“SILK WAY WEST AIRLINES” LIMITED LIABILITY COMPANY

Consolidated Financial Statements and
Independent Auditor’s Report
for the year ended 31 December 2024

“SILK WAY WEST AIRLINES” LIMITED LIABILITY COMPANY

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"SILK WAY WEST AIRLINES" LIMITED LIABILITY COMPANY

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

Management is responsible for the preparation of the consolidated financial statements that present fairly, in all material respects, the consolidated financial position of "Silk Way West Airlines" Limited Liability Company, its subsidiaries, representative offices, and branches (the "Group") as at 31 December 2024, 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 policies and notes to the consolidated financial statements in compliance with IFRS Accounting Standards.

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 IFRS Accounting Standards 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 IFRS Accounting Standards;
- 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 2024 were authorised for issue by management on 18 June 2025.

On behalf of Management:

Mr. Wolfgang Meier	Mr. Yury Korshunov
President	Financial Executive Vice-President
Baku, the Republic of Azerbaijan	Baku, the Republic of Azerbaijan
18 June 2025	18 June 2025

"Silk Way West Aviaşirkəti" Məhdud Məsuliyyətli Cəmiyyət
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Silk Way West Airlines

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and the Supervisory Board of "Silk Way West Airlines" Limited Liability Company

Opinion

We have audited the consolidated financial statements of "Silk Way West Airlines" Limited Liability Company, its subsidiaries, representative offices, and branches (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2024, and the consolidated statements of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of 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 2024, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), as applicable to audits of consolidated financial statements of public interest entities, together with the ethical requirements that are relevant to audits of the consolidated financial statements of public interest entities in the Republic of Azerbaijan. We have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Transportation revenue recognition	
Transportation revenue is one of the key measures of financial performance and amounted to AZN 2,290,090 thousand (Note 5) for the year ended 31 December 2024 (2023: AZN 1,847,358 thousand). Transportation revenue is highly affected by the supply and demand on the market. The input, processing, and maintenance of rates and freight information in the air waybills and accounting system involve manual operations. Generation and collection of revenue in various geographic locations also give rise to an inherent risk that revenue could be subject to manipulation.	Our audit procedures around revenue recognition included the following: • obtaining an understanding of the business processes, including authorization of transactions, their processing in IT systems and recognition of revenue; • assessing the design, implementation and operating effectiveness of management's key controls over revenue recognition; • inspecting air waybills and other supporting documentation for transportation revenue transactions on a sample basis; • performing analytical procedures on transportation revenue by developing expectations using operational inputs and information obtained from public sources, and comparing such expectations with recorded revenue; • performing analytical procedures on trend and correlation of transportation revenue with non-financial parameters (number of flights per destinations, flight hours, fuel consumed, and cargo weight transported); • reconciling non-financial parameters (number of flights, flight hours) with technical data on flight cycles and hours on a sample basis; • performing analytical procedures and review of subsequent movements in uncollected portion of transportation revenue; and • testing sales agent commissions and incentives on a sample basis.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Revaluation of aircraft, related overhauls and engines	
The Group applies revaluation model for aircraft, related overhauls and engines classes of assets (“aircraft and engines”). The carrying value of the Group’s aircraft and engines was AZN 1,403,299 thousand as at 31 December 2024 (2023: AZN 1,511,001 thousand) (Note 15 and 16). At the end of each reporting period, management assesses whether there have been significant changes in the fair value of aircraft and engines, necessitating a revaluation. As a result of the assessment, management concluded that no revaluation is needed for the current year since the change in fair values obtained from independent sources (proxy fair values) does not materially differ from the depreciation charge for the respective asset classes. Last revaluation of the Group’s aircraft was performed as of 31 December 2023, except one aircraft as described in Note 16. We identified the assessment of revaluation of aircraft and engines as a key audit matter because of the significance of the carrying value of such assets to the consolidated financial statements and because whether or not a revaluation is needed is a significant judgment that could be subject to management bias.	Our audit procedures included the following: • obtaining an understanding of the business processes, including authorization of transactions, their processing in IT systems; • inquiring management and reviewing board minutes and other papers to understand whether there were any events and circumstances that could indicate change in aircraft, related overhauls and engines values; • challenging key management assumptions, including useful lives and residual values applied by management for depreciation, as well as market lease rates; • performing independent analysis of contradictory information, if any, using evidence obtained from public sources; and • inspecting information provided by external specialists and used by management as proxy fair values for aircraft, related overhauls and engines as at 31 December 2024.

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 IFRS Accounting Standards as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Jamal Hasanov
Engagement Partner

DELOITTE & TOUCHE
MƏHDUD MƏSULİYYƏTLİ AUDİTOR CƏMİYYƏTİ
AZERBAIJAN

18 June 2025

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2024

(in thousands of Azerbaijani Manats)

	Notes	Year ended 31 December 2024	Year ended 31 December 2023
Revenue	5	2,357,943	1,913,124
Other operating income		10,180	17,488
Total revenue		**2,368,123**	**1,930,612**
Expenses			
Fuel		(746,541)	(710,995)
Handling, landing and navigation charges		(347,122)	(313,714)
Depreciation	15, 16	(251,608)	(165,649)
Aircraft and engine lease costs	6	(139,202)	(120,961)
Commissions		(110,378)	(84,352)
Staff costs	7	(89,651)	(78,725)
Engineering and maintenance		(56,031)	(42,839)
Crew rental and other crew costs		(46,968)	(40,258)
Fees for transportation by chartered flights		(28,223)	(35,045)
Trucking costs		(43,561)	(30,900)
Material expenses		(31,749)	(31,901)
Taxes other than income tax	12	(26,802)	(23,864)
Other costs	11	(40,836)	(46,791)
Total operating expenses		**(1,958,672)**	**(1,725,994)**
Operating profit		**409,451**	**204,618**
Finance costs	8	(83,728)	(55,438)
Corporate social responsibility expenses	9	(47,167)	(44,605)
Foreign exchange loss		(22,688)	(30,290)
Foreign exchange gain		16,647	31,163
Finance income		22,153	9,548
Impairment losses on financial assets, net[1]	21,30	1,256	(3,337)
Net loss on revaluation of aircraft and engines	16	(1,297)	(44,984)
Other income, net	10	16,061	45,043
Profit before income tax		**310,688**	**111,718**
Income tax expense	13	(65,626)	(29,664)
Net profit for the year		**245,062**	**82,054**
Other comprehensive income:			
Net revaluation gain		-	24,093
Total comprehensive income		**245,062**	**106,147**

[1] 2024 impairment includes AZN 2,933 amounts due from related parties directly written-off to profit or loss. AZN 3,420 previously recognized ECL was written-off as bad debt in 2024.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2024
(in thousands of Azerbaijani Manats)

	Notes	31 December 2024	31 December 2023
Non-current assets			
Right-of-use assets	15	984,710	1,040,785
Property and equipment	16	498,355	516,017
Advances paid	17	573,823	419,539
Aircraft spare parts	18	27,013	21,169
Security deposits		16,036	19,444
Other long-term assets		3,961	5,088
Total non-current assets		**2,103,898**	**2,022,042**
Current assets			
Bank deposits	20	878,390	674,390
Trade and other receivables	21	161,202	148,348
Cash and cash equivalents	19	80,766	75,415
Amounts due from related parties	30	36,011	60,986
Restricted cash	19	21,878	23,241
Advances paid	17	19,324	22,197
Inventories	18	17,341	13,852
Total current assets		**1,214,912**	**1,018,429**
Total assets		**3,318,810**	**3,040,471**
Equity			
Charter capital	22	179,388	179,388
Additional paid-in capital		11,439	11,439
Retained earnings		1,304,671	1,070,962
Properties revaluation reserves	23	284,869	290,328
Total equity		**1,780,367**	**1,552,117**
Non-current liabilities			
Lease liabilities	24	424,511	525,052
Loans and borrowings	25	332,777	336,673
Deferred tax liabilities	14	112,248	71,310
Provisions	27	-	1,395
Total non-current liabilities		**869,536**	**934,430**
Current liabilities			
Loans and borrowings	25	292,963	171,556
Trade and other payables	26	185,565	211,196
Lease liabilities	24	156,042	129,772
Amounts due to related parties	30	24,080	32,118
Advances from customers		10,257	9,282
Total current liabilities		**668,907**	**553,924**
Total equity and liabilities		**3,318,810**	**3,040,471**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2024
(in thousands of Azerbaijani Manats)

	Notes	Charter capital	Additional paid-in capital	Properties revaluation reserve	Retained earnings	Total equity
Balance at 1 January 2023		**175,800**	**11,439**	**266,999**	**988,144**	**1,442,382**
Profit for the year		-	-	-	82,054	82,054
Other comprehensive income for the year		-	-	24,093	-	24,093
Total comprehensive income for the year		**-**	**-**	**24,093**	**82,054**	**106,147**
Increase in charter capital	22	3,588	-	-	-	3,588
Utilisation of properties revaluation reserve	23	-	-	(764)	764	-
Balance at 31 December 2023		**179,388**	**11,439**	**290,328**	**1,070,962**	**1,552,117**
Profit for the year		-	-	-	245,062	245,062
Total comprehensive income for the year		**-**	**-**	**-**	**245,062**	**245,062**
Dividends	22	-	-	-	(16,812)	(16,812)
Transfer of revaluation gain upon de-recognition of assets	23	-	-	(5,459)	5,459	-
Balance at 31 December 2024		**179,388**	**11,439**	**284,869**	**1,304,671**	**1,780,367**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2024
(in thousands of Azerbaijani Manats)

	Notes	Year ended 31 December 2024	Year ended 31 December 2023
Profit before income tax		310,688	111,718
Adjustments for:			
Depreciation	15,16	251,608	165,649
Finance costs	8	83,728	55,438
Foreign exchange loss		22,688	30,290
Impairment (recovery) / losses on financial assets, net[1]	21,30	(1,256)	3,337
Net loss on revaluation of aircraft and engines	16	1,297	44,984
Finance income		(22,153)	(9,548)
Foreign exchange gain		(16,647)	(31,163)
Gain on disposal of property and equipment		(12,024)	-
Gain on derecognition of re-delivery provision	27	(1,395)	(30,358)
Gain on early termination of lease	10	(1,152)	(14,426)
Operating cash flow before movements in working capital		**615,382**	**325,921**
Change in trade and other receivables		(267,371)	(227,470)
Change in amount due from related parties		(42,577)	(179,959)
Change in inventories		(9,333)	17,769
Change in trade and other payables		231,394	325,270
Change in amounts due to related parties		17,468	41,280
Change in advances paid		2,807	12,762
Change in other long-term assets		1,127	(3,452)
Change in advances from customers		975	2,112
Change in other liabilities		-	(204)
Cash generated by operating activities		**549,872**	**314,029**
Income tax paid		-	(60,050)
Interest paid		(58,786)	(40,614)
Net cash generated by operating activities		**491,086**	**213,365**
Investing activities			
Bank deposit withdrawal	20	674,390	425,000
Proceeds from disposals	10,16	125,072	-
Interest received for bank deposits	20	19,228	7,601
Bank deposit placement	20	(878,390)	(674,390)
Advance payments for aircraft purchase	17	(108,863)	(163,133)
Payments for property and equipment purchases and overhauls		(82,071)	(40,819)
Advance payments for aircraft repair services	17	(59,105)	(36,455)
Advance payments for construction of new airport	17	(10,569)	-
Advance payments for flight simulator purchase	17	(7,253)	(20,744)
Security deposit payments		(178)	(443)
Cash released from collateral		-	20,400
Advance payments for engine purchase	17	-	(6,961)
Net cash used in investing activities		**(327,739)**	**(489,944)**

[1] 2024 impairment includes AZN 2,933 amounts due from related parties directly written-off to profit or loss. AZN 3,420 previously recognized ECL was written-off as bad debt in 2024.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024
(in thousands of Azerbaijani Manats)

	Notes	Year ended 31 December 2024	Year ended 31 December 2023
Financing activities			
Proceeds from loans and borrowings	25	153,076	303,390
Principal payments on lease liabilities	25	(114,824)	(253,293)
Principal payments on loans and borrowings	25	(154,918)	(80,744)
Advance payment for lease liability	19	(21,878)	(23,241)
Increase in charter capital	22	-	3,588
Dividends paid	22	(16,812)	-
Net cash used in financing activities		**(155,356)**	**(50,300)**
Net change in cash and cash equivalents		**7,991**	**(326,879)**
Foreign currency effect on cash		(2,640)	(103)
Cash and cash equivalents, beginning of the year	19	**75,415**	**402,397**
Cash and cash equivalents, end of the year	19	**80,766**	**75,415**

Following non-cash transactions were not included in consolidated statement of cash flows for the year ended 31 December 2024 and 2023:

(a) Recognition of right-of-use assets of AZN 82,769 through lease liabilities (2023: AZN 483,001) (Note 15);
(b) Capitalisation of pre-delivery payments of AZN 20,882 (2023: 166,228) (Note 17) by transfer from advances paid for purchase of engine (2023: advance payments for purchase of aircraft to right-of-use assets) to right-of-use assets;
(c) Capitalisation of AZN 10,624 for overhauls of engines by transfer from advances paid for aircraft service providers under power-by-hour (PBH)) (2023: AZN 10,129) to right-of-use assets;
(d) Derecognition of right-of-use assets of AZN 45,244 upon termination of lease contract against lease liabilities (2023: AZN 138,121) (Notes 10 and 15);
(e) Transfer of payments from restricted cash of AZN 23,241 to lease liabilities (2023: nil);
(f) Acquisition of aircraft through asset acquisition (STLC Europe Seven Leasing Limited) of AZN 94,011 (2023: nil);
(g) In 2023 transfer of right-of-use assets of AZN 196,727 thousand to property and equipment upon purchase of a previously leased aircraft (2022: AZN 13,470) (Notes 15 and 16).
(h) Offset of amount due from related parties and trade and other payables of AZN 48,944 (2023: AZN 159,246);
(i) Offset of amount due from related parties and amount due to related parties of AZN 23,908 (2023: AZN 22,113);
(j) Offset of trade and other receivables with trade and other payables of AZN 255,929 (2023: AZN 182,012);
(k) Offset of trade and other receivables with amount due to related parties of AZN 1,598 (2023: AZN 2,289); and
(l) Offset of trade and other receivables with current income tax liabilities of AZN 24,688 (2023: AZN 28,842).

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

(in thousands of Azerbaijani Manats)

1. NATURE OF ACTIVITIES

"Silk Way West Airlines" Limited Liability Company (the "Company") is a legal entity registered by the State Tax Service under the Ministry of Economy of the Republic of Azerbaijan on 19 January 2012. The address of the Company's registered office is at Heydar Aliyev International Airport, Baku, the Republic of Azerbaijan. The Company is owned 98% and 2% by Silk Way Airlines LLC and Silk Way Development LLC, respectively as of 31 December 2024 and 2023. Its ultimate controlling party is Mr. Zaur Akhundov as of 31 December 2024 and 2023.

The principal activity of the Company is the provision of transportation services through scheduled routes and chartered trips through Europe, Asia and America from central hub located in Heydar Aliyev Airport, Baku, the Republic of Azerbaijan. The Company provides transportation services in the global market through its representative offices and branches located in different regions of the world. Branches and representative offices through which transportation services are provided as of 31 December 2024 and 2023 are listed below:

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

The Group has a branch located in Azerbaijan, Silk Way West Technics that provides technical maintenance services to aircraft.

In 2023, the Group established a subsidiary, SW AFEZCO registered in Alat Free Economic Zone (AFEZ) with the purpose of development of a cargo village which is consolidated into the Company's financial statements. In 2024 the Company started the construction of its own international airport in AFEZ, Azerbaijan, offering an attractive business environment with special preferences and opportunities for carriers and freight forwarders.

In 2024, as part of the aircraft purchase transaction (Note 10) Silk Way West Airlines LLC acquired 100% of charter capital of STLC Europe Seven Leasing Limited ("STLC") registered in Ireland. Management made an assessment that the transaction constitutes asset acquisition as per the requirements of IFRS 3 *Business Combination*. Following the acquisition SWWA appointed directors, overhauled the aircraft, put it into use by signing a new agreement with STLC Europe Seven Leasing Limited and consolidated its financial data into the Company's financial statements.

The Group, its subsidiaries, representative offices, and branches are consolidated in the financial statements and collectively referred as the "Group".

(in thousands of Azerbaijani Manats)

2. ADOPTION OF NEW AND REVISED STANDARDS

New and amended IFRS Accounting 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 2024. Their adoption has not had material impact on the disclosures or on the amounts reported in these consolidated financial statements.

Standards	
Amendments to IAS 1	*Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current*
Amendments to IAS 7	*Statement of Cash Flows*
Amendments to IFRS 17	*Financial Instruments: Disclosures titled Supplier Finance Arrangements*
Amendments to IAS 1	*Presentation of Financial Statements – Non-current Liabilities with Covenants*
Amendments to IFRS 16	*Leases – Lease Liability in a Sale and Leaseback*

New and revised IFRS Accounting Standards in issue but not yet effective

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

Standards	***Effective date***
Amendments to IAS 21 - *The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability*	*1 January 2025*
Amendments to IFRS 9 – *Financial Instruments and IFRS 7 – Financial Instruments: Disclosures*	*1 January 2027*
IFRS 19 - *Subsidiaries without Public Accountability: Disclosures*	*1 January 2027*
Amendments to IFRS 10 – *Consolidated Financial Statements and IAS 28 – Investment in Associates and Joint Ventures*	*1 January 2026*
Amendments to IFRS 16 - *Lease Liability in a Sale and Leaseback*	*1 January 2026*
IFRS 18 – *Presentation and Disclosure in Financial Statements*	*1 January 2027*

Management does 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 POLICY INFORMATION

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS Accounting Standards).

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

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

The same accounting policies, presentation and methods of computation have been followed the year ended 31 December 2024 as were applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2023.

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 have adequate resources to continue in operational existence for the foreseeable future. Thus, the Group has adopted the going concern basis of accounting in preparing the consolidated financial statements.

Basis for consolidation

The consolidated financial statements incorporate the financial statements of the parent company and entities controlled by the Group made up to 31 December each year. Control is achieved when the Group:

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

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

When the Group has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group 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 Group gains control until the date when the Group 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.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held interests (including joint operations) in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Functional and presentation currency

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

Foreign currency transactions

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

The relevant exchange rates are as follows:

	31 December 2024	31 December 2023
AZN / USD	1.7000	1.7000
AZN / EUR	1.7724	1.8766

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 service to a customer as described below.

Transportation revenue

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

Technical maintenance and repair revenue

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

Leases

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract.
The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases and leases of low value

assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

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

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

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

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

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

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

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

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

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

The right-of-use assets are presented as a separate line in the consolidated statement of financial position. Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Aircraft and engine lease costs" in profit or loss (Note 6).

Finance costs

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

Employee benefit obligations

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

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

Taxation

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

Current tax

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

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

Deferred tax

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

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

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

Current tax and deferred tax for the year

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

Operating taxes

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

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

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

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

Property and equipment

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

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

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

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

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

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

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

(in thousands of Azerbaijani Manats)

Depreciation

Depreciation 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 and related overhauls		
Airframe	25 years	10% of cost
Overhauls and checks	8-10 years, 10,000 hours	nil
Engines and related overhauls		
Engine	25 years	nil
Limited life parts	8,800-30,000 cycles	nil
Overhaul component of engines	3,000-3,500 cycles	nil
Building and infrastructure	25 years	nil
Others	5-10 years	nil

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

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

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

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

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

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

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

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

Advances paid

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

Inventories

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

Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Maintenance provisions

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

Financial instruments

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

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

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

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

Financial assets

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

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

Amortised cost and effective interest method

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

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

Cash and cash equivalents

Cash and cash equivalents comprise of bank balances and cash in transit.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.
The Group always recognises lifetime expected credit losses (ECL) for trade receivables. The credit losses on trade receivables are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions, credit ratings and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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

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

(i) Significant increase in credit risk

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

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

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

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

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

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

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

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

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

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event (see (ii) above);
- 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;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

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

(v) Measurement and recognition of expected credit losses

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

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

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

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

Derecognition of financial assets

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

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

Financial liabilities

Classification as debt or equity

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

Financial liabilities

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

Derecognition of financial liabilities

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

Offsetting

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

Dividends

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Critical judgments in applying accounting policies

Transactions with general sales agents

In normal course of business, the Group sells air cargo transportation services through general sales agents. Certain portion of the Group's air cargo transportation services (2024: AZN 246,228 and 2023: AZN 308,746) are sold through related parties under common control, who act as general sales agents. Critical judgement is applied by management in considering whether general sales agents act as agents or principals in relation to the services provided to final customers.

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

Leases

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

Agreement to lease engines

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

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

Agreement to lease an aircraft

The Group entered into a lease agreement that does not specify a particular contractual term, but continues indefinitely until either party to the contract gives notice to terminate. It includes a notice period and does not oblige either party to make a payment on termination.

Management considered below facts and circumstances and concluded that non-cancelable period could not be determined:

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

Aircraft and related overhauls revaluation

Management assessed whether revaluation of aircraft, related overhauls and engines is required in the current year. As a result of the assessment, management concluded that there had been no significant changes observed in the market since 31 December 2024 and the last revaluation date of 31 December 2023, and the carrying amounts of aircraft, related overhauls and engines approximated their fair values as of 31 December 2024, other than aircraft obtained through acquisition of STLC Europe Seven Leasing Limited (Notes 1 and 10).

Taxation

Significant judgment is required in determining the provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated additional tax assessments as a result of tax audits based on estimates of whether it is probable that additional taxes will be due. No such liabilities recognised as of 31 December 2024 and 2023. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determinations are made. Fiscal periods remain open to review by the tax authorities in respect of taxes for the three calendar years preceding the year of tax review. Under certain circumstances reviews may cover longer periods. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Group.

Key sources of estimation uncertainty

Useful lives of property and equipment

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

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

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

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

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

Residual value of aircraft is based on the estimated future fair value of the aircraft at the end of useful life and changes in these estimations may have significant effect on results for the periods.

(in thousands of Azerbaijani Manats)

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

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

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

5. REVENUE

	Year ended 31 December 2024	Year ended 31 December 2023
Transportation revenue	2,290,090	1,847,358
Technical maintenance and repair revenue	54,527	52,530
Other revenue[1]	13,326	13,236
Total revenue	**2,357,943**	**1,913,124**

[1]AZN 133 of “Operating lease rental income” presented separately in the prior year’s consolidated financial statements is presented within “Other revenue” in order to conform to the presentation for the current year.

Revenue is recognised at a point in time when respective services are provided.

6. AIRCRAFT AND ENGINE LEASE COST

The Group incurred AZN 139,202 (2023: AZN 120,961) aircraft and engine lease costs for the use of several lessors’ aircraft and engines. Major part of the agreements comprise variable charges based on actual cycles and hours flown.

AZN 67,116 (2023: AZN 63,012) of lease costs relate to the agreement with the parent for the rent of aircraft with a maturity of one year and automatic extension option if both parties do not inform each other 30 days before contract expiry date.

7. STAFF COSTS

	Year ended 31 December 2024	Year ended 31 December 2023
Salaries and bonuses	78,448	69,734
Social taxes	11,203	8,991
Total staff costs	**89,651**	**78,725**

(in thousands of Azerbaijani Manats)

8. FINANCE COSTS

	Year ended 31 December 2024	Year ended 31 December 2023
Interest on lease liabilities	49,293	31,222
Interest on loans and borrowings	27,423	20,917
Other	7,012	3,299
Total finance costs	**83,728**	**55,438**

9. CORPORATE SOCIAL RESPONSIBILITY EXPENSES

As part of its corporate social responsibility activities ("CSR"), the Group contributed AZN 40,000 both in 2024 and 2023 to the Education Development Fund to finance construction of public schools. The amount paid was charged to the consolidated statement of profit or loss as "corporate social responsibility" expense. The remaining AZN 7,167 (2023: AZN 4,605) is made to other sport and cultural programs and organizations in the country.

10. OTHER INCOME

	Year ended 31 December 2024	Year ended 31 December 2023
Gain on disposal of property and equipment	12,024	-
Gain on derecognition of provision	1,395	30,358
Gain on early termination of lease	1,152	14,426
Other income	1,490	259
Total other income	**16,061**	**45,043**

In 2023, following the sanctions imposed on the former parent of the lessor (STLC Europe Seven Leasing Limited), the lease agreement was terminated based on a termination notice, and a leased aircraft with a carrying amount of AZN 138,121 was derecognised against corresponding lease liability resulting in a gain of AZN 14,426 recognised in profit or loss within other income.

The obligation to repair and re-deliver the aircraft was discharged under applicable laws, leading to the release of the related re-delivery provision of AZN 30,358 (Note 27) as a gain from reversal of provision, also recognised within other income.

In February 2024, as part of its aircraft acquisition plan the Group acquired entire charter capital of STLC Europe Seven Leasing Limited in return of payment of EUR 2, as a purchase consideration and assumed rights to its obligations. Obligations mainly comprised of two loans of AZN 51,850 (paid immediately by the Group) and AZN 120,602 payable to related parties of STLC Europe Seven Leasing Limited. Considering obligations were short term, management determined their carrying value to be equal to their fair values as of the acquisition date. The fair value of the aircraft as of the acquisition date was AZN 168,677. Management made an assessment that the transaction constitutes asset acquisition as per the requirements of IFRS 3 *Business Combination* (Note 1).

(in thousands of Azerbaijani Manats)

The carrying value of the aircraft of AZN 146,026 as of the acquisition date was determined based on the allocation of total cost of the group of assets and liabilities to the individual identifiable assets and liabilities as per their relative fair values (Note 16).

11. OTHER COSTS

	Year ended 31 December 2024	Year ended 31 December 2023
Aircraft insurance	9,093	8,439
Licenses	5,969	7,140
Consulting	4,388	5,914
Training	2,392	2,337
Communication	2,290	2,181
Advertising	1,617	3,259
Penalties	26	4,280
Other	15,061	13,241
Total other costs	**40,836**	**46,791**

12. TAXES OTHER THAN INCOME TAX

	Year ended 31 December 2024	Year ended 31 December 2023
Withholding tax	13,514	9,258
Property tax	13,288	14,457
Other	-	149
Total taxes other than income tax	**26,802**	**23,864**

13. INCOME TAX EXPENSE

	Year ended 31 December 2024	Year ended 31 December 2023
Current income tax expense	57,393	41,733
Deferred tax expense	4,325	(11,137)
Changes in estimates related to prior years' deferred tax	36,613	(2,316)
Changes in estimates related to prior years' current income tax	(32,705)	1,384
Total income tax expense	**65,626**	**29,664**

The Group recognized additional previously depreciation against its taxable profit, accumulated in reserves in respect of prior years as permitted by the applicable local tax code. As a result, deferred tax and income tax balances were adjusted by AZN 36,613 and AZN 32,705, respectively during the reporting period.

(in thousands of Azerbaijani Manats)

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

	Year ended 31 December 2024	Year ended 31 December 2023
Profit before income tax	310,688	111,718
Income tax (benefit) / expense at statutory tax rate	62,138	22,344
Tax effect of unrecognized tax losses	(736)	-
Tax effect of expenses that are not deductible in determining taxable profit	316	8,252
Total income tax expense	**61,718**	**30,596**

14. DEFERRED TAX 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 liabilities as at 31 December 2024 and 2023 is presented below:

Movement in temporary differences during the year

	1 January 2024	Recognized in profit or loss	Reclassifications [1]	Change in estimate in respect of PY	31 December 2024
Right-of-use assets	38,832	(12,754)	6,577	27,094	59,749
Property and equipment	32,698	(7,012)	-	9,519	35,205
Advances paid	25,155	11,821	(4,191)	-	32,785
Security deposits	(193)	10	-	-	(183)
Trade and other receivables	(3,524)	264	-	-	(3,260)
Other assets	(2,792)	-	-	-	(2,792)
Lease liabilities	(23,844)	9,440	(2,386)	-	(16,790)
Provisions	(279)	279	-	-	-
Trade and other payables	719	2,277	-	-	2,996
Restricted cash	4,648	-	-	-	4,648
Other liabilities	(110)	-	-	-	(110)
			-		
Total	**71,310**	**4,325**	**-**	**36,613**	**112,248**

[1] Reclassifications relate to early termination of lease and capitalisation of overhauls under PBH agreement.

(in thousands of Azerbaijani Manats)

	1 January 2023	IAS 12 amendment	Recognised in profit or loss	Recognised in OCI	Reclassification due to de-recognition of lease	31 December 2023
Right-of-use assets	10,763	75,211	(2,589)	8,915	(53,468)	38,832
Property and equipment	26,000	-	(17,653)	5,224	19,127	32,698
Advances paid	18,232	-	6,923	-	-	25,155
Security deposits	(211)	-	18	-	-	(193)
Trade and other receivables	(2,984)	-	(540)	-	-	(3,524)
Other assets	127	-	(2,919)	-	-	(2,792)
Lease liabilities	19,763	(70,662)	(7,286)	-	34,341	(23,844)
Provisions	(1,749)	(4,549)	6,019	-	-	(279)
Trade and other payables	793	-	(74)	-	-	719
Restricted cash	-	-	4,648	-	-	4,648
Other liabilities	(110)	-	-	-	-	(110)
Total	**70,624**	**-**	**(13,453)**	**14,139**	**-**	**71,310**

(in thousands of Azerbaijani Manats)

15. RIGHT-OF-USE ASSETS

	Aircraft and related overhauls	Engines	Other	Total
Cost or valuation				
Balance at 1 January 2023	**881,311**	**128,975**	**2,559**	**1,012,845**
Additions	600,790	58,971	-	659,761
Transfer to property and equipment	(205,641)	-	-	(205,641)
Revaluation increase / (decrease)	(19,670)	19,033	-	(637)
Eliminated on revaluation	(97,010)	(65,485)	-	(162,495)
Derecognition at maturity of lease	-	(4,079)	-	(4,079)
Decrease upon termination of lease	(249,645)	-	-	(249,645)
Balance at 31 December 2023	**910,135**	**137,415**	**2,559**	**1,050,109**
Additions	23,444	111,527	-	134,971
Derecognition at maturity of lease	-	(64,677)	-	(64,677)
Write-off of fully depreciated overhaul	(768)	-	-	(768)
Balance at 31 December 2024	**932,811**	**184,265**	**2,559**	**1,119,635**
Accumulated depreciation				
Balance at 1 January 2023	**(176,583)**	**(29,282)**	**(231)**	**(206,096)**
Depreciation charge for the year	(48,737)	(41,272)	(231)	(90,240)
Transfer to property and equipment	8,914	-	-	8,914
Decrease upon termination of a lease	111,524	-	-	111,524
Eliminated on revaluation	97,010	65,485	-	162,495
Derecognition at maturity of lease	-	4,079	-	4,079
Balance at 31 December 2023	**(7,872)**	**(990)**	**(462)**	**(9,324)**
Depreciation charge for the year	(84,003)	(61,567)	(232)	(145,802)
Derecognition at maturity of lease	-	19,433	-	19,433
Write-off of fully depreciated overhaul	768	-	-	768
Balance at 31 December 2024	**(91,107)**	**(43,124)**	**(694)**	**(134,925)**
Carrying amount				
At 31 December 2024	**841,704**	**141,141**	**1,865**	**984,710**
At 31 December 2023	**902,263**	**136,425**	**2,097**	**1,040,785**
At 1 January 2023	**704,728**	**99,693**	**2,328**	**806,749**
Net book value if no revaluation took place				
At 31 December 2024	**845,385**	**134,830**	**1,865**	**982,080**
At 31 December 2023	**860,483**	**119,474**	**2,097**	**982,054**
At 1 January 2023	**520,433**	**99,693**	**2,328**	**622,454**

The Group leases several aircraft and engines. The average remaining lease term is six years (2023: seven years).

(in thousands of Azerbaijani Manats)

The Group has options to purchase certain aircraft for a nominal amount at the end of the lease term. The Group's obligations are secured by the lessors' title to the leased assets for such leases.

The Group's aircraft and engines included in property and equipment and right-of-use assets are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Independent appraiser was involved by management to determine market values of aircraft and engines owned and leased where the Group expects to exercise the purchase option as of 31 December 2023. The appraiser has appropriate qualifications and recent experience in the fair value measurement of respective aircraft types. The valuation conforms to International Valuation Standards and was based on recent market transactions on arm's length terms for similar aircraft.

The fair value measurement of engines leased with no purchase option was estimated by management's internal specialist based on the present value of current market fixed lease rates using incremental borrowing rate for remaining lease term of each lease. The current market fixed lease rates as of revaluation date used for the calculation were obtained from a recent arms-length lease agreement.

As a result of aircraft and engine revaluation as of 31 December 2023, net revaluation decreases of AZN 637 and AZN 18,865 were recognised in right-of-use assets and property and equipment (Note 16), respectively, resulting in net surplus of AZN 25,482 and loss of AZN 44,984 recognised through other comprehensive income (Note 23) and statement of profit or loss, respectively.

Fair value hierarchy is as follows:

	Level 1	**Level 2**	**Level 3**	**Fair value as at 31 December 2023**
Right-of-use assets (aircraft and engines)	-	-	1,038,688	1,038,688
Property and equipment (aircraft and engines)	-	-	419,312	419,312
Total	**-**	**-**	**1,458,000**	**1,458,000**

Revaluation has not been performed for the current year for aircraft and engines within property and equipment and right-of-use assets other than aircraft and engines obtained through acquisition of STLC Europe Seven Leasing Limited (Notes 4 and 16).

In 2023, the Group exercised an option to purchase an aircraft previously recognised as a right-of-use asset under a lease agreement financed through a new loan obtained from Bank E. The carrying value of purchased aircraft of AZN 196,727 as of the acquisition date was reclassified from right-of-use assets to property and equipment (Note 16). As a result of this acquisition, the lessor provided discount of AZN 12,750 related to the lease which was recognised as reduction of lease liability through properties revaluation reserve to adjust purchase price of previously revalued aircraft (Note 23).

During 2023, the Group terminated one of the lease arrangements and AZN 138,121 right-of-use asset was derecognised against corresponding lease liability (Note 10).

(in thousands of Azerbaijani Manats)

The maturity analysis of lease liabilities is presented in Note 24.

	Year ended 31 December 2024	**Year ended 31 December 2023**
Depreciation expense on right-of-use assets	(145,802)	(90,240)
Interest expense on lease liabilities	(49,293)	(31,222)
Unwinding of discount related to provision	-	(264)
Expense relating to short-term leases	(65)	(3,345)
Expense relating to variable lease payments not included in the measurement of the lease liabilities	(139,137)	(117,616)
Total amount recognised in profit or loss	**(334,297)**	**(242,687)**

The total cash outflow for leases amount to AZN 278,028 (2023: AZN 397,682).

(in thousands of Azerbaijani Manats)

16. PROPERTY AND EQUIPMENT

	Aircraft and related overhauls	Buildings	Engines	CIP[1]	Other	Total
Cost or valuation						
Balance at 1 January 2023	**333,767**	**29,344**	**101,662**	**-**	**13,661**	**478,434**
Transfer from right-of-use assets	196,727	-	-	-	-	196,727
Additions	36,808	2,900	10,316	81	7,867	57,972
Eliminated on revaluation	(137,743)	-	(39,566)	-	-	(177,309)
Revaluation increase / (decrease)	(36,414)	-	17,549	-	-	(18,865)
Write-off of fully depreciated overhaul	(1,058)	-	(9,365)	-	-	(10,423)
Balance at 31 December 2023	**392,087**	**32,244**	**80,596**	**81**	**21,528**	**526,536**
Additions	163,483	2,411	-	32,218	4,377	202,489
Eliminated on revaluation	(10,412)	-	-	-	-	(10,412)
Revaluation increase / (decrease)	(1,297)	-	-	-	-	(1,297)
Disposals	(112,233)	-	(8,721)	-	(380)	(121,334)
Write-off of fully depreciated overhaul	(560)	-	-	-	-	(560)
Balance at 31 December 2024	**431,068**	**34,655**	**71,875**	**32,299**	**25,525**	**595,422**
Accumulated depreciation						
Balance at 1 January 2023	**(77,062)**	**(2,713)**	**(39,644)**	**-**	**(3,423)**	**(122,842)**
Depreciation charge for the year	(62,109)	(1,936)	(9,287)	-	(2,077)	(75,409)
Eliminated on revaluation	137,743	-	39,566	-	-	177,309
Write-off of fully depreciated overhaul	1,058	-	9,365	-	-	10,423
Balance at 31 December 2023	**(370)**	**(4,649)**	**-**	**-**	**(5,500)**	**(10,519)**
Depreciation charge for the year	(87,690)	(2,118)	(13,488)	-	(2,510)	(105,806)
Eliminated on revaluation	10,412	-	-	-	-	10,412
Eliminated on disposals	7,578	-	509	-	199	8,286
Write-off of fully depreciated overhaul	560	-	-	-	-	560
Balance at 31 December 2024	**(69,510)**	**(6,767)**	**(12,979)**	**-**	**(7,811)**	**(97,067)**
Net book value						
At 31 December 2024	**361,558**	**27,888**	**58,896**	**32,299**	**17,714**	**498,355**
At 31 December 2023	**391,717**	**27,595**	**80,596**	**81**	**16,028**	**516,017**
At 1 January 2023	**256,705**	**26,631**	**62,018**	**-**	**10,238**	**355,592**
Net book value if no revaluation took place						
At 31 December 2024	**341,273**	**27,888**	**50,481**	**32,299**	**17,714**	**469,655**
At 31 December 2023	**401,787**	**27,595**	**63,048**	**81**	**16,028**	**508,539**
At 1 January 2023	**244,460**	**26,631**	**62,018**	**-**	**10,239**	**343,348**

[1] CIP with carrying amount of AZN 81 as at 31 December 2023 presented within "Other" class of asset in prior year consolidated financial statements, is presented separately in order to conform to the presentation for the current year.

(in thousands of Azerbaijani Manats)

The Group's aircraft and engines were revalued as of 31 December 2023 as detailed in Note 15. As of 31 December 2024, the revaluation was only performed on the newly acquired aircraft as part STLC Europe Seven Leasing Limited acquisition transaction (Notes 4 and 15).

Independent appraiser was involved by management to determine market values of the aircraft and related overhauls as of 31 December 2024. The appraiser has appropriate qualifications and recent experience in the fair value measurement of respective aircraft types. The valuation conforms to International Valuation Standards and was based on recent market transactions on arm's length terms for similar aircraft.

As a result of revaluation, a loss of AZN 1,297 recognized in the statement of profit or loss in respect of the aircraft obtained in 2024, as part of the aircraft purchase transaction (Note 10).

During 2023, the Group exercised an option to purchase an aircraft previously recognised as a right-of-use asset under a lease agreement before the expiration of the lease. The carrying value of purchased aircraft of AZN 196,727 as of the acquisition date was reclassified from right-of-use assets to property and equipment (Note 15).

As at 31 December 2024 and 2023, property and equipment with a carrying amount of AZN 250,380 and AZN 306,961, respectively, were pledged as collateral on loans and borrowings obtained by the Group, of which AZN 45,383 are related to the Group's subsidiary, SW AFEZCO (2023: nil). As at 31 December 2024, AZN 55,033 of property and equipment were pledged under the loans obtained by Silk Way Airlines LLC ("Parent") (2023: AZN 58,780). The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

17. ADVANCES PAID

	31 December 2024	31 December 2023
Current advances paid		
Advance payments for expenses	19,324	22,197
Total advances paid, current	**19,324**	**22,197**
Non-current advances paid		
Advance payment for purchase of aircraft	363,356	254,493
Advance payments for aircraft repair service providers for PBH	134,620	95,235
Advance payments for aircraft repair service providers for PBH on behalf of the Parent	29,302	20,206
Advance payment for purchase of flight simulator	27,997	20,744
Advance for construction of airport	10,569	-
Advance payment for purchase of engine	7,979	28,861
Total advances paid, non-current	**573,823**	**419,539**

The carrying amount of the advance payment relating to PBH agreement for the Group for the year ended 31 December 2024 was AZN 134,620 (2023: AZN 95,235). The maintenance and repair costs covered by PBH agreement expensed off during the year were AZN 20,386 (2023: AZN 13,056) for the Group.

(in thousands of Azerbaijani Manats)

During 2024, AZN 20,882 (2023: AZN 166,228) of pre-delivery payment was capitalised from "advance payments for purchase of engine" (2023: advance payments for purchase of aircraft) to "right-of-use assets".

Advance payments for expenses primarily relate to payments made to fuel and airport service suppliers and are presented as advances paid under current assets.

18. INVENTORIES AND AIRCRAFT SPARE PARTS

	31 December 2024	31 December 2023
Spare parts and consumables	14,685	11,432
Fuel	2,656	2,420
Total current inventories	**17,341**	**13,852**

None of the inventories and aircraft spare parts have been pledged as security for loans as of 31 December 2024 and 2023.

Aircraft spare parts of AZN 27,013 (2023: AZN 21,169) presented under non-current assets are primarily maintained to meet minimum levels set by respective regulatory requirements.

Management has not recognised any write-off to net realisable value or impairment loss allowance for expected obsolescence as at 31 December 2024 and 2023 as this would not have any material impact on the consolidated financial statements.

19. CASH AND CASH EQUIVALENTS

	31 December 2024	31 December 2023
Current accounts with banks	77,704	75,358
Cash in transit	3,018	52
VAT Deposits	44	5
Total cash and cash equivalents	**80,766**	**75,415**

Three-months lease payments of AZN 21,878 were prepaid to a security trustee to be transferred to the lessor in due date as per the terms of current lease agreements and was presented as restricted cash under current assets as of 31 December 2024 (2023: AZN 23,241).

Management has not recognised any loss allowance for expected credit losses under IFRS 9 for cash and cash equivalents as at 31 December 2024 and 2023 as this would not have any material impact on the consolidated financial statements. The Group's exposure to foreign currency, credit risk as well as a sensitivity analysis for financial assets and liabilities are disclosed in Note 28.

(in thousands of Azerbaijani Manats)

20. BANK DEPOSITS

The Group's bank deposits are held in USD and have a maturity of one year. Bank deposits classified as per bank and interest rate in the below table:

	Interest	31 December 2024		31 December 2023	
	rate	Rate, %	Amount	Rate, %	Amount
Bank A	Fixed	3% - 3.50%	680,000	1.75%	595,000
Bank E	Fixed	3.25%	164,390	1.75%	79,390
Bank C	Fixed	5.04%	17,000	-	-
Bank G	Fixed	5.05%	17,000	-	-
			878,390		**674,390**

During 2024, 1.75% interest-bearing USD denominated deposit of AZN 595,000 and 79,390 placed in Bank A and Bank E matured respectively.

The Group recognised interest income of AZN 19,228 (2023: AZN 7,601) on bank deposits within finance income in 2024.

Bank deposits of AZN 167,875 (2023: AZN 86,750) are pledged as part of loans and borrowings obtained from the same banks.

21. TRADE AND OTHER RECEIVABLES

	31 December 2024	31 December 2023
Trade receivables	120,189	114,032
Tax receivables	29,142	31,933
Other receivables	12,279	3,450
VAT recoverable	1,664	3,315
Less: expected credit losses	(2,072)	(4,382)
Total trade and other receivables	**161,202**	**148,348**

Tax receivables comprise of cash overpayment and receivables remaining after offsetting accrued tax liabilities as of 31 December 2024 and 2023.

The average credit period on sales of services is 30 days (2023: 30 days). No interest is charged on outstanding trade receivables.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. 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.

(in thousands of Azerbaijani Manats)

The Group has recognised a loss allowance 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.

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

	Trade and other receivables – days past due						
31 December 2024	**Not past due**	**<30**	**31-60**	**61-90**	**91-120**	**>120**	**Total**
Expected credit loss rate	0.51%	2.12%	10.05%	11.52%	11.66%	12.15%	1.56%
Estimated total gross carrying amount at default	114,784	6,375	806	712	926	8,865	132,468
Lifetime ECL	(589)	(135)	(81)	(82)	(108)	(1,077)	(2,072)
							130,396

	Trade and other receivables – days past due						
31 December 2023	**Not past due**	**<30**	**31-60**	**61-90**	**91-120**	**>120**	**Total**
Expected credit loss rate	0.24%	0.51%	1.34%	3.42%	6.06%	22.97%	3.73%
Estimated total gross carrying amount at default	82,916	13,551	1,643	1,082	874	17,416	117,482
Lifetime ECL	(200)	(69)	(22)	(37)	(53)	(4,001)	(4,382)
							113,100

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

	2024	**2023**
Balance as at 1 January	**4,382**	**5,989**
Amount recovered	(565)	(1,686)
Net remeasurement of loss allowance	(252)	(481)
Amounts written-off	(3,420)	-
Change in loss allowance due to new trade and other receivables originated net of those derecognised due to settlement	1,927	560
Balance as at 31 December	**2,072**	**4,382**

The Group's exposure to credit and currency risks are disclosed in Note 28.

(in thousands of Azerbaijani Manats)

22. CHARTER CAPITAL

In accordance with the charter, the Company's charter capital constitutes AZN 179,388 (2023: AZN 179,388) comprised of 179,387,584 participation interests (2023: 179,387,584 participation interests) with nominal value of AZN 1.

AZN 16,812 dividends (inclusive of 5% withholding tax) were declared and paid during 2024 (2023: nil).

23. PROPERTIES REVALUATION RESERVES

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

During 2024, net revaluation gain of AZN 5,459 was transferred to retained earnings upon termination of lease.

	Properties revaluation reserves
Balance at 1 January 2023	**266,999**
Revaluation surplus on aircraft and engines (Notes 15 and 16)	57,048
Revaluation deficit on aircraft and engines (Notes 15 and 16)	(31,566)
Deferred tax liability arising on revaluation	(14,139)
Recognition of discount on historical cost of aircraft	12,750
Utilisation of revaluation reserve	(764)
Balance at 1 January 2024	**290,328**
Transfer of retained earnings upon de-recognition of assets	(5,459)
Balance at 31 December 2024	**284,869**

24. LEASE LIABILITIES

	31 December 2024	**31 December 2023**
Lease liabilities	618,512	705,662
Accrued interest on lease liabilities	10,225	5,258
Deferred transaction cost	(48,184)	(56,096)
Total lease liabilities	**580,553**	**654,824**
Lease liabilities, non-current portion	424,511	525,052
Lease liabilities, current portion	156,042	129,772
Total lease liabilities	**580,553**	**654,824**

(in thousands of Azerbaijani Manats)

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

31 December 2024

	Year 1	Year 2	Year 3	Year 4	Year 5	Onwards	Total
Lease payments	193,092	102,786	63,323	60,985	58,635	296,655	775,476
Unearned finance charges	(37,050)	(32,686)	(25,769)	(22,855)	(19,923)	(56,640)	(194,923)
Present value of minimum lease payments	**156,042**	**70,100**	**37,554**	**38,130**	**38,712**	**240,015**	**580,553**

31 December 2023

	Year 1	Year 2	Year 3	Year 4	Year 5	Onwards	Total
Lease payments	173,648	170,947	99,931	58,699	56,535	327,703	887,463
Unearned finance charges	(43,876)	(36,268)	(29,012)	(22,637)	(20,475)	(80,371)	(232,639)
Present value of minimum lease payments	**129,772**	**134,679**	**70,919**	**36,062**	**36,060**	**247,332**	**654,824**

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

		31 December 2024		**31 December 2023**	
Lessor	**Maturity**	**Rate, %**	**Amount**	**Rate, %**	**Amount**
Lessor C	2026	0.6% + 3-month SOFR	74,726	0.6% + 3-month SOFR	115,740
Lessor D	2026	3.90%	74,568	3.90%	107,463
Lessor E	2033	3.88%	1,967	3.88%	2,172
Lessor F	2024	3.90%	-	3.90%	1,099
Lessor H	2035	5.37% / 5.66%	429,292	5.37% / 5.66%	428,350
Total lease liabilities			**580,553**		**654,824**

The lease from Lessor C was acquired through sublease from the Parent.

25. LOANS AND BORROWINGS

	31 December 2024	31 December 2023
Loans and borrowings	624,994	506,234
Accrued interest on loans and borrowings	746	1,995
Total loans and borrowings	**625,740**	**508,229**
Loans and borrowings, non-current portion	332,777	336,673
Loans and borrowings, current portion	292,963	171,556
Total loans and borrowings	**625,740**	**508,229**

(in thousands of Azerbaijani Manats)

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

	Currency	Interest rate	31 December 2024		31 December 2023	
			Rate, %	Amount	Rate, %	Amount
Company D	USD	Fixed	5.50%	120,602	-	-
Bank A	USD	Fixed	3.88% - 5.50%	158,964	3.88% - 5.50%	140,107
Bank B	USD	Fixed	4.50% - 5.00%	114,882	4.50% - 5.00%	131,516
Bank E	USD	Variable	SOFR+2%	151,854	SOFR+2%	164,993
Bank E	USD	Fixed	5.25%	28,367	3.75%	20,400
Bonds issued to public	USD	Fixed	5.00%-5.50%	51,071	5%	51,213
Total loans and borrowings				**625,740**		**508,229**

The maturity date of the loan with Company D is August 2024 as per the contactual terms. It is classified as current liability in the consolidated financial statements of the Group. STLC Europe Seven Leasing Limited was not able to make a repayment of loan due to sanctions applied to the lender. Although, the loan is matured, management does not expect to settle the liability within 12 months after the reporting period considering the current sanctions imposed and uncertainty around the Russian-Ukraine conflict. Management considers that under current circumstances even when the subject sanctions will be lifted, it will take a significant time for the lender to be removed from the sanctions list.

The maturity profile of loans and borrowings is as follows:

	31 December 2024	31 December 2023
Due in one year	292,963	171,556
Total current portion of loans and borrowings	**292,963**	**171,556**
Due from one year to five years	251,844	110,297
Due over five years	80,933	226,376
Total long-term portion of loans and borrowings	**332,777**	**336,673**
Total loans and borrowings	**625,740**	**508,229**

The collateral profile of loans and borrowings is as follows:

	31 December 2024	31 December 2023
Aircraft and engines	150,986	198,235
Parent's property and equipment	136,880	172,031
Deposit	166,201	86,750
Unsecured loans	120,602	-
Unsecured bonds	51,071	51,213
Total loans and borrowings	**625,740**	**508,229**

(in thousands of Azerbaijani Manats)

Reconciliation of liabilities arising from financing activities

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

As of 31 December 2024		Cash changes	Non-cash changes					
	01-Jan-24	Financing cash flows (i)	New leases (iv)	Termination of lease (iii)	Asset acquisition (v)	Transfer (vi)	Other changes (ii)	31-Dec 24
Lease liabilities	654,824	(114,824)	90,542	(46,396)	-	(23,241)	19,648	580,553
Loans and borrowings	508,229	(1,842)	-	-	120,602	-	(1,249)	625,740
Total liabilities from financing activities	**1,163,053**	**(116,666)**	**90,542**	**(46,396)**	**120,602**	**(23,241)**	**18,399**	**1,206,293**

As of 31 December 2023		Cash changes	Non-cash changes					
	01-Jan-23	Financing cash flows (i)	New leases[1] (iv)	Termination of lease (iii)	Discount on lease (Note 23)	Re-class of unpaid invoices (iii)	Other changes[1] (ii)	31-Dec 23
Lease liabilities	599,151	(253,293)	488,929	(152,547)	(12,750)	(24,902)	10,236	654,824
Loans and borrowings	284,294	222,646	-	-	-	-	1,289	508,229
Total liabilities from financing activities	**883,445**	**(30,647)**	**488,929**	**(152,547)**	**(12,750)**	**(24,902)**	**11,525**	**1,163,053**

[1] AZN 5,928 adjustment related to index change that was presented within "Other changes" in prior year consolidated financial statements, is included within "New leases" to conform to the presentation of the current year.

(i) Financing cash flows make up the net amount of proceeds and payments from loans and borrowings and lease liabilities in the consolidated statement of cash flows.
(ii) Other changes include interest accruals (also includes capitalised borrowings costs of AZN 469 (2023: nil)) and payments.
(iii) Offset of lease with corresponding right-of-use asset and transfer of unpaid lease invoices to trade and other payables.
(iv) New leases with the inclusion of the adjustments related to index changes.
(v) Recognition of loan as part of STLC Europe Seven Leasing Limited acquisition transaction (Note 10).
(vi) Transfer includes the release of funds from restricted cash.

26. TRADE AND OTHER PAYABLES

	31 December 2024	31 December 2023
Trade payables	162,837	192,687
Other payables	18,455	14,360
Tax payables	4,273	4,149
Total trade and other payables	**185,565**	**211,196**

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs.

(in thousands of Azerbaijani Manats)

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 28.

27. PROVISIONS

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

	Maintenance provisions
At 1 January 2023	31,489
Unwinding of discount	264
Reversal of provision (Note 10)	(30,358)
At 1 January 2024	**1,395**
Unwinding of discount	-
Reversal of provision	(1,395)
At 31 December 2024	-

28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Capital management

The Group manages its capital to ensure the Group will be able to continue as a going concern while maximising the return to shareholder through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2023.

The capital structure of the Group consists of net debt (total debt in Notes 24 and 25 after deducting cash and cash equivalents) and shareholder equity of the Group. The Group is not subject to any externally imposed capital requirements.

Credit risk

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

(in thousands of Azerbaijani Manats)

Trade and other receivables (excluding VAT recoverable and tax receivable) consist of a large number of customers, spread across diverse industries and geographical areas.
Concentration of trade and other receivables is set out in below table:

	31 December 2024		31 December 2023	
Company A	19,913	15%	14,059	12%
Company B	9,323	7%	-	0%
Company C	7,774	6%	15,563	14%
Others	95,458	72%	87,860	75%
Total	**132,468**	**100%**	**117,482**	**100%**

Concentration of amounts due from related parties is set out in below table:

	31 December 2024		31 December 2023	
Agent A	20,826	54%	33,912	49%
Agent B	9,565	25%	25,500	37%
Agent C	8,281	21%	9,534	14%
Total	**38,672**	**100%**	**68,946**	**100%**

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

Concentration of bank deposits is set out in below table:

	31 December 2024		31 December 2023	
Bank A	680,000	77%	595,000	88%
Bank E	164,390	19%	79,390	12%
Bank C	17,000	2%	-	-
Bank G	17,000	2%	-	-
Total	**878,390**	**100%**	**674,390**	**100%**

Cash and cash equivalents of AZN 40,829 and AZN 12,212 were held at Bank A and Bank G as of 31 December 2024 (2023: AZN 42,629 and AZN 18,588 in Bank A and Bank G), respectively.

(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 2024**	**31 December 2023**
Bank deposits	878,390	674,390
Trade and other receivables	130,396	113,100
Cash and cash equivalents	80,766	75,415
Amounts due from related parties	36,011	60,986
Restricted cash	21,878	23,241
Security deposits	16,036	19,444
Total	**1,163,477**	**966,576**

Interest rate risk

The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group is exposed to the SOFR risk-free rate. Changes in interest rate impact primarily lease liabilities and borrowings by changing their cash flows.

An increase of the variable interest rates would not have material impact on equity and profit or loss at the end of 31 December 2024 and 2023.

Foreign currency risk

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

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

(in thousands of Azerbaijani Manats)

Foreign currency sensitivity analysis

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

31 December 2024	**AZN**	**USD**	**EUR**	**CNY**	**JPY**	**KRW**	**Other**	**Total**
Bank deposits	-	878,390	-	-	-	-	-	878,390
Cash and cash equivalents	3,993	52,796	8,556	12,557	128	1,230	1,506	80,766
Trade and other receivables	11,654	56,049	585	34,949	8,443	8,412	10,304	130,396
Amounts due from related parties	8,907	7,711	19,393	-	-	-	-	36,011
Security deposits	-	16,036	-	-	-	-	-	16,036
Restricted cash	-	21,878	-	-	-	-	-	21,878
Total financial assets	**24,554**	**1,032,860**	**28,534**	**47,506**	**8,571**	**9,642**	**11,810**	**1,163,477**
Lease liabilities	-	580,553	-	-	-	-	-	580,553
Loans and borrowings	-	625,740	-	-	-	-	-	625,740
Trade and other payables	49,829	60,392	36,779	4,902	904	390	28,096	181,292
Amounts due to related parties	21,012	2,109	959	-	-	-	-	24,080
Total financial liability	**70,841**	**1,268,794**	**37,738**	**4,902**	**904**	**390**	**28,096**	**1,411,665**
Open position		**(235,934)**	**(9,204)**	**42,604**	**7,667**	**9,252**	**(16,286)**	**(201,901)**

31 December 2023	**AZN**	**USD**	**EUR**	**CNY**	**JPY**	**KRW**	**Other**	**Total**
Bank deposits	-	674,390	-	-	-	-	-	674,390
Cash and cash equivalents	1,189	25,312	38,273	7,672	-	1,262	1,707	75,415
Trade and other receivables	20,166	29,560	12,655	30,838	3,633	8,062	8,186	113,100
Amounts due from related parties	22,556	8,434	29,996	-	-	-	-	60,986
Security deposits	-	19,444	-	-	-	-	-	19,444
Restricted cash	-	23,241	-	-	-	-	-	23,241
Total financial assets	**43,911**	**780,381**	**80,924**	**38,510**	**3,633**	**9,324**	**9,893**	**966,576**
Lease liabilities	-	654,824	-	-	-	-	-	654,824
Loans and borrowings	-	508,229	-	-	-	-	-	508,229
Trade and other payables	63,332	92,808	36,692	6,011	725	680	6,799	207,047
Amounts due to related parties	29,838	49	2,231	-	-	-	-	32,118
Provisions	-	1,395	-	-	-	-	-	1,395
Total financial liability	**93,170**	**1,257,305**	**38,923**	**6,011**	**725**	**680**	**6,799**	**1,403,613**
Open position		**(476,924)**	**42,001**	**32,499**	**2,908**	**8,644**	**3,094**	**(387,778)**

Sensitivity analysis

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

31 December 2024	**USD**	**EUR**	**CNY**	**JPY**	**KRW**	**Other**
10% weakening of AZN	(23,593)	(920)	4,260	767	925	(1,629)

31 December 2023	**USD**	**EUR**	**CNY**	**JPY**	**KRW**	**Other**
10% weakening of AZN	(47,692)	4,200	3,250	291	864	309

(in thousands of Azerbaijani Manats)

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.

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 2024

	Trade and other receivables	Trade and other payables
Gross amounts	241,381	292,277
Amounts offset in accordance with IAS 32 offsetting criteria	(110,985)	(110,985)
Net amounts presented in the consolidated statement of financial position	130,396	181,292
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(16,631)	(16,631)
Net amounts	**113,765**	**164,661**

31 December 2023

	Trade and other receivables	Trade and other payables
Gross amounts	181,293	275,240
Amounts offset in accordance with IAS 32 offsetting criteria	(68,193)	(68,193)
Net amounts presented in the consolidated statement of financial position	113,100	207,047
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(20,054)	(20,054)
Net amounts	**93,046**	**186,993**

31 December 2024

	Amounts due from related parties	Amounts due to related parties
Gross amounts	54,744	42,813
Amounts offset in accordance with IAS 32 offsetting criteria	(18,733)	(18,733)
Net amounts presented in the consolidated statement of financial position	36,011	24,080
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(46,093)	(46,093)
Net amounts	**(10,082)**	**(22,013)**

31 December 2023

	Amounts due from related parties	Amounts due to related parties
Gross amounts	80,782	51,914
Amounts offset in accordance with IAS 32 offsetting criteria	(19,796)	(19,796)
Net amounts presented in the consolidated statement of financial position	60,986	32,118
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(26,938)	(26,938)
Net amounts	**34,048**	**5,180**

(in thousands of Azerbaijani Manats)

Liquidity risk

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

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The contractual maturity is based on the earliest date on which the Group may be required to pay. 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 2024			
	Within one year	1 to 5 years	Over 5 years	Total
Lease liabilities	193,092	285,729	296,655	775,476
Loans and borrowings	313,632	290,441	83,085	687,158
Trade and other payables	181,292	-	-	181,292
Amounts due to related parties	24,080	-	-	24,080
Total financial liabilities	**712,096**	**576,170**	**379,740**	**1,668,006**

	31 December 2023			
	Within one year	1 to 5 years	Over 5 years	Total
Lease liabilities	173,648	386,112	327,703	887,463
Loans and borrowings	175,875	192,433	245,929	614,237
Trade and other payables	207,047	-	-	207,047
Provisions	-	-	1,395	1,395
Amounts due to related parties	32,118	-	-	32,118
Total financial liabilities	**588,688**	**578,545**	**575,027**	**1,742,260**

Fair values versus carrying amounts

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

(in thousands of Azerbaijani Manats)

29. COMMITMENTS AND CONTINGENCIES

Capital commitments

Commitments related to the pre-delivery payments for the acquisition of new aircraft and engines were AZN 545,733 (2023: AZN 642,031). Authorised future commitments (excluding pre-delivery payments) for the acquisition of new aircraft and engines by the Group for which contracts were signed until 31 December 2024 amounted AZN 1,986,071 (2023: AZN 1,993,953).
The maturity of undiscounted future capital expenditures (including pre-delivery payments) as of 31 December 2024 is set out below:

	Within one year	1 to 5 years	Over 5 years	Total
31 December 2024	443,549	1,889,373	232,457	**2,565,379**
31 December 2023	179,562	1,905,739	550,683	**2,635,984**

Taxation contingencies

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

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

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

Operating environment

Emerging markets, such as Azerbaijan, are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Azerbaijan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations.

(in thousands of Azerbaijani Manats)

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.

Certain passenger and cargo airline carriers have been affected by temporary closures of regional airspace, resulting in rerouting of flights, extended flight times, and increased fuel costs. Management has considered the potential impact of recent geopolitical tensions resulting in the temporary closure of airspace in some of the regions to the Group's operations. The suspension of flights to and from such regions affected by such tensions has no material commercial impact on the operations of the Group as such regions represent insignificant portion of the Group's total operations.

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

30. RELATED PARTY TRANSACTIONS

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

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

		Year ended 31 December 2024		**Year ended 31 December 2023**	
	Notes	**Related party transactions**	**Total per category**	**Related party transactions**	**Total per category**
Revenue	5		2,357,943		1,913,124
- parent		*17,026*		*22,430*	
- sold through agents - entities under common control		*246,228*		*308,746*	
Aircraft and engine lease costs	6		139,202		120,961
- parent		*67,116*		*63,012*	
Commissions			110,378		84,352
- entities under common control		*14,108*		*10,911*	
Staff costs	7		89,651		78,725
- key management personnel		*7,085*		*7,124*	
Crew rental and other crew costs			46,968		40,258
- entities under common control		*9,022*		*10,905*	
Fees for transportation by chartered flights			28,223		35,045
- parent		*27,658*		*34,836*	
Other costs			40,836		46,791
- entities under common control		*129*		*267*	

(in thousands of Azerbaijani Manats)

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

	31 December 2024		31 December 2023	
	Related party balances	**Total per category**	**Related party balances**	**Total per category**
Amounts due from related parties, net of allowance:		36,011		60,986
- parent	*8,907*		*22,556*	
- entities under common control	*27,104*		*38,430*	
Amounts due to related parties:		24,080		32,118
- parent	*23,118*		*29,838*	
- entities under common control	*962*		*2,280*	

The following table details the risk profile of due from related parties 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.

31 December 2024	**Due from related parties – days past due**						
	Not past due	**<30**	**31-60**	**61-90**	**91-120**	**>120**	**Total**
Expected credit loss rate	0.79%	0.98%	11.19%	11.21%	12.43%	12.44%	6.88%
Estimated total gross carrying amount at default	16,891	1,433	688	812	507	18,341	38,672
Lifetime ECL	(134)	(14)	(77)	(91)	(63)	(2,282)	(2,661)
							36,011

31 December 2023	**Due from related parties – days past due**						
	Not past due	**<30**	**31-60**	**61-90**	**91-120**	**>120**	**Total**
Expected credit loss rate	2.15%	3.59%	20.79%	21.02%	29.39%	29.38%	11.55%
Estimated total gross carrying amount at default	24,199	20,808	2,179	1,851	1,851	18,058	68,946
Lifetime ECL	(521)	(748)	(453)	(389)	(544)	(5,305)	(7,960)
							60,986

The Group's exposure to credit and currency risks are disclosed in Note 28.

The following table details the risk profile of amounts due from related parties 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.

(in thousands of Azerbaijani Manats)

	2024	2023
Balance as at 1 January	**7,960**	**2,741**
Net remeasurement of loss allowance	(1,804)	4,399
Amount recovered	(3,495)	(321)
Change in loss allowance due to new amounts due from related parties originated net of those derecognised due to settlement	-	1,141
Balance as at 31 December	**2,661**	**7,960**

31. EVENTS AFTER THE REPORTING DATE

Bank deposits

In 2025, the Group extended the term of USD denominated deposit of AZN 85,000 and AZN 170,000 in Bank E and A, respectively for additional 12 months with a revised interest rate of 3.25 and 3.5 per cent.

In June 2025, the Group extended USD denominated deposit of AZN 17,000 in Bank G for additional 12 months with a revised interest rate of 4.05 per cent.

Loans and borrowings

During five months of 2025, the Group obtained USD denominated loan of AZN 15,980 from Bank E with an interest rate of 5.25 per cent and a maturity of one year, guaranteed with deposit from the same bank.

During 2025, the Group obtained a USD denominated loan of AZN 30,864 from Bank F with an interest rate of 5.25 per cent and a maturity of 10 years.

During 2025, the Group obtained USD denominated loan of AZN 15,678 AZN from Bank A with an interest rate of 6.3 per cent and a maturity of 4 years.

Corporate social responsibility expenses

The Group made additional CSR contribution of AZN 10,000 in March 2025 pursuant to the agreement with Education Development Fund to finance construction of public schools.

Dividends

Subsequent to the reporting date until the issuance of this report, the Group declared and paid dividends of AZN 10,785 and AZN 220 to Silk Way Airlines LLC and Silk Way Development LLC, respectively.