the use of cash and cash equivalents and were excluded from the cash flow statement are as follows:

	Note	2022	2021
Non-cash investing and financing activities			
Non-cash capital expenditures		559	376
Acquisition of additional interest of 4.35% in SD PSA		160	−
Additions to assets purchased on lease	28	193	327
Disposal of PPE		28	82
Decrease in loan receivable from TANAP due to cash calls made by SGC on behalf of the Group		(159)	(125)
Decrease in deferred consideration payable to SGC due to cash calls made on behalf of the Group		(159)	(44)
Conversion of borrowings due to Government to the charter capital of the Group	37	−	26
Non-cash investing and financing activities		**622**	**642**

37. Changes in liabilities arising from financing activities

	1 January 2022	Cash flows	Finance cost	Foreign exchange movement	Other	31 December 2022
Short-term interest-bearing borrowings	5,865	(1,341)	542	(209)	2,889	7,746
Non-current interest-bearing borrowings	15,501	(2,015)	749	(263)	(2,838)	11,134
Lease Liabilities	1,066	(217)	55	(2)	150	1,052
Deferred consideration payable	812	(72)	35	(30)	(159)	586
Dividend payable to NCI	39	(1)	−	−	1	39
Dividend payable to the Government (Note 29)	−	(200)	−	−	200	−
Total liabilities from financing activities	**23,283**	**(3,846)**	**1,381**	**(504)**	**243**	**20,557**

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

37. Changes in liabilities arising from financing activities (continued)

The “Other” column of non-current interest-bearing borrowings is represented by classification of current portion of AZN 2,860 of non-current borrowings as short-term in 2022, and reclassification of AZN 29 and AZN 22 from liabilities directly associated with assets held for sale to short-term and non-current interest-bearing borrowings, respectively. The “Other” column of dividend payable included dividends declared to the Government and non-controlling shareholders. The “Other” column of deferred consideration payable included the amount of cash payment by TANAP to SGC on behalf of the Group. The "Other" column of lease liabilities included new leases and lease remeasurements.

Changes in liabilities arising from financing activities as at 31 December 2021 were as follows:

	1 January 2021	Cash flows	Finance cost	Foreign exchange movement	Other	31 December 2021
Short-term interest-bearing borrowings	5,910	(372)	212	(365)	480	5,865
Non-current interest-bearing borrowings	11,219	4,591	658	(453)	(514)	15,501
Put option liabilities	2,728	(2,859)	131	–	–	–
Lease liabilities	829	(171)	55	(11)	364	1,066
Deferred consideration payable	786	(10)	36	42	(42)	812
Financing of the Group by SGC for cash calls of TANAP	91	–	3	4	(98)	–
Dividend payable to NCI	64	(33)	–	–	8	39
Total liabilities from financing activities	**21,627**	**1,146**	**1,095**	**(783)**	**198**	**23,283**

The “Other” column of non-current interest-bearing borrowings is represented by classification of current portion of AZN 454 of non-current borrowings as short-term in 2021, and conversion of borrowings due to the Ministry of Finance to the charter capital of the Group of AZN 26. The “Other” column of dividend payable included dividends declared to the non-controlling shareholders. The “Other” column of financing of Group by SGC for cash calls of TANAP included the amount of cash payment by TANAP to SGC on behalf of the Group. The “Other” column of deferred consideration payable included the amount of cash payment by TANAP to SGC on behalf of the Group. The “Other” column of lease liabilities included new leases and lease remeasurements.

38. Contingencies, commitments and operating risks

Operating environment

Azerbaijan

The Group conducts most of its operations in the Republic of Azerbaijan. The economy of Azerbaijan is particularly sensitive to oil and gas prices. During recent years, the Azerbaijani Government continued major economic and social reforms to accelerate transition to a more balanced economy and reduce dependence on the oil and gas sector.

The disruption of the global supply chains, conflict between the Russian Federation and Ukraine as well as rising consumer demand for goods lead to significant inflationary pressures to the global economy in 2022, including soaring commodity prices. During 2022, oil and gas prices reached multi-year highs, contributing to significant trade surplus, and increased foreign currency inflows into the Azerbaijani economy. At the same time, these global trends contributed to high inflationary pressures in the country.

However, with inflation at multi-decade highs in many countries, policymakers in advanced economies have pivoted toward tightening of their monetary policies through reduction of their balance sheets and aggressive interest rate hikes. In the event of global recession, which might be triggered by such tightening, demand for hydrocarbons may fall, which could negatively impact Azerbaijan economy and the Group.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

38. Contingencies, commitments and operating risks (continued)

Operating environment (continued)

International credit rating agencies regularly evaluate the credit rating of the Azerbaijan Republic and the Group. Fitch evaluated the rating of the Group and the rating of the Azerbaijan Republic as "BB+", and S&P evaluated the Azerbaijan Republic with "BB+" and the Group rating with "BB-". Moody's Investors Service set a "Ba1" credit rating for Azerbaijan and for the Group as at 31 December 2022.

The Turkish economy

The Group's activities in Türkiye were affected by the instability of Turkish economy during 2022, significant inflation and devaluation of local currency against major foreign currencies. As such, the Turkish Lira (TL) devaluated against main currencies, including AZN by 32 per cent throughout 2022.

The Turkish Statistical Institute reported a 3-year and 12-month cumulative rate of inflation of 109 per cent and 61 per cent, respectively, as of March 2022. Since that date Türkiye met the criteria for hyperinflationary economy. Three-year cumulative increase in CPI as of June 2022 increased to 136 per cent, as per data published on 4 July 2022. Therefore, management considered Türkiye to be hyperinflationary as at 31 December 2022.

Türkiye's economy showed signs of recovery from inflation towards the end of 2022, as inflation growth rate slowed. The economic activity grew thanks to increased aggregate domestic demand and exports.

Gross domestic product (GDP) increased by 3.5 per cent during 2022.

The Georgian economy

Georgia displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. Tax, currency and customs legislation are subject to varying interpretations and contribute to the challenges faced by companies operating in Georgia.

During 2022, Georgian economy continued to recover following the program implemented by the Government of Georgia, "Toward Building a European State" published in December 2020, which covers the period of 2021-2024. The program outlines economic policy priorities to enable the country to quickly recover and return to its economic position prior to the pandemic.

The Group's management is monitoring changes in macroeconomic environment and taking precautionary measures which, it considers necessary to support the sustainability and development of the Group's business in the foreseeable future. The Group considers its current liquidity position to be sufficient for its sustainable functioning and monitors its liquidity position on a daily basis.

The military conflict between Russia and Ukraine

As of the reporting date, the Group had subsidiaries in the Russian Federation and Ukraine.

As of 31 December 2022, the total assets and the liabilities of the subsidiary located in the Russian Federation amounted AZN 176 and AZN 152, respectively. The assets mainly comprised trade receivables and inventories. The liabilities mainly comprised trade payables and short-term borrowings.

The Group had other balances with third parties in the Russian Federation as of 31 December 2022, which mainly comprised loans payable to Russian banks in total amount of AZN 1,915.

The total assets and the liabilities of the subsidiary located in Ukraine amounted AZN 211 AZN and AZN 146 as of 31 December 2022, respectively. The assets mainly comprised trade receivables, property, plant and equipment, right-of-use assets and inventories. The liabilities mainly comprised trade payables, contract liabilities and short-term borrowings.

The Group had other balances with third-parties in Ukraine as of 31 December 2022, which mainly comprised balance receivable from one third-party in an amount of AZN 73 for which 100 per cent ECL allowance was created.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

38. Contingencies, commitments and operating risks (continued)

Operating environment (continued)

On 24 February 2022 a military conflict emerged between Russia and Ukraine. Following this, a number of western and other countries began applying sanctions to Russian economy. The sanctions were wide-ranging, targeting banks, businesses, monetary exchanges, bank transfers, exports, and imports. Since the start of the conflict, there has been a significant decline in values of Russian equity and debt securities in Russian and especially in foreign markets.

Despite the severity of sanctions, the decline in Russian economy has so far been slower than initially expected, which was backed by increased oil and gas prices – a major revenue source for Russia.

The economy in Ukraine has suffered during the year ended 31 December 2022 due to migration of human capital, disruptions in transportation networks and increased focus on military production. Inflation accelerated rapidly, reaching an annual rate of 26.6 per cent in December 2022.

Prior to the war, Russia and Belarus accounted for major part of the imports of fuel in Ukraine. Disruption of these supplies led to a temporary deficit of fuel, especially for retail sales, in Ukraine.

The repercussions of the war are expected to persist, with the economy scarred by significantly reduced productive capacity, damage to arable land, and reduced labour supply.

The Group incorporated its best estimates of the effects related to the war to its impairment, expected credit loss and fair value assessments as at 31 December 2022.

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

Environmental matters

The enforcement of environmental regulation in the Azerbaijan Republic is evolving, and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately.

Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage above environmental obligation provision currently made by the Group (Note 24).

The Group is subject to numerous national and local environmental laws and regulations concerning its products, operations and other activities. These laws and regulations may require the Group to take future action to remediate the effects on the environment of prior disposal or release of chemicals or petroleum substances by the Group or other parties. The Group is monitoring its activities over the environment in order to avoid compliance risks in terms of fines. Such contingencies may exist for various sites including refineries, chemical plants, oil fields, service stations, terminals and waste disposal sites. In addition, the Group may have obligations relating to prior asset sales or closed facilities. The ultimate requirement for remediation and its cost is inherently difficult to estimate. However, the estimated cost of known environmental obligations has been provided in the consolidated financial statements in accordance with the Group's accounting policies.

While the amounts of future costs could be significant and could be material to the Group's results of operations in the period in which they are recognised, it is not practical to estimate the amounts involved. The Group does not expect these costs to have a material effect on the Group's financial position or liquidity.

The Group also has obligations to decommission oil and natural gas production facilities and related pipelines. Provision is made for the estimated costs of these activities, however there is uncertainty regarding both the amount and timing of these costs, given the long-term nature of these obligations (Note 24).

The Group believes that the impact of any reasonably foreseeable changes to these provisions on the Group's results of operations, financial position or liquidity will not be material.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

38. Contingencies, commitments and operating risks (continued)

Risks and opportunities associated with climate change

Within the framework of its corporate risk management and internal control systems, the Group on an annual basis identifies and evaluates threats and opportunities related to climate change's impact on its business activities. In the process of investment decision-making, the risks associated with health, safety and environment (HSE), ecology, and climate change are analysed.

For large projects, the analysis of the alignment with the Group's strategic goals, environmental standards and requirements of Azerbaijan and international legislation, as well as the analysis and assessment of external risks related to the impact on the environment (changes in legislation, changes in technologies, market risks, reputation risks, etc.) is performed. In addition, the risks and opportunities associated with climate change and the transition to low-carbon energy are considered in the Group's long-term strategic management and business planning processes.

Tax legislation

Azerbaijan tax, currency and customs legislation is subject to varying interpretations, and changes, which may occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

Fiscal periods remain open to review by the tax authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances such reviews may cover longer periods.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained, and potential tax liabilities of the Group will not exceed the amounts recorded in these consolidated financial statements. Accordingly, as of 31 December 2022 and 31 December 2021, no provision for potential tax liabilities had been recorded.

Legal proceedings

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

Legal proceedings related to gas purchase

According to the terms of gas purchase agreements, the Group's suppliers importing natural gas to Türkiye have the right to charge the Group with retrospective price adjustments, in case if certain contractual conditions are met. At 31 December 2022, the Group's maximum exposure to the contractual obligations is AZN 71 (31 December 2021: AZN 71). No provision is recognised in respect of these liabilities in the consolidated statement of financial position as of 31 December 2022 and 31 December 2021.

Compliance with financial covenants

At 31 December 2022, the Group had loans payable in total amount of AZN 18,880 which were received for financing its investing and operating activities. The Group is subject to certain financial covenants related to these borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. Management believes that, as at 31 December 2022 and 31 December 2021, the Group was in compliance with all applicable financial covenants (31 December 2021: AZN 21,366).

Financial guarantees, collaterals, pledges and mortgages

The Group pledged its future cash inflows in respect of proceeds to be received from sales of natural gas and crude oil in the amount of AZN 172 for loan received from the related party (31 December 2021: AZN 287).

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

38. Contingencies, commitments and operating risks (continued)

Financial guarantees, collaterals, pledges and mortgages (continued)

SOCAR Head Office

According to Equity Subscription Support and Retention Agreement ("ESSRA") which had been signed as part of STAR Project Finance deal, the Group concluded letter of credit ("LC") facility agreements in total amount of AZN 749 (USD 441 million) with certain banks (31 December 2021: AZN 1,090 (USD 641 million)) (Note 6).

STEAS

The following table demonstrates guarantees received and given by the Group related to STEAS:

	31 December 2022	31 December 2021
Guarantees received		
Bank guarantees within the context of direct order collection system (DOCS)	329	348
Receivable Insurance	823	525
Letters of guarantee received from customers	340	274
Letters of credit received	2	33
Letters of guarantee received from suppliers	87	108
Other	3	4
Total guarantees received	**1,584**	**1,292**
Guarantees given		
Letters of guarantee given	134	91
Total guarantees given	**134**	**91**
Collaterals, pledges and mortgages (CPMs)		
CPMs given by Petkim on Petlim loan*	280	316
CPMs given for Petkim	40	381
Total CPMs given by Petkim	**320**	**697**

* *During 2015, Petlim Limancılık Ticaret A.Ş., where Group subsidiary Petkim owns 70 per cent shares, has signed a project finance credit agreement with a financial institution in the amount of AZN 360 (USD 212 million) which has 13 years of maturity with no repayment during first 3 years period, for the external funding of the container port project. Petkim pledged its shares in Petlim amounting to AZN 11 (TRY 105 million) and a mortgage amounting to AZN 595 (USD 350 million) as a guarantee for the loan repayment when the loan was obtained. At 31 December 2022, Petlim had remaining loan balance amounting to AZN 280 (USD 165 million). The project has financial covenants that are valid during the operating period.*

SOCAR Trading Holding

As at 31 December 2022, SOCAR Trading Holding had pledged certain assets in the amount of AZN 2,275 (31 December 2021: AZN 2,010) against letters of credit issued by banks in favour of SOCAR Trading Holding for the purchase of oil and oil products. The pledged assets were mainly represented by trade receivables and inventories.

Capital commitments

Participating interest in ACG PSA

Azerbaijan International Operating Company, the Operator of the ACG PSA has entered into a number of capital commitments as of 31 December 2022. The Group estimated its 25 per cent (31 December 2021: 25 per cent) share of these commitments to be AZN 806 (USD 474 million) (31 December 2021: AZN 1,222 (USD 719 million).

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

38. Contingencies, commitments and operating risks (continued)

Capital commitments (continued)

Commitments of SOCAR Switzerland

The Group has a number of capital commitments for the next years. The Group estimated its capital commitments to be AZN 42 (CHF 23 million) (31 December 2021: AZN 20 (CHF 11 million)).

Commitments related to participating interest in AGSC

The Group holds 31.48 per cent direct interest in AGSC and indirect 2.62 per cent through its associate. In accordance with the agreements of AGSC the Group has 17.6 per cent share of the following commitments relating to AGSC's activity.

BOTAS Rollover GSA

On 30 September 2021, AGSC and BOTAŞ executed a new gas sale and purchase agreement with respect to the sale by AGSC to BOTAŞ at Georgia-Türkiye border of certain volumes of Gas which became uncontracted following the expiry of the BOTAŞ SPA1 (0.64 BCcm first partial delivery year, 2.55 BCcm second delivery year and 3.7 BCcm plateau period until the end of 2024).

BOTAS SPA 2

On 25 October 2011, the Group and BOTAS executed a gas Sale and Purchase Agreement ("BOTAS SPA 2") with respect to the sale by the Group to BOTAS of certain volumes of Stage 2 Shah Deniz Gas (2 BCcm first year, 4 BCcm second year, 6 BCcm plateau period). In December 2012 the Group transferred and assigned the rights and obligations under BOTAS SPA 2 to AGSC. The commencement date under BOTAS SPA 2 was on 30 June 2018.

BOTAS contract for BTC fuel gas (BIL GSA)

AGSC is obliged under the Natural Gas Sales and Purchase Contract with BOTAŞ, dated 25 October 2011 ("BIL SPA") to make available 0.15 BCcm of gas annually, at a price which is calculated based on formula established in the contract.

Sale and purchase agreement with OptionCo

AGSC is obliged under the agreement for the Sale and Purchase of Natural Gas with Option-Co, dated 27 February 2003 ("Back-to-Back Georgian Option Gas SPA") to make available 0.83 billion Standard Cubic Meters (bcm) of gas during the contract year starting on 1 October 2022 and ending on 30 September 2023. Thereafter, AGSC is obliged to deliver during a contract year, which starts on 1 October a maximum of five per cent of the volumes transported by AGSC through Georgia to Türkiye via the South Caucasus pipeline in the previous calendar year, at a price which is calculated based on a formula established in the contract.

Georgian Supplemental Gas SPA with GOGC

AGSC is obliged under the agreement for the Sale and Purchase of Supplemental Gas signed with Georgian Oil and Gas Corporation ("GOGC") and the Government of Georgia, dated 30 October 2003 ("Georgian Supplemental Gas SPA") to make available 0.5 bcm of gas in 2023 annually until end of 2026, at a price which is calculated based on a formula established in the contract.

Shah Deniz Stage 2 EU Long term Gas Sales Agreements ("GSA")

In September 2013, several EU GSAs were signed by the Group with EU Buyers (currently: DEPA, Bulgargaz Shell, Uniper, Axpo, ENGIE, Edison, Enel, Hera) and in December 2013 the GSAs were assigned to AGSC until Shah Deniz PSA expiry with re-assignment to the Group as Shah Deniz Production declines.
The commencement date for DEPA, Uniper, Shell (1st contract), Axpo (two contracts) and Bulgargaz GSAs was 31 December 2020 whereas the commencement dates for Hera, Enel and Edison was further in 2021. The commencement dates under ENGIE and Shell for the 2nd contract was on 1 June 2021 (12 month Build-up period with zero delivery was nominated under these two GSAs).

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

38. Contingencies, commitments and operating risks (continued)

Commitments related to participating interest in AGSC (continued)

Transportation agreement with SCP

AGSC is party to SCP Gas Transportation Agreement ("GTA"), dated 27 February 2003 which was subsequently amended and re-stated ("SCP GTA") with effect from 17 December 2013 in order to provide additional transportation services in respect of Shah Deniz Stage 2 volumes. AGSC is obliged to pay certain tariffs, as calculated in accordance with the agreement, to SCP starting from the commencement date, which is 1 October 2006. AGSC is obliged to provide SCP, free of charge, the natural gas necessary to fill and pressurise the pipeline to its designed operating pressure and used as fuel gas. The SCP GTA provides for Minimum Monthly Payments ("MMP"), as calculated in accordance with the subject agreement, payable by AGSC to SCP, regardless of whether natural gas is shipped or not, in respect of each contract year until the termination or expiry of the GTA.

Framework agreement

A fully-termed Framework Agreement related to the novation of long-term GSAs and transfer of GTA capacity from AGSC to the Group after 2036 was executed on 19 October 2015 and further amended and restated on 28 September 2018.

Trans Anatolian Pipeline Gas Transportation Agreement (TANAP GTA)

AGSC is a party to TANAP GTA with annual reserved capacity as defined in the contract. The commencement date under the GTA was 1 July 2020. Physical commercial deliveries of natural gas started on 31 December 2020.

Trans Adriatic Pipeline Gas Transportation Agreements (TAP GTAs)

AGSC and the Group are parties to TAP GTAs with annual capacity as defined in the contracts. The actual commercial operations date was 15 November 2020. Physical commercial deliveries of natural gas started on 31 December 2020.

Societa Nazionale Metanodotti GTA (SNAM GTA)

AGSC is a party to SNAM GTA with annual reserved capacity as defined in the contract. The start date (as well as physical commercial deliveries of natural gas) was 31 December 2020.

BTC SPA

AGSC is obliged under the Fuel Gas Sales and Purchase Agreement between AGSC and BTC, dated 30 November 2007 ("BTC SPA") to make available 0.15 BScm in 2023 and during the following years until the termination of the contract subject to the right of BTC to reduce annual off-take, at a price which is calculated based on a formula established in the contract.

TAP Operational Gas Sales Agreement

In accordance with the TAP Operational Gas Sales Agreement ("TAP OGSA"), AGSC is obliged to deliver up to 2,000,000 MWh gas volumes necessary for operations of the TAP transportation system until 1 October 2023.

Azeri SPA

AGSC was obliged under the agreement for the Sale and Purchase of Gas between AGSC and the Group, dated 27 February 2003 ("Azeri SPA") to make available a minimum of approximately 1.5 BScm in 2023 and subsequent periods at a price calculated based on the formula established in the agreement.

Azerbaijan Rollover GSA

On 16 April 2021, AGSC and the Group entered into a new Gas Sales and Purchase Agreement concerning the sales by AGSC and purchase by the Group of certain volumes of Shah Deniz Gas at a price calculated based on the formula established in the agreement (3.0 BCcm in all delivery years, except 3.8 BCcm in 2022).

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

38. Contingencies, commitments and operating risks (continued)

Commitments related to participating interest in AGSC (continued)

Novation of SOCAR SPA and SOCAR Rollover GSA from SOCAR to Azerkontrakt

The Government of Azerbaijan has appointed The State Contract Corporation of the Republic of Azerbaijan "Azerkontrakt" Open Joint-Stock Company ("Azerkontrakt"), a state company established in accordance with the laws of the Republic of Azerbaijan and wholly owned by the State of the Republic of Azerbaijan, as the entity responsible for buying and selling natural gas for the domestic market in accordance with the Resolution of the Cabinet of Ministers No. 513 dated 28 December 2020. In order to fulfil the instructions of the Government with this respect and to comply with the Resolution of the Cabinet of Ministers, the Group novated all of its rights and obligations under the Azeri SPA and Azerbaijan Rollover GSA to Azerkontrakt with effect from 11 June 2021.

Condensate SPA

AGSC and the Group are parties to the Condensate Sale and Purchase Agreement dated 27 February 2003. The parties had entered into the agreement dated 18 January 2008 to suspend the Condensate SPA (Suspension LA). On 16 April 2021, the Suspension LA was terminated and AGSC and the Group entered into the Condensate SPA Amendment, to allow the title to the Group's share of Shah Deniz condensate to pass to AGSC for further sale at Ceyhan marine terminal, which granted AGSC, inter alia, the right to set-off the condensate sales proceeds due to the Group under the Condensate SPA against amounts payable by the Group to AGSC under the Azerbaijan Rollover GSA, the Azeri SPA and SOCAR Gas Delivery Agreement. On the same date, AGSC appointed SOCAR Marketing and Operations as AGSC's agent to market and sell, for and on behalf of AGSC, condensate purchased from the Group under the Condensate SPA.

Deferred Sale and Purchase Agreement with SGC

According to Deferred Sale and Purchase Agreement ("DSPA") signed with SGC Upstream LLC and SGC Midstream LLC the Group agrees to sell its whole interest in Shah Deniz PSA, AGSC and SCP in March 2023 upon meeting of the following conditions preceding sale:

- The full and unconditional repayment of the notes and fulfilment of other obligations under the Eurobonds agreements by SOCAR;
- Confirmation of the payment of full consideration amount in accordance with agreement terms.

Commitment of Azerigas PU

Based on Presidential Decree number 118 dated 27 February 2014, directed to social-economic development of Baku area and regions of the Azerbaijan Republic, Azerigas PU has certain commitments with respect to gasification in the mentioned areas. After completion of the first gasification program which covered the period from 2014 to 2018, the Group continues the gasification process within implementation of new "State Program on Socio-Economic Development of Regions of the Republic of Azerbaijan for 2019-2023 years". As at 31 December 2022 gasification in the country was completed by 96.29 per cent (31 December 2021: 96.26 per cent).

Management believes that expenditures related to remaining gasification in the country will continue to be financed by the Government through contributions to equity.

SCA Condensate SPA

On 27 May 2022 AGSC and Azerbaijan (Shah Deniz) Limited, the Group's affiliate, executed a new Condensate Sale and Purchase Agreement to allow the title to condensate attributable to 4.35 per cent of the Azerbaijan (Shah Deniz) Limited participating interest in Shah Deniz PSA to pass to AGSC for further sale at Ceyhan marine terminal, which granted AGSC, inter alia, the right to set-off the condensate sales proceeds due to Azerbaijan (Shah Deniz) Limited, under SCA Condensate SPA against amounts payable by the Group to AGSC under the SOCAR Gas Delivery Agreement.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

38. Contingencies, commitments and operating risks (continued)

Other commitments

Oil shipment commitment

On 1 August 2002 the Group and other participants under the ACG PSA (the "Shipper Group") entered into the ACG Field Production Transportation Agreement ("ACG TA") with the BTC Co which was amended on 3 February 2004. Under this Agreement, the Shipper Group have committed to ship all of their crude oil entitlement through the BTC Pipeline from the ACG field, other than any product that each participant may ship through the Western Export Route. The Group has agreed not to transport its crude oil by rail unless BTC Co is operating at its full capacity. By ACG TA the Group has agreed not to use other transportation options if the capacity of the BTC Co is sufficient.

The BTC Pipeline was put into operation in May 2006. The BTC Pipeline, with a throughput capacity of more than 1,200,000 barrels per day, is used as the Shipper Group's main export route. In accordance with the Transportation Agreement, the Shipper Group, the Group representative, the lenders and security trustee to BTC Co, and the lenders and security trustee to certain participants of the ACG Shipper Group have agreed that payment of BTC Co tariff has a first priority claim on oil sale proceeds.

Commitment of SOCAR Ukraine

► *Inventory*

The Group had short-term contractual obligations on the purchase of inventory in the amount of AZN 23 (UAH 501 million) as of 31 December 2022 (31 December 2021: AZN 574 (UAH 9,183 million)).

► *Tax legislation*

The Group has identified possible tax and legal contingencies which, based on management best estimates, are not required to be accrued. Such contingencies may materialise and require the Group to pay additional amount of taxes and other withholdings. As at 31 December 2022, management estimates such contingencies not to exceed AZN 11 (UAH 247 million).

Commitment under crude supply agreement relating to the STAR Refinery

► *Crude supply*

On 29 May 2014 SOCAR and Star Refinery signed Crude Supply Agreement for sales and delivery of crude oil to STAR Refinery. According to the agreement, SOCAR has a commitment for providing STAR Refinery crude feedstock requirement from the commencement of the agreement. In the event of a supply shortfall, SOCAR shall be liable to pay any excess costs reasonably incurred by STAR Refinery. Such cash outflows can be probable in case disrupted crude supply has operational or economic impact on STAR.

► *Product offtake & Standby product offtake*

SOCAR has an obligation to purchase naphtha and mixed xylenes produced at the STAR Refinery at market prices. The other oil products, however, should be sold by STAR Refinery in Turkish market. In case if STAR Refinery cannot realise those products in Turkish market, then SOCAR shall buy those products and resell them either in Turkish or international markets. Prices payable by SOCAR to STAR Refinery for those products will based on market prices. Also, SOCAR is not penalised for the failure to accept required volumes for the full price of not taken volumes of shortfall products. Rather, any damages payable by SOCAR are limited to marginal losses incurred by STAR Refinery from SOCAR's failure to accept shortfall products.

Gas sales in the Azerbaijan Republic

According to the Decree No 513 of the Cabinet of Ministers of the Republic of Azerbaijan dated on 28 December 2020, total volumes of the natural gas extracted by Azneft PU and PSAs ("SOCAR Gas Producers") should be sold to the state-owned company, Azerkontrakt OJSC after fulfilling the export commitments according to the approved State Energy Balance.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

39. Business combination, goodwill and intangible asset with indefinite useful life

Goodwill and intangible assets with indefinite useful lives

For impairment testing goodwill acquired through business combinations and intangible assets with indefinite useful lives were allocated to CGUs at 31 December 2022 and 2021 as following:

	SOCAR Trading		SOCAR Energy Holdings AG		Petkim		Other	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Goodwill	106	106	128	129	135	24	22	25
Trade name	–	–	–	–	48	10	–	–

Movement in the carrying amount of goodwill was as follows:

	2022	**2021**
Carrying amount at 1 January	**284**	**313**
Translation difference	108	(27)
Other	(1)	(2)
Carrying amount at 31 December	**391**	**284**

The carrying amounts of goodwill as of 31 December 2022 and 2021 included an accumulated goodwill impairment of AZN 4 and AZN 4, respectively.

Testing of the carrying value of goodwill and trade name related to Petkim

The carrying value of the goodwill and trade name at 31 December 2022 was tested for impairment through stock exchange market value. If the share price had been 1 per cent higher / lower than management's estimate, the aggregate amount of recoverable amount would have been AZN 46 higher / AZN 46 lower, respectively. As a result of the sensitivity analysis, no reasonably possible impairment charge was identified.

Testing of the carrying value of goodwill related to acquisition of SOCAR Energy Holdings AG

The carrying value of the goodwill at 31 December 2022 was tested for impairment through comparison with its recoverable amount. Based on the value-in-use calculations of SOCAR Energy Holdings AG and its subsidiaries, recoverable amount was equal to AZN 961 as of 31 December 2022. Pre-tax cash flows projections used for this purpose are based on the business plan approved by management covering 5-year period. Management believes that the underlying cash flows projections represent accurate and reliable forecast. Cash flow projections beyond 5-year period are extrapolated by terminal growth rates of 1.5 per cent and then discounted to their net present value, applying WACC, used as a discount rate of 6 per cent (31 December 2021: 6 per cent). As a result of the test performed, no impairment has been identified. Valuation exercise is highly sensitive to WACC and terminal growth rate.

If the estimated discount rate used in the calculation had been 1 per cent higher/lower than management's estimate, the value in use would have been AZN 177 lower / AZN 280 higher, respectively.

If the terminal growth rate used in the calculation had been 0.25 per cent higher/lower than management's estimate, the value in use would have been AZN 48 higher / AZN 42 lower, respectively.

As a result of the sensitivity analysis, no reasonably possible impairment charge was identified.

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

39. Business combination, goodwill and intangible asset with indefinite useful life (continued)

Testing of the carrying value of goodwill related to acquisition of SOCAR Trading

The carrying value of the goodwill at 31 December 2022 was tested for impairment through comparison with its recoverable amount. Based on the value-in-use calculations of SOCAR Trading and its subsidiaries, recoverable amount was equal to AZN 848 as of 31 December 2022. Pre-tax cash flows projections used for this purpose are based on the business plan approved by management covering 5-year period. Management believes that the underlying cash flows projections represent accurate and reliable forecast. Cash flow projections beyond 5-year period are extrapolated by terminal growth rates of 1 per cent and then discounted to their net present value, applying WACC, used as a discount rate of 12 per cent (2021: 12 per cent). As a result of the test performed, no impairment has been identified. Valuation exercise is highly sensitive to WACC and terminal growth rate.

If the estimated discount rate used in the calculation had been 0.25 per cent higher/lower than management's estimate, the value in use would have been AZN 18 lower / AZN 19 higher, respectively.

If the terminal growth rate used in the calculation had been 0.25 per cent higher/lower than management's estimate, the value in use would have been AZN 11 higher / AZN 11 lower, respectively.

As a result of the sensitivity analysis, no reasonably possible impairment charge was identified.

40. Material partly-owned subsidiaries

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

Name	Country of incorporation	Country of Operation	2022	2021
Petkim	Türkiye	Türkiye	49%	49%
SOCAR Polymer LLC	Azerbaijan	Azerbaijan	43%	43%

Accumulated balances of material non-controlling interests:

Name	2022	2021
Petkim	948	768
SOCAR Polymer LLC	138	166

(Loss)/profit allocated to material non-controlling interests:

Name	2022	2021
Petkim	(68)	458
SOCAR Polymer LLC	(28)	23

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations:

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

40. Material partly-owned subsidiaries (continued)

Summarised statement of profit or loss and other comprehensive income for 2022:

	Petkim	SOCAR Polymer LLC
Revenue	5,413	351
Cost of sales	(5,359)	(260)
General and administrative expenses	(133)	(15)
Distribution expenses	(56)	(19)
Other operating income	24	–
Other operating expense	(14)	(30)
Interest revenue calculated using effective interest method	95	–
Finance costs	(183)	(88)
Foreign exchange gain/(loss), net	29	(1)
Monetary loss	(101)	–
Loss before tax	**(285)**	**(62)**
Income tax benefit/(expense)	146	(3)
Loss for the year from continuing operations	**(139)**	**(65)**
Other comprehensive income to be reclassified to profit or loss in subsequent periods	526	–
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods	(18)	
Total comprehensive income/(loss)	**369**	**(65)**
Attributable to non-controlling interests	181	(28)
Dividends declared to non-controlling interests	(1)	–

Summarised statement of profit or loss and other comprehensive income for 31 December 2021:

	Petkim	SOCAR Polymer LLC
Revenue	5,639	479
Cost of sales	(4,385)	(314)
General and administrative expenses	(116)	(15)
Distribution expenses	(58)	(20)
Other operating income	18	2
Other operating expense	(20)	(38)
Finance costs	(53)	(42)
Foreign exchange gain	116	–
Profit before tax	**1,141**	**52**
Income tax (expense)/benefit	(206)	2
Profit for the year from continuing operations	**935**	**54**
Other comprehensive loss to be reclassified to profit or loss in subsequent periods	(1,045)	–
Total comprehensive (loss)/income	**(110)**	**54**
Attributable to non-controlling interests	(54)	23
Dividends declared to non-controlling interests	(2)	–

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

40. Material partly-owned subsidiaries (continued)

Summarised statement of financial position as at 31 December 2022:

	Petkim	SOCAR Polymer LLC
Current assets	**3,152**	**193**
including:		
Cash and cash equivalents	1,205	25
Trade and other receivables	485	37
Inventories	421	106
Other current assets	1,041	25
Non-current assets	**2,024**	**1,183**
including:		
Property, plant and equipment	1,856	1,063
Intangible assets	20	20
Other non-current assets	148	100
Current liabilities	**(2,837)**	**(24)**
including:		
Short-term borrowings and current portion of long-term borrowings	(2,330)	–
Lease liability, current	(8)	–
Trade and other payables	(429)	(24)
Other current liabilities	(70)	–
Non-current liabilities	**(403)**	**(1,030)**
including:		
Long-term borrowings	(242)	(980)
Deferred income	(76)	–
Other provisions for liabilities and charges	(47)	–
Deferred tax liabilities	(5)	(48)
Lease liability, non-current	(33)	(2)
Total equity	**(1,936)**	**(322)**
Attributable to:		
Equity holders of parent	(988)	(184)
Non-controlling interests	(948)	(138)

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

40. Material partly-owned subsidiaries (continued)

Summarised statement of financial position as at 31 December 2021:

	Petkim	SOCAR Polymer LLC
Current assets	**2,606**	**167**
including:		
Cash and cash equivalents	487	2
Trade and other receivables	702	70
Inventories	473	84
Other current assets	944	11
Non-current assets	**1,343**	**1,256**
including:		
Property, plant and equipment	1,134	1,150
Intangible assets	125	23
Other non-current assets	84	83
Current liabilities	**(1,018)**	**(44)**
including:		
Short-term borrowings and current portion of long-term borrowings	(374)	–
Lease liability, current	(9)	–
Trade and other payables	(544)	(44)
Other current liabilities	(91)	–
Non-current liabilities	**(1,363)**	**(992)**
including:		
Long-term borrowings	(1,191)	(950)
Deferred income	(81)	–
Other provisions for liabilities and charges	(29)	–
Deferred tax liabilities	(27)	(40)
Lease liability, non-current	(35)	(2)
Total equity	**(1,568)**	**(387)**
Attributable to:		
Equity holders of parent	(800)	(221)
Non-controlling interests	(768)	(166)

Summarised cash flow information for year ended 31 December 2022:

	Petkim	SOCAR Polymer LLC
2022		
Operating	48	187
Investing	(449)	(5)
Financing	982	(158)
Net foreign exchange difference on cash and cash equivalents	137	(1)
Net increase in cash and cash equivalents	**718**	**23**

Summarised cash flow information for year ended 31 December 2021:

	Petkim	SOCAR Polymer LLC
2021		
Operating	516	111
Investing	(224)	(4)
Financing	(684)	(118)
Net foreign exchange difference on cash and cash equivalents	(389)	–
Net decrease in cash and cash equivalents	**(781)**	**(11)**

(Amounts presented are in millions of Azerbaijani manats, unless otherwise stated)

41. Events after reporting date

Sale of interest in Shah Deniz PSA, SCP and SCP Hold Co

On 31 March 2023, the Group transferred its 14.35 per cent participation interest in SD PSA to SGC Upstream LLC. On the same date, the Group transferred its 14.35 per cent equity interest in SCP and SCP Hold Co to SGC Midstream LLC.

Borrowings

Subsequent to reporting period, the Group repaid its outstanding borrowings in the amount of AZN 6,728 to several local and international banks. The amount included bond repayments of AZN 2,550.

Subsequent to reporting date, the Group obtained new long-term and short-term loans in the amount of AZN 3,857 from financial institutions.