

“ASG Business Aviation” Limited Liability Company

Consolidated Financial Statements and
Independent Auditor’s Report
for the Year Ended 31 December 2023

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023	1
INDEPENDENT AUDITOR’S REPORT	2-3
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023:	
Consolidated statement of profit or loss and other comprehensive income	5
Consolidated statement of financial position	6
Consolidated statement of changes in equity	7
Consolidated statement of cash flows	8-9
Notes to the consolidated financial statements	10-56

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

Management is responsible for the preparation of the consolidated financial statements that present fairly, in all material respects, the consolidated financial position of “ASG Business Aviation” Limited Liability Company and its subsidiaries (the “Group”) as at 31 December 2023, consolidated statements of profit or loss and other comprehensive income for the year then ended, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and of material accounting policy information and notes to the consolidated financial statements in compliance with International Financial Reporting Standards (“IFRSs”).

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2023 were authorised for issue by management on 1 October 2024.

On behalf of Management:


Mr. Boyukaga Guliyev
General Director

Baku, the Republic of Azerbaijan
1 October 2024


Mrs. Marina Mordovskaya
Deputy of General Director / CFO

Baku, the Republic of Azerbaijan
1 October 2024

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and the Supervisory Board of "ASG Business Aviation" Limited Liability Company

Opinion

We have audited the consolidated financial statements of "ASG Business Aviation" Limited Liability Company, its subsidiaries and branches (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

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

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

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

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

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

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

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

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

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

DELOITTE + TOUCHE LLAC

1 October 2024



“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

	Notes	Year ended 31 December 2023	Year ended 31 December 2022 (restated)*
Revenue			
Revenue	5	289,571	283,016
Insurance revenue	6	11,596	12,595
Total revenue		301,167	295,611
Operating expenses			
Employee costs	7	(68,340)	(54,633)
Material expenses	8	(43,937)	(41,002)
Depreciation	14	(18,560)	(22,776)
Repair and technical maintenance		(17,483)	(10,025)
Allocation of reinsurance premiums	6	(11,983)	(12,632)
Handling, landing, navigation, and other flight costs		(10,222)	(8,438)
Fuel		(9,499)	(8,351)
Recovery of impairment on financial assets ¹	16	8,294	3,545
Taxes other than income tax		(4,778)	(4,639)
Aircraft crew costs		(4,330)	(2,659)
Communication expenses		(3,660)	(2,441)
Catering and other passenger-related expenses		(2,458)	(1,881)
Lease costs		(2,074)	(4,701)
Insurance expenses	6	(896)	(131)
Amounts recoverable from reinsurance for incurred claims	6	695	142
Insurance claims incurred, net of reinsurance	6	56	-
Insurance finance expense for insurance contracts issued	6	(44)	(283)
Reinsurance finance expense for reinsurance contracts held	6	28	125
Other expenses ²	9	(13,755)	(15,155)
Total operating expenses		(202,946)	(185,935)
Operating profit		98,221	109,676
Corporate social responsibility expenses	10	(49,040)	(42,680)
Finance costs	11	(11,035)	(9,388)
Finance income - interest income		1,306	1,006
Foreign exchange loss, net		(782)	(156)
Finance income - other		606	455
Other income		3,139	2,257
Profit for the year before income tax		42,415	61,170
Income tax expense	12	(19,060)	(20,593)
Profit for the year		23,355	40,577
Translation reserve gain/(loss)		106	(176)
Total comprehensive income for the year		23,461	40,401
Profit for the year attributable to:			
Owners of the Company		23,339	40,579
Non-controlling interests		16	(2)
Total comprehensive income for the year attributable to:			
Owners of the Company		23,445	40,403
Non-controlling interests		16	(2)

¹ 2023 recovery includes AZN 151 thousand (2022: AZN 156 thousand) recovery of previously written-off trade receivable.

² AZN 604 thousand insurance expenses (related to medical and other) of 2022 were included within other expenses in comparative figures.

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

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

(in thousands of Azerbaijani Manats)

	Notes	31 December 2023	31 December 2022 (restated)*	31 December 2021 (restated)*
ASSETS				
Non-current assets				
Property and equipment	14	314,944	299,993	194,645
Investment property		-	2,632	2,841
Long-term advances given	20	10,594	7,395	8,202
Bank deposits, non-current portion	17	-	1,400	1,400
Finance lease receivables, non-current portion	19	-	7,088	10,778
Deferred tax assets	13	940	665	9
Other non-current assets		5,134	5,134	1,878
Total non-current assets		331,612	324,307	219,753
Current assets				
Inventories	15	13,252	13,057	9,205
Trade and other receivables	16	46,711	45,629	49,409
Cash and cash equivalents	18	69,264	55,366	50,446
Short-term advances given	20	10,376	7,434	2,953
Bank deposits, current portion	17	7,900	6,500	6,500
Reinsurance contract assets	6	2,317	1,803	2,674
Insurance contract assets	6	13	34	1,740
Finance lease receivables, current portion	19	-	6,922	7,100
Current income tax prepayment		683	-	-
Other current assets		830	751	691
Total current assets		151,346	137,496	130,718
Total assets		482,958	461,803	350,471
EQUITY AND LIABILITIES				
Equity				
Charter capital	25	181,044	186,672	186,672
Translation reserves		(70)	(176)	-
Accumulated deficit		(56,904)	(80,243)	(120,822)
Equity attributable to owners of the Company		124,070	106,253	65,850
Non-controlling interests		473	457	459
Total equity		124,543	106,710	66,309
Non-current liabilities				
Loans and borrowings, non-current portion	21	162,907	162,733	171,315
Long-term payables	23	100,470	104,894	-
Deferred tax liabilities	13	8,772	5,400	3,030
Provisions		159	391	2,179
Total non-current liabilities		272,308	273,418	176,524
Current liabilities				
Advances received	24	27,642	28,459	33,098
Trade and other payables	22	41,091	32,691	62,752
Loans and borrowings, current portion	21	12,208	2,567	2,889
Reinsurance contract liabilities		135	193	364
Current income tax liabilities		-	12,885	5,059
Insurance contract liabilities	6	5,031	4,880	3,476
Total current liabilities		86,107	81,675	107,638
Total liabilities		358,415	355,093	284,162
Total equity and liabilities		482,958	461,803	350,471

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

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

	Notes	Charter capital	Accumulated deficit	Foreign exchange translation reserve	Total equity attributable to owners of the parent	Non-controlling interest	Total equity deficit
Balance at 31 December 2021, as previously reported		186,672	(121,320)	-	65,352	459	65,811
Impact of initial application of IFRS 17	2	-	498	-	498	-	498
Restated balance as at 1 January 2022		186,672	(120,822)	-	65,850	459	66,309
Profit for the year (restated)		-	40,579	-	40,579	(2)	40,577
Other comprehensive income for the year		-	-	(176)	(176)	-	(176)
Restated balance at 31 December 2022		186,672	(80,243)	(176)	106,253	457	106,710
Profit for the year		-	23,339	-	23,339	16	23,355
Reduction in charter capital	25	(5,628)	-	-	(5,628)	-	(5,628)
Other comprehensive income for the year		-	-	106	106	-	106
Balance at 31 December 2023		181,044	(56,904)	(70)	124,070	473	124,543

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

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023**

(in thousands of Azerbaijani Manats)

	Notes	31 December 2023	31 December 2022 (restated)*
Profit for the year before income tax		42,415	61,170
Adjustments for:			
Depreciation	14	18,560	22,776
Recovery of impairment on financial assets	16	(8,294)	(3,389)
Change in provision for doubtful receivables for insurance contracts		-	144
Change in provision for obsolete inventory		(513)	717
Change in provision		(232)	(1,788)
Loss on disposal of property and equipment	14	2,391	-
Foreign exchange loss, net		782	156
Gain on purchase of bonds		-	(256)
Finance costs	11	11,035	9,388
Finance income		(1,912)	(1,461)
Operating cash flows before movements in working capital		64,232	87,457
Change in trade and other receivable		(1,077)	(9,100)
Change in advances given		(2,942)	(4,520)
Change in inventories		2,425	(4,681)
Change in other current assets		(83)	299
Insurance contract assets and liabilities - net		22	2,966
Reinsurance contract assets and liabilities - net		(572)	700
Change in trade and other payable		13,875	(15,889)
Change in advances received		(817)	(4,869)
Cash generated from operating activities		75,063	52,363
Income tax paid		(29,665)	(11,700)
Interest paid		(9,453)	(8,814)
Net cash generated by operating activities		35,945	31,849
Investing activities			
Purchase of property and equipment		(51,721)	(17,183)
Proceeds from disposal of property and equipment		8,832	39
Withdrawal of bank deposits		-	12,000
Advance payments for maintenance reserve and aircraft repair services		(3,285)	(1,956)
Advances paid for purchase of property and equipment		(2,928)	(1,252)
Proceeds from finance leases receivables		13,164	3,434
Interest received for bank deposits and bonds		2,680	1,887
Purchase of government bonds ¹		-	(3,000)
Bank deposit placement		-	(12,000)
Other changes		1,940	(362)
Net cash used in investing activities		(31,318)	(18,393)
Financing activities			
Principal payments on long-term borrowings	21	(14,721)	(74,290)
Proceeds from loans and borrowings	21	23,800	67,550
Dividends paid		(23)	-
Net cash generated by / (used in) financing activities		9,056	(6,740)
Net change in cash and cash equivalents		13,683	6,716
Cash and cash equivalents at the beginning of the year	18	55,366	50,446
Foreign currency effect on cash and cash equivalents	18	215	(1,796)
Cash and cash equivalents at the end of the year	18	69,264	55,366

¹Government bonds are included within other non-current assets in the statement of financial position.

Following non-cash transactions were eliminated from consolidated statement of cash flow for the year ended 31 December 2023 and 2022:

- (a) Offset of trade receivables with trade payables of AZN 3,567 thousand in 2023 (2022: AZN 13,786 thousand);
- (b) Offset of trade receivables with long-term payables of AZN 5,840 thousand in 2023 (2022: AZN 6,256 thousand);
- (c) Overhaul of engines through advances paid under power-by-hour agreement of AZN 3,015 thousand in 2023 (2022: 3,060 AZN thousand);
- (d) Withdrawal of property and equipment and investment property by shareholder with carrying amount of AZN 5,628 (2022: nil thousand)
- (e) Offset of tax receivables with current income tax liabilities of AZN 164 thousand in 2023 (2022: AZN 631 thousand);
- (f) Transfer of asset to the Ministry of Youth and Sport of the Republic of Azerbaijan with carrying amount of AZN 2,700 thousand in 2022;
- (g) Acquisition of aircraft through long-term payables of AZN 110,500 thousand in 2022.

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

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (in thousands of Azerbaijani Manats)

1. NATURE OF ACTIVITIES

ASG Business Aviation Limited Liability Company (the “Company”) is a legal entity registered by the Ministry of Taxes on 13 April 2007. The registered office of the Company is 21 Mardakan pr., Baku, the Republic of Azerbaijan.

The Company was 100% owned by Silk Way Development Limited Liability Company until it was acquired by Mr. Teymur Mammadov on 2 October 2019. As at 31 December 2023 and 2022 he is the sole owner (100%) of the Company and its ultimate controlling party.

The name of the Company was officially changed from Silk Way Business Aviation to ASG Business Aviation on 8 July 2020.

The primary activities of the Company, its subsidiaries and branches (the “Group”) are the provision of chartered flights and aviation, on-ground, agency, catering, construction, supply and insurance services to third parties.

The Group has the following branches in 2023 and 2022 established from the end of November 2019, which have been included in these consolidated financial statements:

<u>Name of branch</u>	<u>Principal activity</u>
ASG Business Aviation Ground Handling Company	Provides ground handling services at different airports in the Republic of Azerbaijan.
ASG Business Aviation Sky Catering	Provides catering services to aircraft at different airports in the Republic of Azerbaijan.
ASG Business Aviation Logistics and Supply	Provides with logistics and goods supply.
ASG Business Aviation Construction & Industry	Provides services to the aviation sector in the field of repair-building, assembly operations, restoration, and other kind of works.

The principal activities of subsidiaries and their effective ownership interests as at 31 December 2023 and 2022 were as follows:

<u>Name of Subsidiary</u>	<u>Principal activity</u>	<u>Place of incorporation and operation</u>	<u>Proportion of ownership interest held %</u>
AzMilk Dairy LLC	Agriculture services	Azerbaijan	100%
Hahn Cargo Services GmbH	Handling services in Hahn airport	Germany	100%
Ipek Yolu Insurance OJSC	Insurance services	Azerbaijan	96.53%

Significant transactions with former entities under common control

As part of the deal to obtain control over the Company from the former owner, the parties agreed to acquire assets necessary to start new line of business and established the new branches disclosed above.

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(in thousands of Azerbaijani Manats)*

In the normal course of the business, the Group enters into transactions with subsidiaries of its former shareholder, Silk Way Development LLC. Starting from the acquisition of a new line of businesses (ground handling and catering services) from Silk Way Airlines LLC (subsidiary of the former owner) in 2019, the Group provides ground handling services back to Silk Way Airlines LLC and its subsidiaries (Note 5).

2. ADOPTION OF NEW AND REVISED STANDARDS

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

In the current year, the Group has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2023. Their adoption has not had material impact on the disclosures or on the amounts reported in these consolidated financial statements, except for application *IFRS 17 Insurance Contracts (including the June 2020 and December 2022 Amendments to IFRS 17)* disclosed further in Note 6.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies

The Group has adopted the amendments to IAS 1 for the first time in the current year. The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term ‘significant accounting policies’ with ‘material accounting policy information’. Accounting policy information is material if, when considered together with other information included in the Group’s consolidated financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The IASB has also developed guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ described in IFRS Practice Statement 2.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates

The Group has adopted the amendments to IAS 8 for the first time in the current year. The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. The definition of a change in accounting estimates was deleted.

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (in thousands of Azerbaijani Manats)

IFRS 17 Insurance Contracts (including the June 2020 and December 2022 Amendments to IFRS 17)

The Group has initially applied IFRS 17, including any consequential amendments to other standards, from 1 January 2023. These standards have brought significant changes to the accounting for insurance and reinsurance contracts and financial instruments. As a result, the Group has restated certain comparative amounts and presented a third statement of financial position as at 1 January 2022.

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these financial statements.

The nature and effects of the key changes in the Group’s accounting policies resulting from its adoption of IFRS 17 summarised below:

IFRS 17 Insurance Contracts

Recognition, measurement, and presentation of insurance contracts - IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts held. It introduces a model that measures groups of insurance contracts based on the Group’s estimates of the present value of future cash flows that are expected to arise as the Group fulfils the contracts, an explicit risk adjustment for non-financial risk and a contractual service margin (“CSM”).

Under IFRS 17, insurance revenue in each reporting period represents the changes in the liabilities for remaining coverage that relate to services for which the Group expects to receive consideration and an allocation of premiums that relate to recovering insurance acquisition cash flows. In addition, investment components are no longer included in insurance revenue and insurance service expenses.

The Group applies the Premium Allocation Approach (“PAA”) to simplify the measurement of contracts. When measuring liabilities for remaining coverage, the PAA is similar to the Group’s previous accounting treatment related to recognition of revenues from insurance contracts. However, when measuring liabilities for incurred claims, the Group now discounts the future cash flows (unless they are expected to occur in one year or less from the date on which the claims are incurred) and includes an explicit risk adjustment for non-financial risk.

Previously, all acquisition costs were recognised and presented as separate assets from the related insurance contracts ('deferred acquisition costs') until those costs were included in profit or loss and OCI. Under IFRS 17, only insurance acquisition cash flows that arise before the recognition of the related insurance contracts are recognised as separate assets and are tested for recoverability. These assets are presented in the carrying amount of the related portfolio of contracts and are derecognised once the related contracts have been recognised.

Income and expenses from reinsurance contracts held other than reinsurance finance income and expenses are now presented as a single net amount in profit or loss. Previously, amounts recovered from reinsurers and reinsurance expenses were presented separately.

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

Transition - Changes in accounting policies resulting from the adoption of IFRS 17 have been applied using a full retrospective approach to the extent practicable. Under the full retrospective approach, on 1 January and 31 December 2022 the Group:

- identified, recognised and measured each group of insurance and reinsurance contracts held as if IFRS 17 had always been applied;
- derecognised previously reported balances that would not have existed if IFRS 17 had always been applied; and
- recognised any resulting net difference in equity.

Restatement

The following table summarises the impact of IFRS 17 on the Group’s statement of financial position as at 1 January 2022:

	Impact of adoption of IFRS 17		
	As previously reported	Impact of adoption of IFRS 17	As restated
ASSETS			
Deferred tax assets	-	9	9
Insurance contract assets	9,146	(7,406)	1,740
Reinsurance contract asset	-	2,674	2,674
Other current assets	688	3	691
Total assets	355,191	(4,720)	350,471
EQUITY AND LIABILITIES			
Insurance contract liabilities	(9,058)	5,582	(3,476)
Reinsurance contract liabilities	-	(364)	(364)
Total liabilities	(289,380)	5,218	(284,162)
Accumulated deficit	121,320	(498)	120,822
Total Equity	(65,811)	(498)	(66,309)

The following table summarises the impact of IFRS 17 on the Group’s statement of financial position as at 31 December 2022:

	Impact of adoption of IFRS 17		
	As previously reported	Impact of adoption of IFRS 17	As restated
ASSETS			
Insurance contract asset	14,609	(14,575)	34
Reinsurance contract assets	-	1,803	1,803
Deferred tax asset	683	(18)	665
Total assets	474,593	(12,790)	461,803
EQUITY AND LIABILITIES			
Insurance contract liabilities	(18,402)	13,522	(4,880)
Reinsurance contract liability	-	(193)	(193)
Total liabilities	(368,422)	13,329	(355,093)
Accumulated deficit	80,779	(536)	80,243
Non-controlling interest	(454)	(3)	(457)
Total Equity	(106,171)	(539)	(106,710)

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

The following table summarises the impact of IFRS 17 on the Group’s statement of profit or loss and other comprehensive income for the year ended 2022:

	Impact of adoption of IFRS 17		
	As previously reported	Impact of adoption of IFRS 17	As restated
Insurance underwriting income	187	(187)	-
Insurance claims incurred, net of reinsurance	(322)	322	-
Insurance revenue	-	12,595	12,595
Insurance expenses	-	(131)	(131)
Allocation of reinsurance premiums	-	(12,632)	(12,632)
Amounts recoverable from reinsurance for incurred claims	-	142	142
Insurance finance (expense)/income for insurance contracts issued	-	(283)	(283)
Reinsurance finance expense for reinsurance contracts held	-	125	125
Foreign exchange loss, net	(274)	118	(156)
Income tax expense	(20,565)	28	(20,593)
Profit for the year	40,536	41	40,577

New and revised IFRS Standards in issue but not yet effective

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

Standards	Effective date
Amendments to IFRS 10 and IAS 28 - <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	<i>To be set by the Board</i>
Amendments to IAS 1 - <i>Classification of Liabilities as Current or Non-current</i>	1 January 2024
Amendments to IAS 1 - <i>Non-current Liabilities with Covenants</i>	1 January 2024
Amendments to IAS 7 and IFRS 7 - <i>Supplier Finance Arrangements</i>	1 January 2024
Amendments to IFRS 16 - <i>Lease Liability in a Sale and Leaseback</i>	1 January 2024
IFRS 18 - <i>Presentation and Disclosure in Financial Statements</i>	1 January 2027
IFRS 19 - <i>Subsidiaries without Public Accountability: Disclosures</i>	1 January 2027

Management do not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Group in future periods.

3. MATERIAL ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(in thousands of Azerbaijani Manats)*

pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IFRS 16 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories. The same accounting policies, presentation and methods of computation have been followed the year ended 31 December 2023 as were applied in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2022.

The principal accounting policies adopted are set out below.

Going Concern

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

Basis of consolidation

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

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

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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

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

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

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (in thousands of Azerbaijani Manats)

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

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

Functional and presentation currency

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

Foreign currency transactions

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

The relevant exchange rates are as follows:

	<u>31 December 2023</u>	<u>31 December 2022</u>
USD / AZN	1.7000	1.7000
EUR / AZN	1.8766	1.8114

Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue at a point in time when it transfers control of a product or service to a customer as described below.

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

On-ground services revenue

Ground handling services for aircraft and cargo are recognized in the period in which the services are rendered.

Business aviation

Business aviation revenue includes transportation of private customers, including corporate and individuals in a private jet. Business aviation revenue is recognized when the transportation service is provided.

Catering

Revenue from catering services is recognized in the period in which the services are rendered.

Rental income

Rental income from operating leases is recognised as revenue on a straight-line basis over the term of the lease.

Construction

Construction revenue and related receivables recognised based on the stage of completion of each contract.

Supply

Revenue from supply services is recognized in the period in which the services are rendered.

Technical maintenance

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

Agent's fee

The Group collects money on behalf of an airlines company which actually performs a service and transfers it to the airlines company. In this case, the Group acts in the capacity of an agent rather than the principal in a transaction, and revenue (agent's fee) recognised is the net amount of commission earned by the Group, and is recognised in the period in which the services are provided.

Insurance revenue

The insurance revenue for the year is the amount of expected premium receipts (excluding any investment component) allocated to the period. The Group allocates the expected premium receipts to each period of coverage on the basis of the passage of time; but if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then on the basis of the expected timing of incurred insurance service expenses. The Group changes the

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (in thousands of Azerbaijani Manats)

basis of allocation between the two methods above as necessary, if facts and circumstances change. The change is accounted for prospectively as a change in accounting estimate. For the periods presented, all revenue has been recognised on the basis of the passage of time.

Operating expenses recognition

Operating expenses are recognised in profit or loss upon utilisation of the service or as incurred.

Finance costs

Finance costs comprise interest expense on loans and borrowings. All finance cost are recognized in statement of profit or loss and other comprehensive income in the period in which they are incurred.

Employee benefit obligations

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

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

Taxation

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

Current tax

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

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

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (in thousands of Azerbaijani Manats)

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

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

Current tax and deferred tax for the year

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

Operating taxes

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

Property and equipment

Items of property and equipment held for use in the supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

The cost relating to the major maintenance element is identified on acquisition as a separate component and depreciated till its next major maintenance event.

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

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

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

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

Depreciation

Depreciation of overhaul components of engines and aircraft is calculated using the units of production method based on the estimated flying hours or cycles, and depreciation for remaining property and equipment is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method on the following bases:

Category	Useful life	Residual value
Aircraft, related overhauls and equipment		
<i>Airframe</i>	20 years	10% of cost
<i>Engine</i>	20 years	10% of cost
<i>Checks</i>	1-3 years	nil
<i>Engine overhaul</i>	4,500-8,000 flight hours	nil
<i>Other major components overhauls</i>	9 years, 5,000-22,500 flight cycles	nil
Buildings	35 years	nil
Equipment	5-20 years	nil
Furniture, fixtures and computer equipment	5 years	nil
Vehicles	4 years	nil

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

Aircraft

Aircraft are depreciated using the straight-line method over their average estimated useful life of 20 years.

Overhauls of major components and related expenditure, including replacement spares and labour costs, are capitalised and amortised over the average expected life between major overhauls based on flight hours and cycles.

All other replacement spares and other costs relating to maintenance of an aircraft are charged to the statement of profit or loss and other comprehensive income upon consumption or as incurred respectively.

Impairment of property and equipment

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

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (in thousands of Azerbaijani Manats)

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in statement of profit or loss and other comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

A reversal of an impairment loss is recognised immediately in statement of profit or loss and other comprehensive income to the extent that it eliminates the impairment loss which has been recognised for the asset in prior years.

Advances given

Advances given are carried at cost less accumulated impairment losses. Advances given is classified as non-current when it relates to an asset which will itself be classified as non-current upon initial recognition. Advances given to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. If there is an indication that the assets, goods or services relating to advance will not be received, the carrying value of the advances given is written down accordingly and a corresponding impairment loss is recognized in statement of profit or loss and other comprehensive income for the period.

Inventories

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

Provisions

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

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (in thousands of Azerbaijani Manats)

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

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

Financial instruments

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

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

Financial assets

Financial assets are classified into the following specified categories: cash and cash equivalents, bank deposits, insurance contract assets, reinsurance contract assets and trade and other receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash in current bank accounts, cash in transit, petty cash and VAT deposits.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables including trade and other receivables, cash and cash equivalents, bank deposits, insurance contract assets and reinsurance contract assets are measured at amortized cost using the effective interest method, less any impairment.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

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

Interest income is recognised in profit or loss.

Impairment of financial assets

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

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

(i) Significant increase in credit risk

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

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

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

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

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

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

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

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

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(in thousands of Azerbaijani Manats)*

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default.

The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (in thousands of Azerbaijani Manats)

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognizes an impairment gain or loss in the statement of profit or loss and other comprehensive income for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor’s current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Group has considered a probability of default of 100 per cent against all receivables over 90 days past due because historical experience has indicated that these receivables are generally not recoverable.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

Financial liabilities

Classification as debt or equity

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

Financial liabilities

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

Derecognition of financial liabilities

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

Offsetting

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

Insurance contracts

The Group utilises accounting policies determined by Central Bank of Azerbaijan (hereinafter referred to as CBAR) for insurance companies of Azerbaijan. The Group offers various insurance products in property and casualty, liability and personal insurance. Main insurance contracts comprise of air CASCO, aircraft liability insurance for aircraft owners and compulsory property insurance.

IFRS 17 replaces IFRS 4 Insurance Contracts for annual periods on or after 1 January 2023. The Group has restated comparative information for 2022 applying the full retrospective transition approach prescribed in the standard. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contract and investment contracts with discretionary participation features. It introduces a model that measures groups of contracts based on the Groups estimates of the present value of future cash flow that are expected to arise as the group fulfils the contracts, an explicit risk adjustment for non-financial risk and a Contractual Service Margin (“CSM”).

Under IFRS 17, insurance revenue in each reporting period represents the change in the liabilities for remaining coverage that relate to services for which the Group expects to receive consideration and an allocation of premiums that relate to recovering insurance acquisition cash flows. In addition, investment components are no longer included in insurance revenue and insurance service expenses.

The Group applies the Premium Allocation Approach (“PAA”) to simplify the measurement of contracts when measuring liabilities for remaining coverage, the PAA is similar to the Group’s previous accounting treatment. However, when measuring for liabilities incurred claims, the Group now discounts the future cash flows and includes an explicit risk adjustment for non- financial risk.

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(in thousands of Azerbaijani Manats)*

The nature of the changes in accounting policies can be summarized, as follows:

(i) Classification of contracts

The Group issues insurance contracts that transfer insurance risk. Insurance contracts uncertain future event (the “insured event”) adversely affects the policyholder or other beneficiary are classified as insurance contracts.

The Group issues non-life insurance to individuals and businesses. Non-life insurance products offered include property, motor, liability, and others. These products offer protection of policyholder’s assets and indemnification of other parties that have suffered damage because of a policyholder’s actions.

(ii) Level of aggregation

Insurance contracts are aggregated into groups for measurement purposes. Groups of insurance contracts are determined by identifying portfolios of insurance contracts, each comprising contracts subject to similar risks and managed together and dividing each portfolio into annual cohorts (i.e. by year of issue). The Group identifies portfolio per lines of businesses of insurance and reinsurance contracts as generally all insurance contracts issued by the Group has similar risks and characteristics.

(iii) Recognition and measurement of contracts

The Group recognises insurance contracts issued from the earliest of the following:

- the beginning of the coverage period of the group of contracts.
- the date when the first payment from a policyholder becomes due.
- if there is no contractual due date, then it is considered to be the date when the first payment is received from the policyholder.

The Group recognises reinsurance contracts held as it entered from the earlier of the following:

- the beginning of the coverage period of the group of reinsurance contracts held. However, the Group delays the recognition of a group of reinsurance contracts held that provide proportionate coverage until the date any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held.
- the date the Group recognizes an onerous group of underlying insurance contracts if the Group entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

Cash flows are within the boundary of a contract if they arise from substantive rights and obligations that exist during the reporting period under which the Group can compel the policyholder to pay premiums or has a substantive obligation to provide services.

Substantive obligation to provide services ends when:

- a) The Group has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(in thousands of Azerbaijani Manats)*

b) Both of the following criteria are satisfied:

- the Group has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio; and
- the pricing of the premiums for coverage up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

(iv) Reinsurance contracts

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Group is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer. A substantive right to receive services from the reinsurer ends when the reinsurer:

- has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or
- has a substantive right to terminate the coverage.

The contract boundary is reassessed at each reporting date and, therefore, may change over time.

(v) Measurement

PAA which is a simplified measurement model under IFRS 17, is used to measure portfolio of the Company. The Group reasonably expects that using PAA would produce a measurement of the liability for remaining coverage for the company that would not differ materially from the one that would be produced applying the general measurement model requirements; or the coverage period of each contract is equal or less than one year.

PAA which is a simplified measurement model under IFRS 17, is used to measure reinsurance assets held by the Group as they bear same characteristics as underlying insurance contracts. On initial recognition of each group of insurance contracts that are not onerous, the carrying amount of the liability for remaining coverage (“LRC”) is measured at the premiums received on initial recognition less any insurance acquisition cash flows at that date, including any amount arising from the derecognition at that date of any asset recognised for insurance acquisition cash flows paid before that date, plus or minus any other assets or liabilities previously recognised for cash flows related to that group.

For reinsurance contracts held on initial recognition, the company measures the remaining coverage at the amount of ceding premiums paid.

(vi) Subsequent measurement under PAA

The carrying amount of a group of insurance contracts issued at the end of each reporting period is the sum of:

- the LRC; and
- the Liability Incurred Claims (“LIC”), comprising the fulfilment cash flows (“FCF”) related to past service allocated to the group at the reporting date.

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(in thousands of Azerbaijani Manats)*

The carrying amount of a group of reinsurance contracts held at the end of each reporting period is the sum of:

- the asset for remaining coverage, comprising of the ceding premiums payable and reinsurance commission receivable; and
- the asset for incurred claims, comprising the FCF related to past service allocated to the group at the reporting date expected to be recovered from reinsurers.

The Group estimates the liability for incurred claims as the fulfilment cash flows related to incurred claims. Fulfilment cash flows comprise estimates of future cash flows, an adjustment to reflect the time value of money and the financial risks related to future cash flows, to the extent that the financial risks are not included in the estimates of future cash flows, and a risk adjustment for non-financial risk.

The Group’s objective in estimating future cash flows is to determine the expected value of a range of scenarios that reflects the full range of possible outcomes. The cash flows from each scenario are discounted and weighted by the estimated probability of that outcome to derive an expected present value. The determination of the discount rate that reflects the characteristics of the cash flow and liquidity characteristics of the insurance contracts requires significant judgement and estimation.

(vii) De-recognition and contract modification

The Group derecognises a contract when it is extinguished i.e., when the specified obligations in the contract expire or are discharged or cancelled. The Group also derecognises a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognised. If a contract modification does not result in derecognition, then the company treats the changes in cash flows caused by the modification as changes in the estimates of fulfilment cash flows.

(viii) Acquisition and attributable cost

Insurance acquisition cash flows are the costs that are directly associated with selling and handling acquired contracts. The Group considers expenses for the underwriting department, expenses for sales department, and commission expenses as acquisition costs. The Group has in place an allocation technique to allocate the costs based on direct to indirect ratios. Both acquisition and attributable costs fall under the insurance service expense while the non-attributable costs are reported under other operating expenses and are not allocated to the groups of contracts.

Presentation

(i) Insurance revenue:

For contracts measured under the PAA, the insurance revenue for each period is the amount of expected premium receipts for providing services in the period. The Group allocates the expected premium receipts to each period on the basis of the passage of time.

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (in thousands of Azerbaijani Manats)

(ii) Insurance service expenses:

Insurance service expenses include the following:

- Incurred claims for the period.
- Other incurred directly attributable expenses.
- Insurance acquisition cash flows.
- Changes that relate to past service – changes in the FCF relating to the LIC.
- Changes that relate to future service – changes in the FCF that result in onerous contract losses or reversals of those losses.

(iii) Net expenses from reinsurance contracts:

Net expenses from reinsurance contracts comprise reinsurance expenses less amounts recovered from reinsurers. The Group recognises reinsurance expenses as it receives coverage or other services under groups of reinsurance contracts. For contracts measured under the PAA, the Group recognises reinsurance expenses based on the passage of time over the coverage period of a group of contracts. Income and expenses from reinsurance contracts are presented separately from income and expenses from insurance contracts. Income and expenses from reinsurance contracts, other than insurance finance income or expenses, are presented on a net basis as 'net expenses from reinsurance contracts' in the insurance service result.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the critical judgments and estimates that management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Critical judgments in applying accounting policies and estimates

Taxation

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated additional tax assessments as a result of tax audits based on estimates of whether it is probable that additional taxes will be due.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determinations are made.

Fiscal periods remain open to review by the tax authorities in respect of taxes for the three calendar years preceding the year of tax review. Under certain circumstances reviews may cover longer periods. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Group.

Income tax specifically chargeable to policyholders

When income tax expenses are specifically chargeable to the policyholder under the terms of the contract, they are measured applying IAS 12, and the Group includes those amounts in the fulfilment cash flows applying IFRS 17. The Group accounts for them as a reduction in the liability for remaining coverage and recognises insurance revenue when incurred.

Key sources of estimation uncertainty

The below are listed key estimations that management have used in the process of applying the Group’s accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Aircraft maintenance and overhaul expenditure under Power by the Hour agreements

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

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

Provision for expected credit losses on financial assets

The Group uses a provision matrix to calculate expected credit losses for financial assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (by geography).

Probability of default (PD) constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

The provision matrix is initially based on the Group’s historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year, which can lead to an increased number of defaults in the aviation sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. Where applicable, the Group relies on default rates derived from external rates of counterparties. The assessment of the correlation between historical observed default rates, forecast economic conditions and expected credit losses is a significant estimate. The amount of expected credit losses is sensitive to changes in circumstances and of forecast economic conditions. Uncertainties regarding changes in the financial condition of customers, either adverse or positive, could impact the amount and timing of any additional allowances for doubtful accounts that may be required. This may have a negative impact on the financial results if additional losses occur that were not anticipated in prior periods.

Insurance and reinsurance contracts

The Group applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to the Group’s previous accounting treatment under IFRS 4. However, when measuring liabilities for incurred claims, the Group now discounts cash flows that are expected to occur more than one year after the date on which the claims are incurred and includes an explicit risk adjustment for non-financial risk.

Liability for incurred claims

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that a Group past claims development experience can be used to project future claims development and hence ultimate claims costs. These methods extrapolate the development of paid and incurred losses, average costs per claim (including claims handling costs), and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the probability weighted expected value outcome from the range of possible outcomes, taking account of all the uncertainties involved. Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency exchange rates.

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (in thousands of Azerbaijani Manats)

Discount rates

Insurance and reinsurance contract liabilities are calculated by discounting expected future cash flows at a risk free rate, plus an illiquidity premium where applicable. Risk free rates are determined by reference to the yields of highly liquid AAA-rated sovereign securities in the currency of the insurance and reinsurance contract liabilities. The illiquidity premium is determined by reference to the observable market rates. The Group used the yield curve for discounting provided by the CBAR and considered the market rates when calculating the illiquidity premium.

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that the Group requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount. The Group has estimated the risk adjustment using a confidence level (probability of sufficiency) approach at the 80th percentile. That is, the Group has assessed its indifference to uncertainty for all product lines (as an indication of the compensation that it requires for bearing non-financial risk) as being equivalent to the 80th percentile confidence level less the mean of an estimated probability distribution of the future cash flows. The Group has estimated the probability distribution of the future cash flows, and the additional amount above the expected present value of future cash flows required to meet the target percentiles.

5. REVENUE

	<u>Year ended</u> <u>31 December 2023</u>	<u>Year ended</u> <u>31 December 2022</u>
On-ground services	154,370	139,055
Catering revenue	58,441	50,033
Business aviation	48,863	55,207
Construction revenue	11,684	12,949
Supply revenue	8,384	6,486
Agent's fee	4,224	5,139
Technical maintenance	2,767	2,781
Rental income from investment property	-	10,525
Other sales	838	841
Total	<u>289,571</u>	<u>283,016</u>

Rental income from investment property consists of rental income generated from the leasing of buildings by the related party.

Revenue generated from Silk Way Airlines LLC and its subsidiaries in 2023 represent more than 12% (2022: 15% of total revenue) of the total Group revenue (2023: AZN 34,424 thousand and 2022: AZN 43,041 thousand).

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

6. INSURANCE AND REINSURANCE CONTRACT

The breakdown of groups of insurance and reinsurance contracts issued, and reinsurance contracts held, that are in an asset position and those in a liability position is set out in the table below:

	31 December 2023			31 December 2022 (restated)		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Insurance contracts issued						
All insurance types	13	(5,031)	(5,018)	34	(4,880)	(4,846)
Total insurance contracts issued	13	(5,031)	(5,018)	34	(4,880)	(4,846)
Reinsurance contracts held						
All insurance types	2,317	(135)	2,182	1,803	(193)	1,610
Total reinsurance contracts held	2,317	(135)	2,182	1,803	(193)	1,610

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

Roll-forward of net asset or liability for insurance contracts issued showing the liability for remaining coverage and the liability for incurred claims:

31 December 2023	Liabilities for remaining coverage		Liabilities for Incurred claims		Total
	Excluding loss component	Loss component	Estimates of the PV of future cash flows	Risk adjustment	
Insurance contract assets as at 1 January	(34)	-	-	-	(34)
Insurance contract liabilities as at 1 January	2,538	-	2,158	184	4,880
Net insurance contract liabilities as at 1 January	2,504	-	2,158	184	4,846
Insurance revenue	(11,596)	-	-	-	(11,596)
Insurance service expenses	6	-	856	34	896
<i>Incurred claims and other expenses</i>	-	-	2,553	229	2,782
<i>Amortisation of insurance acquisition cash flows</i>	6	-	-	-	6
<i>Changes to liabilities for incurred claims</i>	-	-	(1,697)	(195)	(1,892)
Insurance services results	(11,590)	-	856	34	(10,700)
Insurance finance expenses	-	-	42	2	44
Total changes in the statement of comprehensive income	(11,590)	-	898	36	(10,656)
Cash flows					
Premiums received	14,542	-	-	-	14,542
Claims and other expenses paid	-	-	(620)	-	(620)
Insurance acquisition cash flows	(3)	-	-	-	(3)
Total cash flows	14,539	-	(620)	-	13,919
Insurance contract assets as at 31 December	(13)	-	-	-	(13)
Insurance contract liabilities as at 31 December	2,376	-	2,435	220	5,031
Net insurance contract liabilities as at 31 December	2,363	-	2,435	220	5,018
31 December 2022 - restated	Liabilities for remaining coverage		Liabilities for Incurred claims		Total
	Excluding loss component	Loss component	Estimates of the PV of future cash flows	Risk adjustment	
Restated insurance contract assets as at 1 January	(1,740)	-	-	-	(1,740)
Restated insurance contract liabilities as at 1 January	1,259	-	2,029	188	3,476
Net insurance contract liabilities as at 1 January	(481)	-	2,029	188	1,736
Insurance revenue	(12,595)	-	-	-	(12,595)
Insurance service expenses	20	-	131	(20)	131
<i>Incurred claims and other expenses</i>	-	-	1,804	189	1,993
<i>Amortisation of insurance acquisition cash flows</i>	20	-	-	-	20
<i>Changes to liabilities for incurred claims</i>	-	-	(1,673)	(209)	(1,882)
Insurance service result	(12,575)	-	131	(20)	(12,464)
Insurance finance expenses	-	-	267	16	283
Total changes in the statement of comprehensive income	(12,575)	-	398	(4)	(12,181)
Cash flows					
Premiums received	17,737	-	-	-	17,737
Claims and other expenses paid	-	-	(199)	-	(199)
Insurance acquisition cash flows	(20)	-	-	-	(20)
Total cash flows	17,717	-	(199)	-	17,518
Insurance contract assets as at 31 December	(34)	-	-	-	(34)
Insurance contract liabilities as at 31 December	2,363	-	2,334	184	4,880
Net insurance contract liabilities as at 31 December	2,329	-	2,334	184	4,846

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

Roll-forward of net asset or liability for reinsurance contracts issued showing the liability for remaining coverage and the liability for incurred claims:

31 December 23	Assets for remaining coverage		Amounts recoverable on incurred claims		Total
	Excluding loss recovery component	Loss component	Estimates of the PV of future cash flows	Risk adjustment	
Reinsurance contract assets as at 1 January	618	-	1,044	141	1,803
Reinsurance contract liabilities as at 1 January	(193)	-	-	-	(193)
Net reinsurance contract assets at 1 January	425	-	1,044	141	1,610
An allocation of reinsurance premiums	(11,983)	-	-	-	(11,983)
Amounts recoverable from reinsurers for incurred claims	-	-	661	34	695
Amounts recoverable for incurred claims and other expenses	-	-	1,710	189	1,899
Changes to amounts recoverable for incurred claims	-	-	(1,049)	(155)	(1,204)
Net income or expense from reinsurance contracts held	(11,983)	-	661	34	(11,288)
Reinsurance finance income	-	-	27	1	28
Total changes in the statement of comprehensive income	(11,983)	-	688	35	(11,260)
Cash flows					
Premiums paid	12,833	-	-	-	12,833
Amounts received	5	-	742	-	747
Total cash flows	12,838	-	742	-	13,580
Reinsurance contract assets as at 31 December	1,404	-	737	176	2,317
Reinsurance contract liabilities as at 31 December	135	-	-	-	135
Net reinsurance contract assets as at 31 December	1,539	-	737	176	2,452
31 December 2022 - restated	Assets for remaining coverage		Amounts recoverable on incurred claims		Total
	Excluding loss recovery component	Loss component	Estimates of the PV of future cash flows	Risk adjustment	
Restated reinsurance contract assets as at 1 January	686	-	1,848	140	2,674
Restated reinsurance contract liabilities as at 1 January	(364)	-	-	-	(364)
Net reinsurance contract assets as at 1 January	322	-	1,848	140	2,310
Allocation of reinsurance premiums	(12,632)	-	-	-	(12,632)
Amounts recoverable from reinsurers for incurred claims	-	-	150	(8)	142
Amounts recoverable for incurred claims and other expenses	-	-	1,467	152	1,619
Changes to amounts recoverable for incurred claims	-	-	(1,316)	(160)	(1,476)
Net income or expense from reinsurance contracts held	(12,632)	-	150	(8)	(12,490)
Reinsurance finance income	-	-	115	10	125
Total changes in the statement of comprehensive income	(12,632)	-	265	2	(12,365)
Cash flows					
Premiums paid	12,780	-	-	-	12,780
Amounts received	(45)	-	(97)	-	(142)
Total cash flows	12,735	-	(97)	-	12,638
Reinsurance contract assets as at 31 December	618	-	1,044	141	1,803
Reinsurance contract liabilities as at 31 December	(193)	-	-	-	(193)
Net reinsurance contract assets as at 31 December	425	-	1,044	141	1,610

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

In addition to scenario testing, the development of insurance liabilities provides a measure of the Group’s ability to estimate the ultimate value of claims. The top half of each table illustrates how the Group estimate of liability for incurred claims for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the statement of financial position.

The following tables illustrate the Group’s estimate of total liability for incurred claims for the years up to 2023:

	2017 AZN	2018 AZN	2019 AZN	2020 AZN	2021 AZN	2022 AZN	2023 AZN	Total AZN
At the end of each reporting year	392	457	13,527	882	121	172	1,871	17,422
One year later	1,106	6,839	15,312	1,350	163	645	-	25,415
Two years later	1,126	6,839	17,459	1,350	163	-	-	26,937
Three years later	1,126	6,839	17,459	1,350	-	-	-	26,774
Four years later	1,126	6,839	17,459	-	-	-	-	25,424
Five years later	1,126	6,839	-	-	-	-	-	7,965
Six years later	1,126	-	-	-	-	-	-	1,126
Estimate of cumulative claims	1,126	6,839	17,459	1,350	163	645	1,871	29,453
Cumulative payments to date	838	6,818	17,435	1,055	138	616	147	27,047
Total gross undiscounted liabilities for incurred claims	289	21	24	294	25	29	1,724	2,406
Prior accident years								243
Effect of discounting								307
Risk adjustment								(300)
Total discounted gross reserves included in the statement of financial position								2,656

<i>Restated</i>	2017 AZN	2018 AZN	2019 AZN	2020 AZN	2021 AZN	2022 AZN	2023 AZN	Total AZN
At the end of each reporting year	229	66	465	83	60	88	181	1,172
One year later	264	89	539	88	101	108	-	1,189
Two years later	264	89	613	88	101	-	-	1,155
Three years later	264	89	613	88	-	-	-	1,054
Four years later	264	89	613	-	-	-	-	966
Five years later	264	89	-	-	-	-	-	353
Six years later	264	-	-	-	-	-	-	264
Estimate of cumulative claims	264	89	613	88	101	108	181	1,444
Cumulative payments to date	103	86	612	82	98	101	83	1,165
Total net undiscounted liabilities for incurred claims	161	3	2	7	3	7	98	281
Prior accident years								44
Effect of discounting								307
Net risk adjustments								(115)
Total discounted net reserves included in the statement of financial position								517

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

7. EMPLOYEE COSTS

	<u>Year ended 31 December 2023</u>	<u>Year ended 31 December 2022</u>
Salaries and bonuses	57,679	46,461
Social taxes	10,661	8,172
Total	<u>68,340</u>	<u>54,633</u>

8. MATERIAL EXPENSES

	<u>Year ended 31 December 2023</u>	<u>Year ended 31 December 2022</u>
Foods, beverages, and supplies used in catering services	25,790	22,323
Construction materials	7,791	9,750
Food products sold by supply and logistics services	7,221	5,297
Other	3,135	3,632
Total	<u>43,937</u>	<u>41,002</u>

9. OTHER EXPENSES

	<u>Year ended 31 December 2023</u>	<u>Year ended 31 December 2022</u>
Bank charges	2,012	1,507
Utility expenses	1,973	1,707
Professional services	1,745	1,244
Software expense	1,404	3,188
Technical and maintenance expenses of terminal	609	1,179
Business trip	773	543
Inventory write-off	-	870
Other ¹	5,239	4,917
Total	<u>13,755</u>	<u>15,155</u>

¹ AZN 543 thousand business trip expenses were included within “other” in comparative disclosure figures. AZN 604 thousand insurance expenses (related to medical and other) of 2022 that were separately disclosed in the face of profit or loss statement were included within other expenses in comparative figures.

10. CORPORATE SOCIAL RESPONSIBILITY EXPENSES

The Group constructed assets during 2023 and 2022 for one of the state-owned entities as part of corporate social responsibility activities. The construction of one of the assets was primarily completed during 2023 and the asset will be transferred upon finalization of respective documents in 2024. AZN 40 thousand and AZN 33,980 thousand were spent for the construction of this asset in 2023 and 2022, respectively.

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

The Group spent AZN 29,320 thousand and AZN 6,000 thousand during 2023 and 2022 for the construction of second asset which was not finalized as at 31 December 2023.

The Group started construction of the third asset in 2023. AZN 19,680 thousand was recognized as a corporate social responsibility expense for this asset during the reporting period. The construction was not finalised as at 31 December 2023.

During 2022, the Group constructed asset with a cost of AZN 2,700 thousand for the Ministry of Youth and Sport of the Republic of Azerbaijan and transferred it free of charge as part of its corporate social responsibility activities.

The Group expects to transfer the all the asset for free when the construction will be completed.

11. FINANCE COSTS

	<u>Year ended 31 December 2023</u>	<u>Year ended 31 December 2022</u>
Interest on loans and borrowings	9,462	8,666
Other	<u>1,573</u>	<u>722</u>
Total finance costs	<u>11,035</u>	<u>9,388</u>

12. INCOME TAX EXPENSE

	<u>Year ended 31 December 2023</u>	<u>Year ended 31 December 2022 (restated)</u>
Current income tax expense	(14,535)	(18,879)
Deferred tax expense	(4,525)	(1,714)
Changes in estimates related to prior years' income tax	(1,428)	-
Changes in estimates related to prior years' deferred tax	<u>1,428</u>	<u>-</u>
Total income tax expense	<u>(19,060)</u>	<u>(20,593)</u>

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

	<u>Year ended 31 December 2023</u>	<u>Year ended 31 December 2022 (restated)</u>
Profit before income tax	42,415	61,170
Income tax expense at statutory tax rate	(8,483)	(12,234)
Tax effect of expenses that are not deductible in determining taxable profit	(10,394)	(8,276)
Effect of non-recognized tax losses	<u>(183)</u>	<u>(83)</u>
Total income tax expense	<u>(19,060)</u>	<u>(20,593)</u>

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

13. DEFERRED TAX ASSETS AND LIABILITIES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effect on the major temporary differences that give rise to the deferred balances as at 31 December 2023 and 2022 is presented below:

	<u>31 December 2023</u>	<u>31 December 2022 (restated)</u>
<i>Deferred tax liabilities attributable to:</i>		
Property and equipment	(9,715)	(9,396)
Trade and other receivables	1,913	3,516
Long-term payables	(1,907)	-
Trade and other payables	576	576
Advances given	361	(77)
Inventories	-	150
Finance lease receivables	-	(169)
Total deferred tax liability	<u>(8,772)</u>	<u>(5,400)</u>
<i>Deferred tax assets attributable to:</i>		
Insurance contract assets	2,869	2,820
Reinsurance contract assets	(709)	(555)
Insurance contract liabilities	(1,247)	(1,639)
Reinsurance contract liabilities	27	39
Total deferred tax asset	<u>940</u>	<u>665</u>

Movement in temporary differences during the year

	<u>1 January 2023 (restated)</u>	<u>Recognised in profit or loss</u>	<u>31 December 2023</u>
<i>Deferred tax liabilities</i>			
Property and equipment	(9,396)	(319)	(9,715)
Trade and other receivables	3,516	(1,603)	1,913
Long-term trade payables	-	(1,907)	(1,907)
Trade and other payables	576	-	576
Advances given	(77)	438	361
Inventories	150	(150)	-
Finance lease receivables	(169)	169	-
Total deferred tax liabilities	<u>(5,400)</u>	<u>(3,372)</u>	<u>(8,772)</u>
<i>Deferred tax assets</i>			
Insurance contract assets	2,820	49	2,869
Reinsurance contract assets	(555)	(154)	(709)
Insurance contract liabilities	(1,639)	392	(1,247)
Reinsurance contract liabilities	39	(12)	27
Total deferred tax assets	<u>665</u>	<u>275</u>	<u>940</u>

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

	1 January 2022 (restated)	Recognized in profit or loss (restated)	31 December 2022 (restated)
<i>Deferred tax liabilities</i>			
Property and equipment	(7,146)	(2,268)	(9,414)
Trade and other receivables	4,225	(691)	3,534
Trade and other payables	576	-	576
Finance lease receivables	(120)	(49)	(169)
Inventories	6	144	150
Advances given	(82)	5	(77)
Loans and borrowings	(506)	506	-
Investment property	17	(17)	-
Total deferred tax liabilities	(3,030)	(2,370)	(5,400)
<i>Deferred tax assets</i>			
Insurance contract assets	1,187	1,633	2,820
Reinsurance contract assets	(535)	(20)	(555)
Insurance contract liabilities	(716)	(923)	(1,639)
Reinsurance contract liabilities	73	(34)	39
Total deferred tax assets	9	656	665

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

(in thousands of Azerbaijani Manats)

14. PROPERTY AND EQUIPMENT

<u>Cost</u>	<u>Aircraft and related equipment</u>	<u>Buildings</u>	<u>Land</u>	<u>Machinery and office equipment</u>	<u>Construction in progress</u>	<u>Vehicles and Other fixed assets</u>	<u>Total</u>
Balance at 1 January 2022	107,261	59,565	9,928	27,903	13,814	17,914	236,385
Transfers	-	2,436	-	4,774	812	(8,022)	-
Additions	113,853	57	-	1,298	11,124	5,836	132,168
Transfer from construction in progress	-	4,944	-	-	(4,944)	-	-
Transfer from investment property	-	(2,757)	-	(147)	(179)	(1,539)	(4,622)
Balance at 31 December 2022	221,114	64,245	9,928	33,828	20,627	14,189	363,931
Transfers	-	-	-	-	-	-	-
Additions	37,875	35	-	3,292	5,505	4,123	50,830
Transfer from construction in progress	-	10,542	-	-	(10,542)	-	-
Disposal and write offs	-	(18,005)	(60)	(804)	(535)	(1,510)	(20,914)
Balance at 31 December 2023	258,989	56,817	9,868	36,316	15,055	16,802	393,847
<u>Accumulated depreciation</u>							
Balance at 1 January 2022	(24,740)	(4,450)	-	(6,486)	-	(6,064)	(41,740)
Transfers	-	(1,240)	-	1,202	-	38	-
Depreciation charge ¹	(12,512)	(3,635)	-	(3,196)	-	(3,224)	(22,567)
Disposal and write offs	-	3	-	87	-	279	369
Balance at 31 December 2022	(37,252)	(9,322)	-	(8,393)	-	(8,971)	(63,938)
Depreciation charge	(10,256)	(2,537)	-	(3,258)	-	(2,509)	(18,560)
Disposal and write offs	-	3,156	-	277	-	162	3,595
Balance at 31 December 2023	(47,508)	(8,703)	-	(11,374)	-	(11,318)	(78,903)
<u>Carrying amount</u>							
As at 31 December, 2022	183,862	54,923	9,928	25,435	20,627	5,218	299,993
As at 31 December 2023	211,481	48,114	9,868	24,942	15,055	5,484	314,944

¹ 2022 depreciation includes AZN 209 thousand related to investment property disposed during 2023.

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

As per shareholder decision in February 2023, AZN 5,628 thousand is withdrawn from charter capital as a form of asset (2022: nil thousand).

As at 31 December 2023, net book value of property and equipment of AZN 46,397 thousand were pledged as a collateral on loans and borrowings received from banks (2022: AZN 40,344 thousand). Aircraft with net book value of AZN 107,575 thousand (2022: AZN 109,693 thousand) is pledged under outstanding amount payable for the asset (Note 23) until the full repayment of the purchase price.

15. INVENTORIES

	<u>31 December 2023</u>	<u>31 December 2022</u>
Stores, spare parts and consumables	12,861	12,791
Other materials	<u>2,222</u>	<u>2,610</u>
Less: allowance for slow-moving inventory	<u>(1,831)</u>	<u>(2,344)</u>
Total inventories	<u>13,252</u>	<u>13,057</u>

16. TRADE AND OTHER RECEIVABLES

	<u>31 December 2023</u>	<u>31 December 2022</u>
Trade Receivables	45,964	56,963
Tax receivables	<u>6,387</u>	<u>2,900</u>
Less: Expected Credit Losses	<u>(5,640)</u>	<u>(14,234)</u>
	<u>46,711</u>	<u>45,629</u>

The average credit period on provision of services is 50 days. No interest is charged on outstanding trade receivables.

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

As at 31 December 2023	Trade receivables – days past due						Total
	Not past due	<30	31-60	61-90	91-120	>120	
	AZN	AZN	AZN	AZN	AZN	AZN	AZN
Expected credit loss rate	6.09%	7.37%	10.43%	11.53%	66.02%	63.33%	12.37%
Estimated total gross carrying amount at default	26,746	11,527	1,803	1,483	1,345	3,060	45,964
Lifetime ECL	(1,606)	(849)	(188)	(171)	(888)	(1,938)	<u>(5,640)</u>
							<u>40,324</u>

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

As at 31 December 2022	Trade receivables – days past due						Total AZN
	Not past due	<30	31-60	61-90	91-120	>120	
	AZN	AZN	AZN	AZN	AZN	AZN	
Expected credit loss rate	4.97%	12.67%	21.24%	33.55%	51.24%	56.21%	24.99%
Estimated total gross carrying amount at default	26,698	5,611	3,527	1,568	1,448	18,111	56,963
Lifetime ECL	(1,326)	(711)	(749)	(526)	(742)	(10,180)	(14,234)
							42,729

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

	Collectively assessed
Balance as at 1 January 2022	(17,623)
Net remeasurement of loss allowance	4,690
Amounts recovered	1,465
Change in loss allowance due to new trade receivables originated net of those derecognised due to settlement	(2,766)
Balance as at 31 December 2022	(14,234)
Net remeasurement of loss allowance	(563)
Amounts recovered	12,850
Change in loss allowance due to new trade receivables originated net of those derecognised due to settlement	(3,693)
Balance as at 31 December 2023	(5,640)

The Group rented premises to one of its related parties and recognized rental income from investment property within revenue (Note 5). The related party repaid all of the invoices accrued until March 2023 within trade receivables for the rent of premises and acquired those premises for AZN 3,289 thousand (excluding VAT). As a result, overdue invoices from the related party were recovered during 2023.

The Group’s exposure to credit and currency risks are disclosed in Note 26.

17. BANK DEPOSITS

	31 December 2023	31 December 2022
Current portion of bank deposits	7,900	6,500
Non-current portion of bank deposits	-	1,400
Total	7,900	7,900

As at 31 December 2023, AZN 7,900 thousand (2022: AZN 7,900 thousand) bank deposits are held at amortised cost and placed in one bank.

The Group’s exposure to credit and currency risks are disclosed in Note 26.

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

18. CASH AND CASH EQUIVALENTS

	<u>31 December 2023</u>	<u>31 December 2022</u>
Current accounts with local banks	68,215	54,990
VAT Deposits	941	170
Cash in transit	88	181
Cash on hand	20	25
Total cash and bank balances	<u>69,264</u>	<u>55,366</u>

The Group’s exposure to foreign currency, credit risk as well as a sensitivity analysis for financial assets and liabilities are disclosed in Note 26.

19. FINANCE LEASE RECEIVABLES

The Group leases helicopter to one of its related parties. During 2023, the lease was fully repaid by the lessee before the maturity of the lease

	<u>31 December 2023</u>	<u>31 December 2022</u>
Finance lease receivables	-	13,190
Accrued interest on finance lease receivables	-	820
Total finance lease receivables	<u>-</u>	<u>14,010</u>
Finance lease receivables, non-current portion	-	7,088
Finance lease receivables, current portion	-	6,922
Total finance lease receivables	<u>-</u>	<u>14,010</u>

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

As at 31 December 2022	<u>Up to 1 year</u>	<u>1 to 5 years</u>	<u>Total</u>
<i>Lease payments</i>	7,660	7,658	15,318
<i>Unearned finance income</i>	(738)	(570)	(1,308)
<i>Present value of lease payments receivable</i>	<u>6,922</u>	<u>7,088</u>	<u>14,010</u>

20. ADVANCES GIVEN

As at 31 December 2023 long-term advances given of AZN 10,594 thousand (2022: AZN 7,395 thousand) primarily include advances paid to two vendors as part of PBH engine maintenance agreements with original equipment manufacturers of aircraft engines and several construction vendors of AZN 8,968 thousand (2022: AZN 5,852 thousand) and AZN 1,625 thousand (2022: AZN

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

1,543 thousands), respectively. The maintenance and repair costs covered by PBH agreement expensed off during the year amounted to AZN 2,190 thousand (2022: AZN 1,303 thousand). No long-term advances gives were capitalized for overhaul during the period (2022: AZN 3,060 thousand).

As at 31 December 2023 short-term advances given of AZN 10,376 thousand (2022: AZN 7,434 thousand) primarily include prepayment for aircraft maintenance of AZN 2,352 thousand (2022: AZN 2,873 thousand), fuel prepayments of AZN 3,939 thousand (2022: 378 thousand), and other individually immaterial advances.

21. LOANS AND BORROWINGS

	Interest Rate	31 December 2023		31 December 2022	
		Rate, %	Amount	Rate, %	Amount
AZN-denominated					
Premium Bank	Fixed	7%	54,970	7%	54,970
Premium Bank	Fixed	6%	46,053	6%	53,029
Total AZN denominated			101,023		107,999
USD-denominated					
Premium Bank	Fixed	5%	48,520	5%	25,068
Bonds to individuals	Fixed	3.5%	8,365	3.5%	8,500
Total USD denominated			56,884		33,568
EUR-denominated					
Pasha Bank	Fixed	4%	16,977	4%	23,522
Total EUR denominated			16,977		23,522
Accrued interest			230		211
Total loans and borrowings			175,115		165,300
Long-term portion of loans and borrowings			162,907		162,733
Short-term portion of loans and borrowings			12,208		2,567

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

The maturity profile of loans and borrowings is as follows:

	31 December 2023	31 December 2022
Due in one year	12,208	2,567
Total current portion of loans and borrowings	12,208	2,567
Due over five years	162,907	162,733
Total long-term portion of loans and borrowings	162,907	162,733
Total loans and borrowings	175,115	165,300

The collateral profile of loans and borrowings is as follows:

	31 December 2023	31 December 2022
Secured by property and investment property	100,719	90,791
Unsecured loans and borrowings	74,396	74,509
Total loans and borrowings	175,115	165,300

Loans and borrowing agreements do not contain any financial covenant terms.

Reconciliation of liabilities arising from financing activities

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

As at 31 December 2023	Cash changes				31-Dec-23
	1-Jan-23	Financing cash flows (i)	Other changes (ii)	FOREX	
Loans and borrowings	165,300	9,079	9	727	175,115
Total liabilities from financing activities	165,300	9,079	9	727	175,115
As at 31 December 2022	Cash changes				31-Dec-22
	1-Jan-22	Financing cash flows (i)	Other changes (ii)	FOREX	
Loans and borrowings	174,204	(6,740)	(148)	(2,016)	165,300
Total liabilities from financing activities	174,204	(6,740)	(148)	(2,016)	165,300

- (i) The cash flows from loans and borrowings make up the net amount of proceeds from loans and borrowings and repayments of loans and borrowings in the cash flow statement.
- (ii) Other changes include interest accruals and payments.

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

22. TRADE AND OTHER PAYABLES

	<u>31 December 2023</u>	<u>31 December 2022</u>
Trade payables	35,442	23,824
Tax payables	1,345	4,544
Staff related payables	2,622	2,282
Other payables	<u>1,682</u>	<u>2,041</u>
Total	<u>41,091</u>	<u>32,691</u>

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 26.

23. LONG-TERM PAYABLES

During 2022, the Group purchased aircraft for USD 65,000 thousand, payable in full not later than five years from delivery date as per the purchase agreement. The agreement does not contain payment schedule and allows repayment any time during the five-year period, bearing 1.5% interest on the outstanding amount. Management has concluded that it is not possible to determine fair value of the payable, as the agreement does not contain payment schedule.

As at 31 December 2023 management does not have an intention to make repayment during the next 12 months after the reporting date and presented as the long-term payable. The Group provides the vendor with aviation services and plans to offset outstanding amount payable for the aircraft with the receivable to be accumulated for provided services in the future.

After the reporting period the Group amended the terms of initial contract (Note 29).

24. ADVANCES RECEIVED

Advances received balance of AZN 27,642 thousand as at 31 December 2023 (2022: AZN 28,459 thousand) primarily represent payments received from customers for the provision of business aviation and ground handling services.

25. CHARTER CAPITAL

As per shareholder decision in February 2023, AZN 5,628 thousand is withdrawn from charter capital as a form of asset. (Note 14). In accordance with the charter, the Group’s declared charter constitutes AZN 181,044 thousand (2022: AZN 186,672 thousand) composed of 181,043,680 participation interests (2022: 186,671,975 participation interests) with par value of AZN 1 (2022: AZN 1) each.

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 (in thousands of Azerbaijani Manats)

26. RISK MANAGEMENT

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

Capital management

The Group manages its capital to ensure the Group will be able to continue as a going concern.

The capital structure of the Group consists of net debt and shareholder deficit of the Group (comprising share capital and accumulated deficit).

The Group is not subject to any externally imposed capital requirements.

Credit risk

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

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

	31 December 2023		31 December 2022	
Company A	15,267	33%	4,670	8%
Company B	5,626	12%	8,970	16%
Company C	4,525	10%	4,095	7%
Company D	30	0%	22,023	39%
Others	20,516	45%	17,205	30%
Total trade receivables ¹	45,964	100%	56,963	100%

¹ Trade receivables are presented at gross amounts.

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

From cash and cash equivalents balances at the end of 2023, AZN 59,842 thousand (31 December 2022: AZN 43,790 thousand) are placed in Premium Bank OJSC.

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

Exposure to credit risk

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

Carrying amount	31 December 2023	31 December 2022
Cash and cash equivalents	69,156	55,160
Trade receivables	40,324	42,729
Bank deposits	7,900	7,900
Finance lease receivables	-	14,010
Insurance contract asset	13	34
Reinsurers contract asset	2,317	1,803
Total	119,710	121,636

Foreign currency risk

The Group is exposed to foreign currency risk on sales and purchases and loans and borrowings that are denominated in currencies other than AZN. The currencies giving rise to this risk are primarily USD and EUR.

Foreign currency sensitivity analysis

The Group is mainly exposed to the risk of change of exchange rates of AZN against USD and EUR.

The book values of the Group’s monetary assets and liabilities as at the reporting date have been provided below:

31 December 2023	AZN	USD	EUR	Other	Total
Cash and cash equivalents	15,608	15,677	37,107	764	69,156
Trade receivables	32,123	3,576	3,296	1,329	40,324
Bank deposits	3,650	4,250	-	-	7,900
Insurance contract asset	-	13	-	-	13
Reinsurers contract asset	-	2,317	-	-	2,317
Total financial assets	51,381	25,833	40,403	2,093	119,710
Loans and borrowings	101,108	57,005	17,002	-	175,115
Long-term payables	-	100,470	-	-	100,470
Trade and other payables ¹	37,467	539	1,696	44	39,746
Insurance contract liability	-	5,031	-	-	5,031
Reinsurers contract liability	-	135	-	-	135
Provisions	19	-	140	-	159
Total financial liability	138,594	163,180	18,838	44	320,656
Open position		(137,347)	21,565	2,049	(113,733)

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

31 December 2022	AZN	USD	EUR	Other	Total
Cash and cash equivalents	8,037	15,206	31,745	172	55,160
Trade receivables	28,881	1,399	12,427	22	42,729
Finance lease receivables	14,010	-	-	-	14,010
Bank deposits	3,650	4,250	-	-	7,900
Insurance contract asset	34	-	-	-	34
Reinsurers contract asset	-	1,803	-	-	1,803
Total financial assets	54,612	22,658	44,172	194	121,636
Loans and borrowings	108,147	33,631	23,522	-	165,300
Long-term payables	-	104,894	-	-	104,894
Trade and other payables ¹	25,632	519	1,966	30	28,147
Insurance contract liability	-	4,880	-	-	4,880
Reinsurers contract liability	-	193	-	-	193
Provisions	13	-	378	-	391
Total financial liability	133,792	144,117	25,866	30	303,805
Open position		(121,459)	18,306	164	(102,989)

¹ Excludes tax payables.

Sensitivity analysis

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

31 December 2023	USD	Euro	Other	Total
20% weakening of AZN	(27,469)	4,313	409	(22,747)

31 December 2022	USD	Euro	Other	Total
20% weakening of AZN	(24,292)	3,661	33	(20,598)

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

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

Master netting

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

31 December 2023	Trade receivables	Trade payables ¹	Long-term payables
Gross amounts	49,731	40,691	111,150
Amounts offset in accordance with IAS 32 offsetting criteria	9,407	3,567	5,840
Net amounts presented in the statement of financial position	40,324	37,124	100,470
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	706	706	-
Net amounts	41,030	37,830	100,470

31 December 2022	Trade receivables	Trade payables	Long-term payables
Gross amounts	62,771	39,651	111,150
Amounts offset in accordance with IAS 32 offsetting criteria	(20,042)	(13,786)	(6,256)
Net amounts presented in the statement of financial position	42,729	25,865	104,894
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	706	706	-
Net amounts	43,435	26,571	104,894

¹ Excludes tax and staff related payables.

Liquidity risk

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

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

31 December 2023	Within a year	1 to 5 years	Over 5 years	Total
Loans and borrowings	28,972	82,233	143,902	255,107
Long-term payables	-	-	100,470	100,470
Trade and other payables (excluding tax payables)	39,746	-	-	39,746
Insurance contract liability	5,031	-	-	5,031
Reinsurers contract liability	135	-	-	135
Provisions	159	-	-	159
Total financial liabilities	74,043	82,233	244,372	400,648

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

31 December 2022	Within a year	1 to 5 years	Over 5 years	Total
Loans and borrowings	18,950	50,936	167,758	237,644
Long-term payables	-	-	104,894	104,894
Trade and other payables (excluding tax payables)	27,824	-	-	27,824
Insurance contract liability	4,880	-	-	4,880
Reinsurers contract liability	193	-	-	193
Provisions	391	-	-	391
Total financial liabilities	52,561	50,936	272,652	376,149

27. COMMITMENTS AND CONTINGENCIES

Commitments related to CSR activities

Authorised future commitments in respect of CSR activities by the Group for which contracts had been signed as at 31 December 2023 amounted to AZN 58,751 thousand (2022: AZN 41,014 thousand).

Taxation contingencies

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

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

Operating environment

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

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

There has been no deterioration in customers’ payment performances.

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(in thousands of Azerbaijani Manats)**

Due to the ongoing conflict between the Russian Federation and Ukraine, the US, UK, EU and other countries announced numerous sanctions on certain Russian officials, businessmen and companies, which are targeted to have a negative impact on the Russian economy. Because of existing interdependencies between Russian and other economies in the region, these developments may result in reduced access of the regional businesses to international capital and export markets, weakening of the Russian Ruble and other regional currencies, decline in local capitals markets and other negative economic consequences.

The Group’s management is monitoring developments in the current environment and taking necessary measures to support the sustainability and development of the Group’s business in the foreseeable future. The impact of these and further developments on future operations and financial position of the Group at this stage is difficult to determine.

28. RELATED PARTY TRANSACTIONS

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

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

	<u>Year ended 31 December 2023</u>		<u>Year ended 31 December 2022</u>	
	<u>Related party transactions</u>	<u>Total per category</u>	<u>Related party transactions</u>	<u>Total per category</u>
Revenue		289,571		283,016
- <i>per related party</i>	582		18,129	
Insurance revenue		11,596		12,595
- <i>per related party</i>	2,034		3,286	
Handling, landing, navigation, and other flight costs		10,222		8,438
- <i>per related party</i>	1,026		293	
Employee costs		68,340		54,633
- <i>per related party</i>	5,615		3,163	
Finance costs		11,035		9,388
- <i>per related party</i>	-		6,277	

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

	<u>31 December 2023</u>		<u>31 December 2022</u>	
	<u>Related party balances</u>	<u>Total per category</u>	<u>Related party balances</u>	<u>Total per category</u>
Loans and borrowings		175,115		165,300
- <i>common key management</i>	-		133,067	
Cash and cash equivalents		69,264		55,366
- <i>common key management</i>	-		43,790	
Trade and other receivables		46,711		45,629
- <i>entities under common control</i>	110		11,541	
Finance lease receivable		-		14,010
- <i>entities under common control</i>	-		14,010	

“ASG BUSINESS AVIATION” LIMITED LIABILITY COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023 *(in thousands of Azerbaijani Manats)*

Premium Bank OJSC was considered as a related party due to certain factors and circumstances around management of the bank. Since 2023, these factors and circumstances have changed, so that bank is no longer considered as a related party to the Group as of 31 December 2023.

29. EVENTS AFTER THE REPORTING DATE

Charter capital

In February 2024, the Group declared dividends of AZN 38,998 thousand to its sole shareholder and paid the dividends of AZN 12,500 thousand in the same period.

In June 2024, the Group sold 90,535 thousand shares with a total nominal amount of AZN 90,535 thousand, representing 50% of its charter capital to Azbizneskom LLC.

The Group sold one of its subsidiaries, Hahn Cargo Services GmbH to third party company for AZN 761 thousand (EUR 413 thousand) on 28 February 2024.

Loans and borrowings

In January 2024, the Group fully repaid a loan of AZN 5,210 thousand borrowed from Premium Bank. The Group also renegotiated the terms of eight loan contracts (with total amount of AZN 89,381 thousand as at 31 December 2023) with the same bank, resulting in an extension of the maturity periods with a revised payment schedule effective from March 2024. In accordance with the revised payment schedules, monthly repayments include both interest and a partial repayment of the principal (under the original agreements, the principal amounts were to be fully repaid at the end of the loan terms).

Property and equipment

In May 2024, the Group returned an aircraft purchased on long-term credit (Note 23) from third party company. Parties agreed to amend the terms of original purchase agreement changing its core principle. As per revised agreement, the transaction should be treated as a rent agreement rather than a purchase agreement. Total value of the rent from August 2022 (inception date) until May 2024 (termination date) was set as AZN 12,342 thousand (USD 7,260 thousand).