Azərbaycan Respublikasının Dövlət Neft Şirkəti

2022-ci il üzrə

Yarımillik 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, ev 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;	47,740 (qırx yeddi min yeddi yüz qırx) 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 Xoşbəxt Yusifzadə Birinci vitse-prezident Süleyman Qasımov Vitse-prezident - iqtisadi məsələlər üzrə Elşad Nəsirov Vitse-prezident - sərmayələr və marketinq üzrə Bədəl Bədəlov Vitse-prezident - sosial məsələlər üzrə Xalik Məmmədov Vitse-prezident - kadr, rejim və informasiya texnologiyaları üzrə Daşqın İskəndərov Vitse-prezident - neftin, qazın nəqli və qaz təsərrüfatı məsələləri üzrə Rəfiqə Hüseynzadə Vitse-prezident - ekologiya üzrə Yaşar Lətifov Vitse-prezident - yataqların işlənməsi üzrə Kənan Nəcəfov Vitse-prezident Zaur Qurbanov 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
19. Yarımillik 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

Interim condensed consolidated financial statements

30 June 2022

Contents

Ernst & Young Holdings (CIS) B.V.
Port Baku Towers Business Centre
South Tower, 9th floor,
153, Neftchilar Ave.
Baku, AZ1010, Azerbaijan
Tel: +994 (12) 490 70 20
Fax: +994 (12) 490 70 17
www.ey.com/az

Ernst & Yanq Holdinqs (SiAyEs) Bi.Vi.
Port Baku Tauers Biznes Mərkəzi
Cənub Qülləsi, 9-cu mərtəbə
Neftçilər prospekti, 153
Bakı, AZ1010, Azərbaycan
Tel: +994 (12) 490 70 20
Faks: +994 (12) 490 70 17

Report on Review of Interim Financial Information

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of the State Oil Company of the Azerbaijan Republic (the "Company") and its subsidiaries (the "Group"), which comprise the interim consolidated statement of financial position as at 30 June 2022 and the related interim consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young Holdings (CIS) B.V.

28 October 2022

Baku, Azerbaijan

Interim condensed consolidated statement of financial position

As at 30 June 2022

(Amounts presented are in millions of Azerbaijani Manats)

	Note	30 June 2022 Unaudited	31 December 2021 Audited
Assets			
Current assets			
Cash and cash equivalents	5	10,432	9,012
Restricted cash	6	380	248
Deposits	5	584	614
Trade and other receivables	7	12,409	9,418
Inventories		3,183	2,839
Assets held for sale	16	5,604	192
Other current financial assets		2,380	1,558
Other current assets		56	59
Total current assets		**35,028**	**23,940**
Non−current assets			
Property, plant and equipment	8	29,009	30,901
Goodwill		485	284
Intangible assets other than goodwill		1,016	671
Investments in joint ventures	9	5,825	5,024
Investments in associates	9	3,899	4,228
Right−of−use assets		916	807
Deferred tax assets		853	936
Other non−current financial assets		2,929	1,975
Other non−current assets	10	609	591
Total non−current assets		**45,541**	**45,417**
Total assets		**80,569**	**69,357**
Equity			
Charter capital	15	4,748	4,748
Additional paid−in capital	15	5,314	5,291
Retained earnings		10,751	6,353
Other capital reserves		(90)	(100)
Gain on sale/purchase of subsidiary share		(205)	(205)
Cumulative translation differences		7,653	5,798
Equity attributable to equity holders of the Group		**28,171**	**21,885**
Non−controlling interests		1,228	865
Total equity		**29,399**	**22,750**

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

Interim condensed consolidated statement of financial position (continued)

(Amounts presented are in millions of Azerbaijani Manats)

	Note	30 June 2022 Unaudited	31 December 2021 Audited
Liabilities			
Current liabilities			
Trade and other payables	11	14,360	11,049
Short-term and current portion of long-term borrowings	12	7,380	5,865
Advances received for the sale of interest in PSA and associate	16	5,270	–
Contract liabilities	11	833	657
Corporate income tax payable		674	518
Taxes payable		666	840
Liabilities directly associated with the assets held for sale	16	631	83
Current lease liabilities		193	208
Deferred acquisition consideration payable		130	202
Other provisions for liabilities and charges	13	69	76
Other current financial liabilities		1,484	810
Total current liabilities		**31,690**	**20,308**
Non-current liabilities			
Long-term borrowings	12	12,408	15,501
Advances received for the sale of interest in PSA and associate		–	4,308
Deferred tax liabilities		2,192	1,688
Asset retirement obligations	13	1,173	2,066
Non-current lease liabilities		845	858
Deferred acquisition consideration payable		526	610
Other provisions for liabilities and charges	13	16	15
Deferred income	14	70	65
Other non-current liabilities		2,250	1,188
Total non-current liabilities		**19,480**	**26,299**
Total liabilities		**51,170**	**46,607**
Total liabilities and equity		**80,569**	**69,357**

Approved for issue and signed on behalf of the Group on 28 October 2022.

AZƏRBAYCAN RESPUBLİKASININ DÖVLƏT NEFT ŞİRKƏTİ
SOCAR

Mr. Rovshan Najaf
President

Mr. Suleyman Gasymov
Vice-President for Economic Affairs

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

Interim condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 June 2022

(Amounts presented are in millions of Azerbaijani Manats)

	Note	Six months ended 30 June 2022 Unaudited	Six months ended 30 June 2021 Unaudited
Revenue	17	60,328	35,794
Cost of sales		(53,310)	(31,793)
Gross profit		**7,018**	**4,001**
General and administrative expenses		(856)	(684)
Distribution expenses		(1,423)	(717)
Social expenses		(62)	(179)
Exploration and evaluation expenses		(3)	(3)
Gains on disposals of property, plant and equipment and other gains net of losses		3	15
Expected credit loss (ECL)		(82)	(46)
Other operating expenses		(251)	(721)
Other operating income		422	239
Operating profit		**4,766**	**1,905**
Interest revenue calculated using effective interest method		186	104
Other finance income		−	13
Finance costs	18	(810)	(595)
Foreign exchange gains and losses, net		(93)	(246)
Gain on net monetary position		90	−
Share of result of joint ventures		834	(230)
Share of result of associates		446	187
Profit before income tax		**5,419**	**1,138**
Income tax expenses	20	(795)	(535)
Profit for the period		**4,624**	**603**
Other comprehensive income/(expense)			
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods − currency translation differences		2,207	(287)
Other comprehensive (expense)/income not to be reclassified to profit or loss in subsequent periods – (expense)/income on investments at FVOCI		(23)	9
Share of other comprehensive income of joint ventures and associates to be reclassified to profit or loss in subsequent periods – income from cash flow hedges		37	11
Other comprehensive income/(loss) for the period		**2,221**	**(267)**
Total comprehensive income for the period		**6,845**	**336**
Profit is attributable to:			
Equity holders of the Group		4,617	363
Non−controlling interests		7	240
		4,624	**603**
Total comprehensive income attributable to:			
Equity holders of the Group		6,482	260
Non−controlling interests		363	76
		6,845	**336**

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

Interim condensed consolidated statement of changes in equity

For the six months ended 30 June 2022

(Amounts presented are in millions of Azerbaijani Manats)

		Attributable to the equity holders of the parent									
	Note	Charter capital	Additional paid−in capital	Put option on company's shares	(Loss)/gain on sale/ (purchase) of subsidiary share	Other capital reserves	Retained earnings	Currency 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 period		–	–	–	–	–	363	–	**363**	240	**603**
Other comprehensive (loss)/gain		–	–	–	–	20	–	(123)	**(103)**	(164)	**(267)**
Total comprehensive income		**–**	**–**	**–**	**–**	**20**	**363**	**(123)**	**260**	**76**	**336**
Increase in charter capital	15	52	(52)	–	–	–	–	–	**–**	–	**–**
Distribution to the Government	15	–	–	–	–	–	(268)	–	**(268)**	–	**(268)**
Balance at 30 June 2021		**4,748**	**5,250**	**(1,310)**	**1,045**	**(113)**	**5,471**	**5,828**	**20,919**	**1,072**	**21,991**
Balance at 1 January 2022		**4,748**	**5,291**	**–**	**(205)**	**(100)**	**6,353**	**5,798**	**21,885**	**865**	**22,750**
Profit for the period		–	–	–	–	–	4,617	–	**4,617**	7	**4,624**
Other comprehensive gain		–	–	–	–	10	–	1,855	**1,865**	356	**2,221**
Total comprehensive income		**–**	**–**	**–**	**–**	**10**	**4,617**	**1,855**	**6,482**	**363**	**6,845**
Additional paid−in capital	15	–	23	–	–	–	**–**	–	**23**	–	**23**
Distribution to the Government	15	–	–	–	–	–	**(219)**	–	**(219)**	–	**(219)**
Balance at 30 June 2022		**4,748**	**5,314**	**–**	**(205)**	**(90)**	**10,751**	**7,653**	**28,171**	**1,228**	**29,399**

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

Interim condensed consolidated statement of cash flows

For the six months ended 30 June 2022

(Amounts presented are in millions of Azerbaijani Manats)

	Note	Six months ended 30 June 2022 Unaudited	Six months ended 30 June 2021 Unaudited
Cash flows from operating activities			
Profit before income tax		5,419	1,138
Adjustments for:			
Depreciation of property, plant and equipment		967	867
Depreciation of right−of−use assets		87	55
Amortisation of intangible assets		27	26
Impairment of property, plant and equipment	8	106	569
Impairment of investment in joint venture		−	32
ECL		82	46
Gain on disposals of property, plant and equipment and intangible assets		(3)	(15)
Interest revenue calculated using effective interest method		(186)	(104)
Other finance income		−	(13)
Finance costs	18	810	595
Foreign exchange rate differences		291	396
Share of result of associates and joint ventures		(1,280)	43
Fair value gain from financial instruments		(302)	−
Gain on net monetary position		(90)	−
Other non−cash transactions		11	30
		5,939	**3,665**
Increase in trade and other receivables		(2,155)	(2,812)
(Increase)/decrease in inventories		(180)	487
Increase in trade and other payables		2,898	1,633
Change in restricted cash		(141)	(116)
Change in provisions		(191)	(35)
Change in other assets and liabilities		(46)	45
Cash generated from operations		**6,124**	**2,867**
Income taxes paid		(402)	(419)
Interest paid		(661)	(417)
Net cash flows from operating activities		**5,061**	**2,031**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,643)	(1,317)
Purchase of intangible assets		−	(4)
Proceeds from sale of property, plant and equipment		43	82
Additional contribution in associates and joint ventures		(104)	(208)
Acquisition of 4.35% interest in SD PSA		(870)	−
Purchase of financial instruments		−	(57)
Proceed from sale of financial instruments		47	12
Placement of deposits		(17)	(30)
Withdrawal of deposits		14	190
Loans issued to related parties		−	(16)
Interest received		78	57
Dividends received from associates and joint ventures		27	92
Net cash flows used in investing activities		**(2,425)**	**(1,199)**
Cash flows from financing activities			
Proceeds from borrowings		12,846	2,918
Repayment of borrowings		(14,163)	(3,691)
Advances received for the sale of interest in PSA and associate		962	−
Settlement of deferred acquisition consideration		(72)	−
Increase in additional paid−in capital		23	−
Distributions to the Government	15	(219)	(268)
Change in restricted cash related to financing activities		(88)	−
Payment of lease liabilities		(73)	(23)
Net cash flows used in financing activities		**(784)**	**(1,064)**
Net foreign exchange difference on cash and cash equivalents		(434)	(263)
ECL reversal for cash and cash equivalents		2	−
Net increase/(decrease) in cash and cash equivalents		**1,420**	**(495)**
Cash and cash equivalents at the beginning of period		9,012	6,153
Cash and cash equivalents at the end of period		**10,432**	**5,658**

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

(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.

2. Basis of preparation and significant accounting policies, critical accounting estimates and judgments

Basis of preparation

These interim condensed consolidated financial statements of the Group for the six months ended 30 June 2022 ("interim financial statements") have been prepared in accordance with International Accounting Standards IAS 34 *Interim Financial Reporting*. The Group has prepared the financial statements on the basis that it will continue to operate as a going concern. Management considers that there are no material uncertainties that may cast doubt over their assumption. These interim condensed consolidated financial statements should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2021, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

New and amended standards and interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements as at and for the year ended 31 December 2021, except for the adoption of new standards effective and IAS 29 *Financial Reporting in Hyperinflationary Economies* as of 1 January 2022. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments apply for the first time in 2022, but do not have an impact on the interim condensed consolidated financial statements of the Group:

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

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

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 include both incremental costs (e.g., the costs of direct labor and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as 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.

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

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.

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

2. Basis of preparation and significant accounting policies, critical accounting estimates and judgments (continued)

New and amended standards and interpretations (continued)

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 impact on the interim condensed 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).

These amendments had no impact on the interim condensed consolidated financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

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 interim condensed consolidated financial statements of the Group as it is not a first-time adopter.

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).

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

2. Basis of preparation and significant accounting policies, critical accounting estimates and judgments (continued)

New and amended standards and interpretations (continued)

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

IAS 41 Agriculture – Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

These amendments had no impact on the interim condensed consolidated financial statements of the Group as it did not have assets in scope of IAS 41 as at the reporting date.

Presentation currency

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

Exchange rates

At 30 June 2022, the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 1.7000, EUR 1 = AZN 1.7771, CHF 1 = AZN 1.7814, GEL 1 = AZN 0.5810, UAH 1 = AZN 0.0575, TRY 1 = AZN 0.1023, JPY 100 = AZN 1.2451 (31 December 2021: USD 1 = AZN 1.7000, EUR 1 = AZN 1.9265, CHF 1 = AZN 1.8564, GEL 1 = AZN 0.5489, UAH 1 = AZN 0.0625, TRY 1 = AZN 0.1329, JPY 100 = AZN 1.4774).

IAS 29 - Financial Reporting in Hyperinflation Economies

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

Accordingly, standalone financial statements and corresponding figures of SOCAR Türkiye Enerji A.Ş for previous periods have been restated for the changes in the general purchasing power of Turkish Lira and, as a result, are expressed in terms of purchasing power of Turkish Lira as of 30 June 2022. As per IAS 29 existence of hyperinflation in Turkish economy is firstly identified in the interim reporting period ending as of 30 June 2022. Three-year cumulative increase in Consumer Price Index (CPI) as of June 2022 has been 136% in Türkiye according to inflation data published by Türkiye Statistical Institute on July 4, 2022.

On the application of IAS 29, the Group used the conversion coefficient derived from the CPI in the Türkiye published by Türkiye Statistical Institute.

To perform the required restatement of standalone financial statements of the subsidiary under IAS 29, assets and liabilities of the subsidiary 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 are not restated because they are already expressed in terms of measuring unit as of 30 June 2022. Non- monetary items (items which are not expressed in terms of measuring unit as of 30 June 2021) are restated by applying the relevant index. The restated amount of a non-monetary item is reduced, in accordance with appropriate IFRSs, when it exceeds its recoverable amount. Components of shareholders' equity except retained earnings and any IFRS revaluation surplus in the statement of financial position and all items in the statement of profit or loss and other comprehensive income also be restated by applying the relevant index.

Non-monetary items measured at historical cost that were acquired or assumed and all components of shareholders' equity that were contributed or arose before the time when the Türkiye previously ceased to be considered hyperinflationary, i.e., before 1 January 2005, are restated by applying the change in the relevant index from 1 January 2005 to 30 June 2022.

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

2. Basis of preparation and significant accounting policies, critical accounting estimates and judgments (continued)

IAS 29 - Financial Reporting in Hyperinflation Economies (continued)

The application of IAS 29 results in an adjustment for the loss of purchasing power of the Turkish Lira recognized in the profit or loss section of the statement of profit or loss and 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 restatement of non-monetary assets, owners' equity and items in the statement of comprehensive income and the adjustment of index linked assets and liabilities.

IAS 29 and IAS 21 require the closing exchange rate to be applied when translating both the income statement and the balance sheet from the hyperinflationary currency (Turkish Lira), into the presentation currency of the Group, Azerbaijani manat.

Since the Group's presentation currency, is non-hyperinflationary, comparatives are not adjusted for the effects of inflation in the current period. The net impact from inflation adjustment of SOCAR Türkiye Enerji A.Ş net asset is included in other comprehensive income for the year within foreign currency translation differences.

Critical accounting estimates and judgements

The critical accounting estimates and judgements followed by the Group in the preparation of these interim financial statements are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2021. Estimates have principally been made in respect of useful lives of property, plant and equipment, estimation of incremental borrowing rate, fair values of assets and liabilities, deferred income tax asset recognition, estimations of oil and gas reserves, impairment of non-financial assets, ECL for financial assets, provision for disability payment, asset retirement and environmental remediation obligations.

Management reviews these estimates and judgements on a continuous basis, by reference to past experiences and other factors considered as reasonable which form the basis for assessing the book values of assets and liabilities. Adjustments to accounting estimates are recognized in the period in which the estimate is revised. Actual results may differ from such estimates if different assumptions or circumstances apply; however, management considers that the effect of any changes in these estimates would not be significant unless otherwise disclosed in the accompanying interim financial statements.

Impairment of non-financial assets

Management assesses whether there are any indicators of possible impairment of all non-financial assets at 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.

Impairment exists when the carrying value of an asset or cash generating unit (CGU) 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 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.

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

2. Basis of preparation and significant accounting policies, critical accounting estimates and judgments (continued)

Impairment of non-financial assets (continued)

Impairment amount of AZN 106 is represented by write-down of oil and gas properties and equipment and construction in progress classes of assets located in the Republic of Azerbaijan, associated with oil and gas segment of the Group in the amounts of AZN 54 (30 June 2021: AZN 18) and AZN 52 (30 June 2021: AZN 22), respectively (Note 8). The impairment relates to investments in non-profitable oil fields located in the Republic of Azerbaijan. The Group did not expect future economic benefits from the non-profitable fields and recoverable amounts of those oil fields were nil as of 30 June 2022 and 31 December 2021.

Reverse factoring arrangements

In the normal course of its business, the Group enters reverse factoring arrangements with financial institutions, in which a financial institution agrees to pay the amounts the Group owes to suppliers for the purchased goods on invoice due date. The Group repays 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.

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.

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

2. Basis of preparation and significant accounting policies, critical accounting estimates and judgments (continued)

Reverse factoring arrangements (continued)

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.

3. Operating 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 gas condensate;
- Oilfield services – representing drilling, well construction and completion services;
- Sales and distribution – representing transportation and marketing of crude oil, natural gas, oil products and gas condensate.

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. Transfer prices between operating segments are either on an arm's length basis or non-arm's length basis.

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

The following table presents revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2022 and 2021, respectively.

Six months ended 30 June 2022	**Oil and gas**	**Refining**	**Oilfield services**	**Sales and distribution**	**Unallocated (*)**	**Adjustments and eliminations (**)**	**Total**
Revenues							
External customers	3,255	3,044	159	53,656	214	−	**60,328**
Inter−segment	1,628	700	238	1,745	284	(4,595)	**−**
Total revenue	**4,883**	**3,744**	**397**	**55,401**	**498**	**(4,595)**	**60,328**
Segment profit/(loss)	**2,319**	**1,199**	**(65)**	**1,853**	**3**	**(685)**	**4,624**

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

3. Operating segment information (continued)

Six months ended 30 June 2021	**Oil and gas**	**Refining**	**Oilfield services**	**Sales and distribution**	**Unallocated (*)**	**Adjustments and eliminations (**)**	**Total**
Revenues							
External customers	2,168	2,703	387	30,389	147	−	**35,794**
Inter−segment	1,587	535	218	161	249	(2,750)	**−**
Total revenue	**3,755**	**3,238**	**605**	**30,550**	**396**	**(2,750)**	**35,794**
Segment profit/(loss)	**1,241**	**355**	**(69)**	**(343)**	**(512)**	**(70)**	**603**

(*) *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.*

The following table presents segment assets and liabilities as at 30 June 2022 and 31 December 2021, and capital expenditures of the Group's operating segments for the six months ended 30 June 2022 and 2021:

	Oil and gas	**Refining**	**Oilfield services**	**Sales and distribution**	**Unallocated (*)**	**Adjustments and eliminations (**)**	**Total**
Segment assets							
At 30 June 2022	26,811	15,982	2,232	29,185	30,215	(23,856)	**80,569**
At 31 December 2021	29,444	15,899	2,493	23,111	27,412	(29,002)	**69,357**
Segment liabilities							
At 30 June 2022	(13,694)	(8,712)	(957)	(24,240)	(18,691)	15,124	**(51,170)**
At 31 December 2021	(13,904)	(8,134)	(1,111)	(18,915)	(24,674)	20,131	**(46,607)**

	Oil and gas	**Refining**	**Oilfield services**	**Sales and distribution**	**Unallocated (*)**	**Adjustments and eliminations (**)**	**Total**
Capital expenditures (***)							
Six months ended 30 June 2022	818	496	−	96	35	−	**1,445**
Six months ended 30 June 2021	768	528	−	123	86	(21)	**1,484**

(*) *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 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.*

4. Balances and transactions with related parties

Key management compensation

Key management of the Group includes the President of SOCAR and its nine Vice-Presidents. All of the Group's key management are appointed by the President of 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 the six months ended 30 June 2022, compensation of key management personnel totalled to AZN 0.86 (30 June 2021: AZN 0.64).

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

4. Balances and transactions with related parties (continued)

Significant balances and transactions with related parties

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

As at 30 June 2022, the outstanding balances with related parties were as follows:

	Government and entities under government control	Associates, joint ventures
Trade and other financial receivables	180	3,293
ECL	(40)	(7)
Total financial receivables	**140**	**3,286**
Cash and cash equivalents	4,312	−
Restricted cash	61	63
Deposits	105	−
Total current assets	**4,618**	**3,349**
Other non−current financial assets	1,026	216
Total assets	**5,644**	**3,565**
Trade and other payables to SOFAZ	3,425	−
Trade and other payables	324	1,548
Total financial payables	**3,749**	**1,548**
Advances received for the sale of interest in PSA and associate	−	5,270
Deferred consideration payable to SGC	−	525
Lease liabilities	321	−
Other provisions for liabilities and charges, current	32	−
Total liabilities (excluding borrowings)	**4,102**	**7,343**

As at 30 June 2022, borrowings balances with related parties were as follows:

Bank name	Interest rate	Maturity date	30 June 2022
Bank ABB OJSC	4%−4.8%	21 July 2022 − 23 August 2026	443
Ministry of Finance of Azerbaijan Republic	0.1%−3%	22 June 2022 − 1 April 2039	411
Aqrarkredit CJSC	0.16%−5%	1 March 2027 – 4 January 2041	80
Total borrowings			**934**

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

4. Balances and transactions with related parties (continued)

Significant balances and transactions with related parties (continued)

As at 30 June 2022, outstanding bonds payable balances with related parties were as follows:

Bond holder	Coupon rate	Maturity date	30 June 2022
SOFAZ	LIBOR + 4%	31 December 2029	874
SOFAZ	3.20%	1 August 2030	861
SOFAZ	3.80%	1 September 2028	771
SOFAZ	4.60%	31 December 2029	466
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
Azerbaijan Investment Company	4%	30 December 2027	163
Total bonds payable to related parties			**4,244**

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

	Government and entities under government control	Associates, joint ventures
Trade and other financial receivables	164	2,974
ECL	(37)	(8)
Total financial receivables	**127**	**2,966**
Cash and cash equivalents	3,899	−
Restricted cash	109	−
Deposits	104	−
Other current financial assets	−	1
Total current assets	**4,239**	**2,967**
Other non−current financial assets	1,137	228
Total assets	**5,376**	**3,195**
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	−	4,308
Deferred consideration payable to SGC	−	610
Lease liabilities	285	−
Other provisions for liabilities and charges, current	33	−
Total liabilities (excluding borrowings)	**4,001**	**5,995**

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

Bank name	Interest rate	Maturity date	31 December 2021
Bank ABB OJSC	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%-5%	30 June 2022 − 4 January 2041	84
Total borrowings			**1,107**

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

4. Balances and transactions with related parties (continued)

Significant balances and transactions with related parties (continued)

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

Bond holder	Coupon rate	Maturity date	31 December 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
Azerbaijan Investment Company	4%	30 December 2027	167
Total bonds payable to related parties			**4,206**

The transactions with related parties for the six months ended 30 June 2022 were as follows:

	Government and entities under government control	Associates, joint ventures
Sales of natural gas	175	1,512
Sales of oil products	304	26
Sales of crude oil	−	6,397
Services rendered	68	149
Interest income on loan receivables from related parties	10	30
Finance cost on loans from related parties	(93)	(30)
Utilities costs	(36)	(1)
Other operating expenses	(18)	(31)
Social expenses	(33)	−
Distribution and transportation expenses	(75)	(865)
Security expenses	(10)	−
Purchases of inventory and PPE	(10,548)	(8,103)
Dividends received from joint ventures	−	31
Dividends received from associates	−	25

Included in “Finance cost on loans from related parties” are capitalized borrowing costs for qualifying assets (Note 8).

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

4. Balances and transactions with related parties (continued)

Significant balances and transactions with related parties (continued)

The transactions with related parties for the six months ended 30 June 2021 were as follows:

	Government and entities under government control	Associates, joint ventures
Sales of natural gas	335	596
Sales of oil products	123	17
Sales of crude oil	–	3,735
Sales of gas products	–	–
Services rendered	34	60
Interest income on loan receivables from related parties	13	27
Finance cost on loans from related parties	(57)	(19)
Utilities costs	(33)	(2)
Other operating expenses	(18)	–
Social expenses	(24)	–
Distribution and transportation expenses	(58)	(292)
Security expenses	(9)	–
Purchases of inventory and PPE	(5,531)	(2,422)
Dividends received from joint ventures	–	4
Dividends received from associates	–	100

Terms and conditions of transactions with related parties

Main local sales to and purchases from the Government and entities under government control are made at prices regulated by the Azerbaijani Government. Outstanding balances at the reporting date are unsecured and settlement occurs in cash.

5. Cash and cash equivalents and short-term deposits

	30 June 2022	31 December 2021
USD denominated bank balances	7,476	7,126
AZN denominated bank balances	1,197	1,024
EUR denominated bank balances	687	366
CHF denominated bank balances	77	106
TRY denominated bank balances	883	247
Other currencies' denominated bank balances	34	56
Cash in transit	108	118
Cash on hand	15	14
ECL	(45)	(45)
Total cash and cash equivalents	**10,432**	**9,012**

Deposits

At 30 June 2022, term deposits included placements in the total amount of AZN 588 with maturity of one year, under fixed contractual interest rates ranging from 0.5 per cent to 3 per cent per annum.

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

At 30 June 2022, the Group recognized ECL on deposits in the amount of AZN 4 (31 December 2021: AZN 3).

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

6. Restricted cash

	30 June 2022	31 December 2021
Restricted cash for purchase of commodities	242	125
Restricted cash as guarantee for transportation of gas	63	–
VAT Deposit	60	101
Other	55	60
Less: ECL	(40)	(38)
Total restricted cash	**380**	**248**

7. Trade and other receivables

	30 June 2022	31 December 2021
Trade receivables	10,989	7,998
Other receivables	285	250
Less: ECL	(786)	(686)
Total financial receivables	**10,488**	**7,562**
VAT recoverable	848	948
Prepayments	640	527
Taxes receivable	140	132
Underlift oil balance	89	65
Other	204	184
Total trade and other receivables	**12,409**	**9,418**

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

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 charge	110	43
Credit loss reversal	(6)	(4)
Write-off	(3)	(29)
Currency translation difference	(1)	(7)
At 30 June	**786**	**681**

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

8. Property, plant and equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	Oil and gas properties and equipment	Other	Construction in progress	Total
Carrying amount at 1 January 2021	**20,088**	**8,622**	**2,634**	**31,344**
Additions	466	353	665	**1,484**
Disposals	(2)	(40)	(5)	**(47)**
Transfers	37	242	(279)	**–**
Depreciation charge	(592)	(315)	–	**(907)**
Impairment charge	(18)	(472)	(79)	**(569)**
Translation to presentation currency	(17)	(244)	(48)	**(309)**
Carrying amount at 30 June 2021	**19,962**	**8,146**	**2,888**	**30,996**
Carrying amount at 1 January 2022	**19,806**	**7,877**	**3,218**	**30,901**
Additions	380	299	678	**1,357**
Disposals	(463)	(24)	(1)	**(488)**
Reclassification (to)/from assets held for sale	(3,385)	42	–	**(3,343)**
Transfers	38	20	(58)	**–**
Depreciation charge	(653)	(325)	–	**(978)**
Impairment charge (Note 2)	(54)	–	(52)	**(106)**
Translation to presentation currency	2	898	766	**1,666**
Carrying amount at 30 June 2022	**15,671**	**8,787**	**4,551**	**29,009**

During the six months ended 30 June 2022, the Group capitalized finance costs in the amount of AZN 58 which were mainly attributable to construction of assets (30 June 2021: AZN 45).

9. Investments in joint ventures and associates

During the six months ended 30 June 2022, the Group has made additional contributions in share capital of its joint venture, SOCAR Türkiye Yatırım A.Ş. (STYAŞ) in the amount of AZN 12 (30 June 2021: 186).

During the six months ended 30 June 2022 the Group acquired the additional 4.35 per cent equity interest in then associate South Caucasus Pipeline Limited (SCP) in the amount of AZN 92. The full 14.35 per cent equity investment of the Group in SCP amounting to AZN 880 is held for sale as at 30 June 2022 (Note 16).

10. Other non-current assets

At 30 June 2022, other non-current assets were mainly represented by long-term prepayments for purchase of property, plant and equipment in the amount of AZN 466 (31 December 2021: AZN 450), non-current VAT receivable in the amount of AZN 92 (31 December 2021: AZN 89), net defined benefit assets in the amount of AZN 22 (31 December 2021: AZN 23).

11. Trade and other payables

	30 June 2022	31 December 2021
Trade payables	9,548	8,032
Accrued liabilities	3,060	1,658
Other payables	1,341	1,065
Total financial payables	**13,949**	**10,755**
Payable to employees	411	294
Total trade and other payables	**14,360**	**11,049**

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

11. Trade and other payables (continued)

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 to purchase crude oil and oil products, for which invoices have not been received yet.

Contract liabilities

Contract liabilities are mainly represented by advances received for construction projects and sale of goods and services in the amounts of AZN 212 (31 December 2021: AZN 210) and AZN 605 (31 December 2021: AZN 442), respectively.

12. Borrowings

As at 30 June 2022, short-term borrowings and current portion of long-term borrowings of the Group were represented by the following facilities:

Facilities	Interest rate	Maturity date	Total amounts borrowed in original currency	Balance as at 30 June 2022
Short-term facilities in USD	0.50% - 10.50%	July 2022 - July 2023	3,550	4,451
Short-term facilities in TRY	11.90% - 32.95%	July 2022 - July 2023	7,441	766
Short-term facilities in GEL	11.75% - 16.25%	July 2022 - July 2023	350	149
Short-term facilities in EUR	2.25% - 4.15%	July 2022 - July 2023	17	22
Short-term facilities in other currencies	4.00% - 16.00%	July 2022 - July 2023	3,143	196
Current portion of long-term borrowings				1,796
Total short-term borrowings and current portion of long-term borrowings				**7,380**

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

12. Borrowings (continued)

As at 30 June 2022 long-term borrowings of the Group were represented by the following facilities:

			Balance as at 30 June 2022	
Facilities	**Interest rate***	**Maturity date**	**Non−current portion**	**Current portion**
USD 750 million	6.95%	March 2030	1,213	28
USD 500 million	3.20%	August 2030	850	11
USD 500 million	SOFR + 3.75%	December 2026	840	−
USD 431 million	LIBOR + 4%	December 2029	724	151
USD 565 million	3.80%	September 2028	640	130
USD 300 million	LIBOR + 3.7%	March 2026	513	1
USD 300 million	LIBOR + 3.45%	August 2026	510	6
USD 300 million	SOFR + 3.95%	December 2026	504	−
USD 242 million	4.60%	December 2029	412	54
USD 200 million	3.40%	December 2030	340	−
USD 200 million	5.00%	June 2025	340	−
USD 489 million	LIBOR + 5.95%	June 2025	334	−
USD 200 million	3.80%	November 2029	296	46
USD 155 million	LIBOR + 3.45%	August 2026	263	3
USD 150 million	LIBOR + 3.45%	August 2026	255	3
USD 300 million	LIBOR + 2.50%	November 2024	250	178
USD 427 million	LIBOR + 2.70%	February 2024	240	248
USD 200 million	LIBOR + 1.335%	December 2027	231	14
EUR 251 million	EURIBOR + 3.03%	January 2027	223	50
USD 130 million	LIBOR + 3.45%	August 2026	221	2
EUR 122 million	EURIBOR + 3.45%	August 2026	217	2
EUR 122 million	EURIBOR + 3.45%	August 2026	216	2
EUR 249 million	EURIBOR + 0.95%	January 2027	208	49
EUR 100 million	EURIBOR + 3.45%	August 2026	177	1
USD 102 million	7.12%	August 2023	174	−
USD 150 million	4.60%	December 2024	170	91
USD 100 million	4.50%	November 2026	170	5
USD 106 million	4.92%	March 2028	130	17
USD 75 million	LIBOR + 3.45%	August 2026	127	1
USD 485 million	6m LIBOR + 1%	December 2024	118	64
USD 82 million	0.10%	December 2029	114	2
USD 82 million	0.10%	December 2029	113	2
USD 90 million	4.80%	August 2026	107	33
JPY 15398 million	1.50%	April 2039	107	3
USD 60 million	4.50%	October 2026	102	1
USD 78 million	4.00%	December 2027	91	71
USD 150 million	LIBOR + 2.70%	June 2024	86	85
USD 68 million	LIBOR + 3%	January 2026	73	10
EUR 38 million	EURIBOR + 3.45%	August 2026	67	1
AZN 144 million	0.16% (0.15%+0.01%)	January 2041	63	6
USD 260 million	LIBOR + 3.95%	December 2024	51	38
USD 190 million	LIBOR + 2.20%	November 2023	49	101
USD 52 million	4.40%	November 2024	44	30
USD 29 million	4.00%	December 2027	34	29
USD 110 million	4.80%	December 2023	31	62
AZN 350 million	3.00%	January 2024	29	30
USD 19 million	4.92%	March 2028	23	3
TRY 300 million	LIBOR + 5.2%	June 2027	22	3
TRY 300 million	LIBOR + 5.2%	June 2027	22	3
USD 18 million	4.92%	March 2028	22	3
USD 77 million	4.80%	December 2023	22	44
USD 15 million	4.92%	March 2028	18	2
USD 15 million	4.92%	March 2028	18	2
CHF 10 million	3.00%	October 2027	18	−
EUR 10 million	EURIBOR + 3.45%	August 2026	18	−
EUR 9 million	EURIBOR + 3.45%	August 2026	16	−
USD 12 million	4.92%	March 2028	15	2
USD 12 million	4.92%	March 2028	15	2
USD 7 million	0.10%	December 2029	12	−
GEL 45 million	14.00%	August 2024	11	9
EUR 10 million	2.25%	March 2027	10	8
USD 6 million	LIBOR + 3.45%	August 2026	10	−
USD 38 million	4.01%	December 2023	5	12
Other long−term borrowings			64	42
Total long−term borrowings			**12,408**	**1,796**

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

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

12. Borrowings (continued)

As at 31 December 2021, 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 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 facilities 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)

12. Borrowings (continued)

As 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	LIBOR + 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)

13. Asset retirement obligation and other provisions for liabilities and charges

Asset retirement obligation

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:

	Note	2022	2021
Carrying amount at 1 January		**2,066**	**1,955**
Additions		235	53
Unwinding of the present value discount	18	53	47
Transfer to assets held for sale		(449)	–
Effect of change in estimate		(732)	(95)
Carrying amount at 30 June		**1,173**	**1,960**

Management makes provision in respect of the Group's legal 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 judgments 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 6.5 and 60.5 years from the reporting date.

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 maximum estimated cost to Azneft Production Union ("Azneft PU") to abandon the production facilities employed was AZN 1,553 as at 30 June 2022 (31 December 2021: AZN 1,465). The Company used 8.42 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 1,866 as at 30 June 2022 (31 December 2021: AZN 1,832). The Company used 6.75 per cent rate to discount this obligation (31 December 2021: 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 880 as at 30 June 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).

The maximum estimated cost to the Group to abandon the production facilities employed in Absheron project was AZN 261 as at 30 June 2022 (31 December 2021: AZN 250). The Company used 6.99 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 151 as at 30 June 2022 (31 December 2021: AZN182). The Company used 6.75 per cent rate to discount this obligation (31 December 2021: 4.46 per cent).

Estimated costs of dismantling oil and gas production facilities, pipelines and related processing and storage facilities, including abandonment and site restoration costs of the Group amounting to AZN 508 at 30 June 2022 (31 December 2021: AZN 1,020) are included in the NBV of oil and gas properties and equipment.

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

13. Asset retirement obligation and other provisions for liabilities and charges (continued)

Asset retirement obligation (continued)

The following inflation rates were applied in calculation of discounted cash flows:

Year	2022 2H	2023	2024	2025	2026	2027 and later
Inflation rate for Azerbaijan	5.60%	4.56%	3.21%	2.89%	3.76%	3.64%
Inflation rate for United States	3.84%	2.93%	1.66%	2.05%	2.08%	2.02%

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.

Other provisions for liabilities and charges

Movements in provisions for liabilities and charges are as follows:

	Note	Environmental obligations	Other provisions	Total
Carrying amount at 1 January 2021		**83**	**44**	**127**
Utilisation		(7)	(2)	**(9)**
Unwinding of the present value discount	18	2	−	**2**
Effect of change in estimates		(2)	(7)	**(9)**
Carrying amount at 30 June 2021		**76**	**35**	**111**
Of which:				
Current		*53*	*35*	***88***
Non-current		*23*	−	***23***
Carrying amount at 1 January 2022		**59**	**32**	**91**
Additions		1	10	**11**
Utilisation		(16)	(1)	**(17)**
Unwinding of the present value discount	18	1	−	**1**
Effect of change in estimates		(1)	−	**(1)**
Carrying amount at 30 June 2022		**44**	**41**	**85**
Of which:				
Current		*28*	*41*	**69**
Non-current		*16*	−	**16**

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

14. Deferred income

As at 30 June 2022 and 31 December 2021 non-current portion of deferred income mainly comprised of government grants obtained 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. As at 30 June 2022, the Group received government grants in the amount of AZN 10 (30 June 2021: AZN 17).

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

15. Charter capital, additional paid-in-capital and retained earnings

Charter capital

SOCAR as a holding company of the Group has a legal status of a state enterprise. During the year ended 30 June 2022, there was no increase in charter capital registered by the Ministry of Economy of Azerbaijan Republic whereas in six months ended 30 June 2021 additional paid-in capital in the amount of AZN 52 was reclassified from additional paid in capital to charter capital.

Contributions by the Government

During the six months ended 30 June 2022, the Government contributed AZN 23 in cash (30 June 2021: nil) to the charter capital of the Group. Until registration of the increase in the charter capital this amount was included in additional paid-in capital.

Distributions 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 the six months ended 30 June 2022, such direct cash transfers to the Government amounted to AZN 219 (30 June 2021: AZN 268), which is mainly for repair, construction and reconstruction of recreational, transport, educational and medical infrastructure of the Azerbaijan Republic.

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

Subsidiary held for sale

In December 2021, the Group signed an agreement with a third party to sell its subsidiary – "SCR Müşavirlik ve İnşaat A.Ş. ("SCR")" in exchange for AZN 383 (USD 225 million). The sale is expected to be finalized in 2022.

As at 30 June 2022, the assets and liabilities of SCR amounting to AZN 207 and AZN 66, respectively, (net assets of AZN 141), have been presented in accordance with IFRS 5 Assets Held for Sale and Discontinued Operations. Since the 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.

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% 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 30 June 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. The sale of the participation interest is expected to be finalized in March 2023.

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% 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% 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. The sale is expected to be finalized in March 2023.

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

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

PSA interest held for sale (continued)

As at 30 June 2022, the assets and liabilities of SD PSA amounting to AZN 4,517 and AZN 565, respectively, (net assets of AZN 3,952) have been presented within Assets Held for Sale in accordance with IFRS 5 Assets Held for Sale and Discontinued Operations. 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:

Associate held for sale

In July 2014, the Group (through its subsidiary – AzSCP) signed an agreement with a related party to sell its 10% 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 30 June 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. The sale of the equity interest in the associate is expected to be finalized in March 2023.

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% equity interest in associate - SCP 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% 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 is expected to be finalized in March 2023.

As at 30 June 2022, the investment balance of the Group in the associate – SCP, amounting to AZN 880 has been presented within Assets Held for Sale in accordance with IFRS 5 Assets Held for Sale and Discontinued Operations. 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.

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 six months ended 30 June 2022. The other vessel was reclassified back to Property, plant and equipment as at 30 June 2022 as the Group changed its plans regarding the vessel and decided to continue using it in the normal course of business.

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

17. Revenue from contracts with customers

Set out below is the disaggregation of the Group's revenue from contracts with customers by operating segments:

Six months ended 30 June 2022	Oil and gas	Refining	Oilfield services	Sales and distribution	Other	Total
Type of goods/service						
Sale of crude oil	1,549	–	–	32,587	–	**34,136**
Sale of oil products	608	–	–	11,186	–	**11,794**
Sale of petrochemicals	–	3,042	–	641	–	**3,683**
Sale of natural gas	1,096	–	–	8,349	–	**9,445**
Rent income	–	–	13	–	10	**23**
Other revenue	2	2	146	893	204	**1,247**
Total	**3,255**	**3,044**	**159**	**53,656**	**214**	**60,328**
Switzerland	–	–	–	39,417	–	**39,417**
Azerbaijan	3,255	83	119	1,517	85	**5,059**
Türkiye	–	2,961	–	9,749	128	**12,838**
UAE	–	–	40	907	–	**947**
Georgia	–	–	–	859	1	**860**
Other	–	–	–	1,207	–	**1,207**
Total	**3,255**	**3,044**	**159**	**53,656**	**214**	**60,328**
Goods transferred at a point in time	3,255	3,044	–	53,500	116	**59,915**
Services transferred over time	–	–	159	156	98	**413**
Total	**3,255**	**3,044**	**159**	**53,656**	**214**	**60,328**

Six months ended 30 June 2021	Oil and gas	Refining	Oilfield services	Sales and distribution	Other	Total
Type of goods/service						
Sale of crude oil	1,307	–	–	19,158	–	**20,465**
Sale of oil products	294	–	–	8,015	–	**8,309**
Sale of petrochemicals	–	2,678	–	338	–	**3,016**
Sale of natural gas	548	–	–	2,289	–	**2,837**
Rent income	–	–	166	–	8	**174**
Other revenue	19	25	221	589	139	**993**
Total	**2,168**	**2,703**	**387**	**30,389**	**147**	**35,794**
Switzerland	–	–	–	20,931	–	**20,931**
Azerbaijan	2,168	51	312	1,299	36	**3,866**
Türkiye	–	2,652	–	4,826	111	**7,589**
UAE	–	–	75	1,349	–	**1,424**
Georgia	–	–	–	577	–	**577**
Other	–	–	–	1,407	–	**1,407**
Total	**2,168**	**2,703**	**387**	**30,389**	**147**	**35,794**
Goods transferred at a point in time	2,168	2,680	–	30,257	107	**35,212**
Services transferred over time	–	23	387	132	40	**582**
Total	**2,168**	**2,703**	**387**	**30,389**	**147**	**35,794**

Revenue from crude oil sales is stated net of price margin 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 289 (30 June 2021: AZN 258).

Revenue from sales of crude oil produced under ACG PSA and condensate produced under Shah Deniz PSA is not subject to excise tax mentioned above.

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

18. Finance costs

	Note	30 June 2022	30 June 2021
Interest expenses		729	517
Provisions for asset retirement obligations: unwinding of the present value discount	13	53	47
Lease liability: unwinding of the present value discount		23	24
Obligation for disability payments: unwinding of the present value discount		4	5
Environmental provision: unwinding of the present value discount	13	1	2
Total finance costs		**810**	**595**

19. Financial instruments

Set out below is an overview of financial assets and financial liabilities, other than cash, restricted cash and short-term deposits, held by Group as at 30 June 2022 and 31 December 2021:

	30 June 2022	31 December 2021
Financial assets at amortized cost		
Trade and other receivables	9,405	6,659
Other current financial assets	713	664
Other non−current financial assets	883	816
Financial assets at FVOCI		
Trade and other receivables	1,083	903
Other current financial assets	52	70
Financial assets at FVPL		
Other current financial assets	1,615	824
Other non−current financial assets	2,046	1,159
Financial liabilities at amortized cost		
Trade and other payables (Note 11)	(13,949)	(10,755)
Short−term and current portion of long−term borrowings (Note 12)	(7,380)	(5,865)
Current portion of deferred acquisition consideration payable	(130)	(202)
Non−current portion of deferred acquisition consideration payable	(526)	(610)
Long−term borrowings (Note 12)	(12,408)	(15,501)
Other current financial liabilities	(104)	–
Other non−current liabilities	(588)	(647)
Financial liabilities at FVPL		
Other current financial liabilities	(1,380)	(810)
Other non−current liabilities	(1,265)	(242)
Lease liabilities under IFRS 16	(1,038)	(1,067)

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, judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

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 interim condensed consolidated financial statements.

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

19. Financial instruments (continued)

Fair value of financial instruments (continued)

	30 June 2022	
	Carrying amount	**Fair value**
Cash and cash equivalents (Note 5)	10,417	10,417
Deposits (Note 5)	584	584
Restricted cash	320	320
Trade and other receivables (Note 7)	10,488	10,488
Other current financial assets	2,380	2,380
Other non-current financial assets	2,929	2,887
Total financial assets	**27,118**	**27,076**
Trade and other payables (Note 11)	(13,949)	(13,949)
Non-current portion of deferred acquisition consideration payable	(526)	(505)
Short-term and current portion of long-term borrowings (Note 12)	(7,380)	(7,380)
Long-term borrowings (Note 12)	(12,408)	(11,839)
Current portion of deferred acquisition consideration payable	(130)	(130)
Other current financial liabilities	(1,484)	(1,484)
Other non-current liabilities	(1,853)	(1,753)
Total financial liabilities	**(37,730)**	**(37,040)**

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 as at 31 December 2021.

	31 December 2021	
	Carrying amounts	**Fair values**
Cash and cash equivalents (Note 5)	8,998	8,998
Deposits (Note 5)	614	614
Restricted cash	147	147
Trade and other receivables (Note 7)	7,562	7,562
Other current financial assets	1,558	1,558
Other non-current financial assets	1,975	1,990
Total financial assets	**20,854**	**20,869**
Trade and other payables (Note 11)	(10,755)	(10,755)
Other current financial liabilities	(810)	(810)
Short-term and current portion of long-term borrowings (Note 12)	(5,865)	(5,865)
Long-term borrowings (Note 12)	(15,501)	(15,849)
Current portion of deferred acquisition consideration payable	(202)	(202)
Non-current portion of deferred acquisition consideration payable	(610)	(707)
Other non-current liabilities	(889)	(844)
Total financial liabilities	**(34,632)**	**(35,032)**

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

- Current financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments;
- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of customers and the risk characteristics of the financed project.

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

19. Financial instruments (continued)

Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed 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 market prices in an active market (that are unadjusted) 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 financial instruments that are recognised 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.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 30 June 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	**1,615**	197	1,418	–
Other current financial assets at FVOCI	**52**	52	–	–
Trade receivables FVOCI	**1,083**	–	1,083	–
Other non−current financial assets at FVPL	**2,046**	–	595	1,451
Liabilities measured at fair value				
Other current financial liabilities at FVPL	**(1,380)**	(69)	(1,311)	–
Other non−current liabilities at FVPL	**(1,265)**	–	(1,265)	–
Assets for which fair value are disclosed				
Deposits	**584**	–	584	–
Trade and other receivables	**9,405**	–	–	9,405
Other current financial assets	**713**	–	–	713
Other non−current financial assets	**841**	–	–	841
Liabilities for which fair values are disclosed				
Trade and other payables	**(13,949)**	–	–	(13,949)
Short−term borrowings and current portion of long−term borrowings	**(7,380)**	–	–	(7,380)
Other current financial liabilities	**(104)**	–	–	(104)
Long−term borrowings	**(11,839)**	(1,338)	–	(10,501)
Deferred acquisition consideration payable	**(635)**	–	–	(635)
Other non−current financial liabilities	**(488)**	–	–	(488)

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

19. Financial instruments (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 borrowings 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 financial assets at FVPL	Other non-current financial assets at FVPL
At 1 January 2021	**10**	**856**
Purchases	85	–
Settlements	–	(39)
Remeasurement recognized in profit or loss	–	(121)
Translation to presentation currency	–	88
At 30 June 2021	**95**	**784**
At 1 January 2022	**–**	**940**
Purchases	–	550
Settlements	–	–
Remeasurement recognized in profit or loss	–	152
Translation to presentation currency	–	(191)
At 30 June 2022	**–**	**1,451**

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

19. Financial instruments (continued)

Fair value hierarchy (continued)

	Other current financial liabilities at FVPL	Other non-current liabilities at FVPL
At 1 January 2021	**(16)**	**(11)**
Settlements	16	11
At 30 June 2021	**–**	**–**
At 1 January 2022	**–**	**–**
Settlements	–	–
At 30 June 2022	**–**	**–**

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions as at 30 June 2022:

	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	761	Discounted dividend model	Discount rate	From 11% to 15%	2% variation in discount rate would result in an increase/decrease in fair value by AZN +228/-153
Other current financial assets at FVPL Commodity forward contracts	690	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 16	10% variation in price would result in an increase/decrease in fair value by AZN +164/-164

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 +162/-162

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

20. Income taxes

Income tax expense comprises the following:

	30 June 2022	30 June 2021
Current tax expense	558	506
Deferred tax charge	237	29
Income tax expense reported in profit or loss	**795**	**535**
Deferred tax recognized in OCI	**8**	**(1)**

21. 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 will fall, which would negatively impact Azerbaijan economy and the Group.

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 “Ba2” credit rating for Azerbaijan and for the Group as at 30 June 2022 and upgraded it to “Ba1” subsequently on 5 August 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 23 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%, as per data published on July 4, 2022. Therefore, management considered Türkiye to be hyperinflationary as at 30 June 2022 and thereafter.

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

Gross domestic product (GDP) increased by 2.1 per cent in the second quarter of 2022 compared with the first quarter of 2022.

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

21. Contingencies, commitments and operating risks (continued)

Operating environment (continued)

The Georgian economy

Georgia displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. Average annual inflation in Georgia increased to 12 per cent in the first six months of 2022 from 7 per cent in the same period of 2021. 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 real GDP of Georgia increased by an estimated 10.5 per cent in the first six months of 2022 compared to prior year comparative period, driven by growth in services and manufacturing sectors, as per the latest data from the National Statistics Office of Georgia.

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 30 June 2022, the total assets and the liabilities of the subsidiary located in the Russian Federation amounted AZN 163 AZN and AZN 138, 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 30 June 2022, which mainly comprised loans payable to Russian banks in total amount of AZN 1,973 and derivative financial assets related to the LNG purchases. The net fair value of those contracts amounted to AZN 2 as of 30 June 2022.

The total assets and the liabilities of the subsidiary located in Ukraine amounted AZN 346 AZN and AZN 194 as of 30 June 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.

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 six months ended 30 June 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 21% in June 2022 and forecasted to reach 30% by the end of 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.

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

21. Contingencies, commitments and operating risks (continued)

Operating environment (continued)

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.

By different estimates, in 2022 the Ukrainian economy will shrink by up to 30% as a result of current military actions. These outlooks are based on certain expectations of conflict duration and will worsen if conflict lasts longer.

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 30 June 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 13).

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 13).

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.

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.

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

21. Contingencies, commitments and operating risks (continued)

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 30 June 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 30 June 2022, the Group's maximum exposure to the contractual obligations is AZN 71 (USD 42 million). No provision is recognised in respect of these liabilities in the consolidated statement of financial position as of 30 June 2022 and 31 December 2021.

Compliance with financial covenants

At 30 June 2022, the Group had loans payable in total amount of AZN 19,788 which were received for financing its investing and operating activities (31 December 2021: AZN 21,366). 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 30 June 2022 and 31 December 2021, the Group was in compliance with all applicable financial covenants.

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 229 for loan received from the related party (31 December 2021: AZN 287).

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 750 (USD 441 million) with certain banks (31 December 2021: AZN 1,090 (USD 641 million)).

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

21. Contingencies, commitments and operating risks (continued)

Financial guarantees, collaterals, pledges and mortgages (continued)

STEAS

The following table demonstrates guarantees received and given by the Group:

	30 June 2022	31 December 2021
Guarantees received		
Bank guarantees within the context of direct order collection system (DOCS)	376	348
Receivable Insurance	802	525
Letters of guarantee received from customers	335	274
Letters of credit received	21	33
Letters of guarantee received from suppliers	95	108
Other	3	4
Total guarantees received	**1,632**	**1,292**
Guarantees given		
Letters of guarantee given	70	91
Total guarantees given	**70**	**91**
Collaterals, pledges and mortgages (CPMs)		
CPMs given by Petkim on Petlim loan*	294	316
CPMs given for Petkim	106	381
Total CPMs given by Petkim	**400**	**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 30 June 2022, Petlim had remaining loan balance amounting to AZN 294 (USD 173 million). The project has financial covenants that are valid during the operating period.*

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 30 June 2022. The Group estimated its 25 per cent (31 December 2021: 25 per cent) share of these commitments to be AZN 886 (USD 521 million) (31 December 2021: AZN 1,222 (USD 719 million).

Commitments of Baku Shipyard LLC

As at 30 June 2022, the Group had capital commitments to third parties in the amount of AZN 3 in respect of construction contracts (31 December 2021: AZN 7).

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 16 (CHF 9 million) (31 December 2021: AZN 20 (CHF 11 million)).

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

21. Contingencies, commitments and operating risks (continued)

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 BOTAS executed a new gas sale and purchase agreement with respect to the sale by AGSC to BOTAS at Georgia Türkiye border of certain volumes of Gas which became uncontracted following the expiry of the BOTAS SPA1 (0.64 BCcm first partial delivery year, 2.55 BCcm second delivery year and 3.7 BCcm plateau period).

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 agreement with BOTAS to make available 0.15 BCcm of gas annually until the expiry of the contract at a price, which is calculated based on a 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 between AGSC and Option- Co, dated 27 February 2003 ("Back to Back Georgian Option Gas SPA") to make available 0.56 billion Standard Cubic Meters (BScm) of gas during the contract year starting on 1 October 2021 and ending on 30 September 2022. 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 signed with Georgian Oil and Gas Corporation ("GOGC") and the government of Georgia to make available 0.5 BScm of gas annually in 2022 and until the 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 the remaining GSAs (including 2nd Shell contract) was on 1 June 2022.

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

21. Contingencies, commitments and operating risks (continued)

Commitments related to participating interest in AGSC (continued)

Transportation agreement with SCPC

AGSC is party to SCPC 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 SCPC starting from the commencement date, which is 1 October 2006. AGSC is obliged to provide SCPC, free of charge, the natural gas necessary to fill and pressurize 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 SCPC, 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 SOCAR 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 Agreement (TAP GTA)

AGSC and SOCAR 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 0.16 BScm in 2022 and during the following years until the termination of the contract subject to the right of BTC to reduce annual off-take (the liability of both sides), 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 2022.

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 2021 and subsequent periods at a price calculated based on the formula established in the agreement.

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

21. Contingencies, commitments and operating risks (continued)

Commitments related to participating interest in AGSC (continued)

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 BScm in all delivery years, except 3.8 BScm in 2022).

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 SCPC 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 30 June 2022 gasification in the country was completed by 96.26 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.

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

21. Contingencies, commitments and operating risks (continued)

Commitments related to participating interest in AGSC (continued)

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% 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.

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 2 (UAH 32 million) as of 30 June 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 materialize and require the Group to pay additional amount of taxes and other withholdings. As at 30 June 2022, management estimates such contingencies not to exceed AZN 14 (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.

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

21. Contingencies, commitments and operating risks (continued)

Other commitments (continued)

- *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 realize 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 penalized 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.