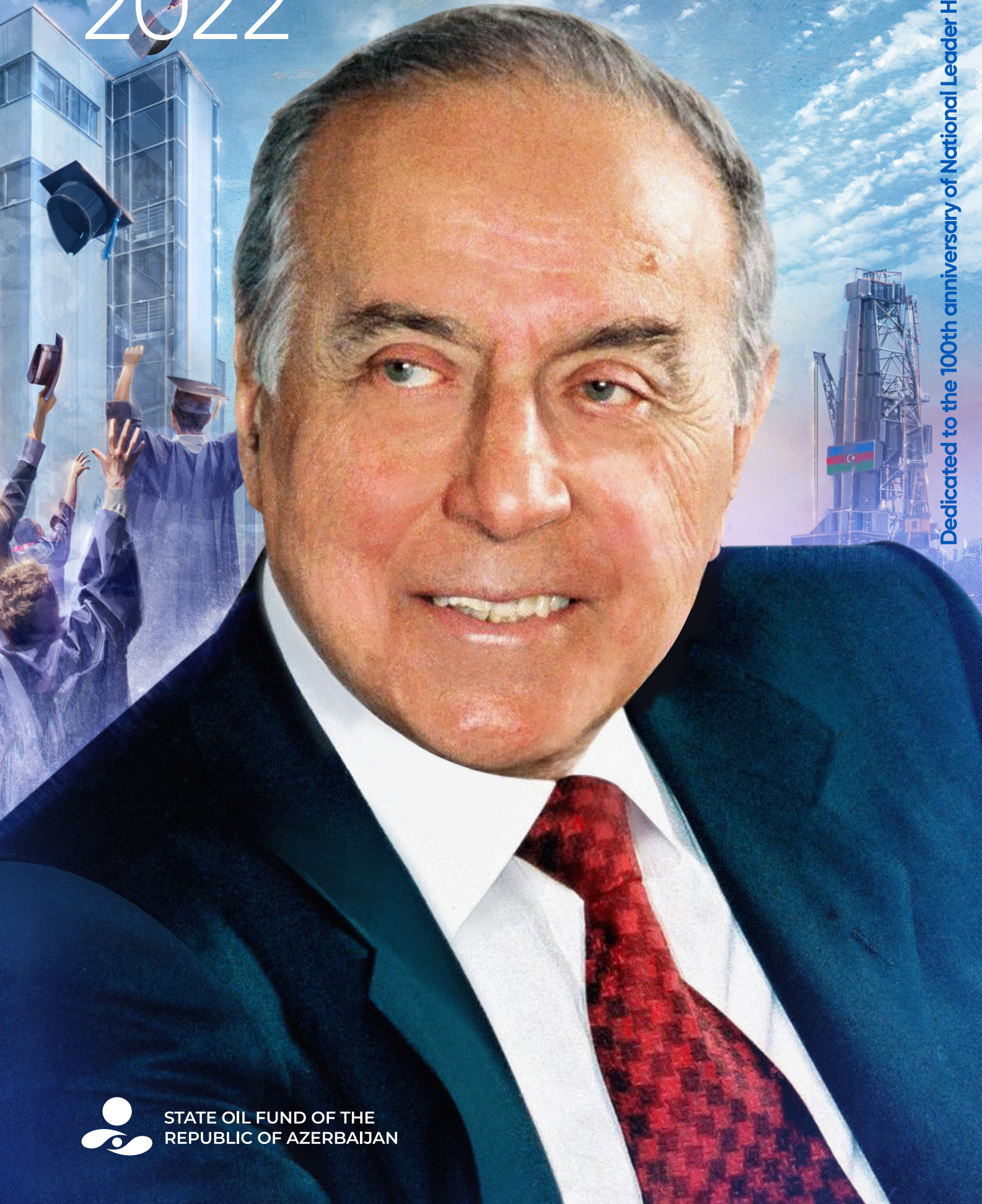


ANNUAL REPORT 2022



Dedicated to the 100th anniversary of National Leader Heydar Aliyev



STATE OIL FUND OF THE
REPUBLIC OF AZERBAIJAN



AZƏRBAYCAN RESPUBLİKASI
DÖVLƏT NEFT FONDU

www.oilfund.az



STATE OIL FUND OF THE
REPUBLIC OF AZERBAIJAN



ABBREVIATIONS

AIOC – AZERBAIJAN INTERNATIONAL OPERATING COMPANY

ACCA – ASSOCIATION OF CHARTERED CERTIFIED ACCOUNTANTS

ACG – AZERI - CHIRAG - GUNASHLI

ECB – EUROPIAN CENTRAL BANK

ARSCC – THE STATE CUSTOMS COMMITTEE OF THE REPUBLIC OF AZERBAIJAN

SOFAZ – STATE OIL FUND OF THE REPUBLIC OF AZERBAIJAN

ARSSC – THE STATE STATISTICAL COMMITTEE OF THE REPUBLIC OF AZERBAIJAN

CBAR – THE CENTRAL BANK OF THE REPUBLIC OF AZERBAIJAN

AZRIGS – AZERBAIJAN RIGS LLC

BP – BRITISH PETROLEUM

IMF – INTERNATIONAL MONETARY FUND

CFA – CHARTERED FINANCIAL ANALYST

CIA – CENTRAL INTELLIGENCE AGENCY

CIPD – CHARTERED INSTITUTE OF PERSONNEL AND DEVELOPMENT

SGC – SOUTHERN GAS CORRIDOR

WB – WORLD BANK

ESG – ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE

FED – FEDERAL RESERVE BOARD

FSI – FINANCIAL STABILITY INSTITUTE

EITI – EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE

BoE – THE BANK OF ENGLAND

MSCI – MORGAN STANLEY CAPITAL INTERNATIONAL

NICO – NAFTIRAN INTERTRADE COMPANY LIMITED

ONGC Videsh Limited – OIL AND NATURAL GAS COPRORATION LTD

OPEC – ORGANIZATION OF THE PETROLEUM EXPORTING COUNTRIES

VaR – VALUE AT RISK

IFSWF – INTERNATIONAL FORUM OF SOVEREIGN WEALTH FUNDS

SOCAR – STATE OIL COMPANY OF THE REPUBLIC OF AZERBAIJAN

SWF – SOVEREIGN WEALTH FUNDS

SSGA – STATE STREET GLOBAL ADVISORS

TPAO – TURKISH PETROLEUM CORPORATION

GDP – GROSS DOMESTIC PRODUCT

GAPP – GENERALLY ACCEPTED PRINCIPLES AND PRACTICES

CONTENT

1	FACTS AT A GLANCE	4
2	SOFAZ: A CLOSER LOOK	7
3	GOVERNANCE AND ORGANIZATION	8
	MANAGEMENT	8
	TRANSPARENCY AND ACCOUNTABILITY	8
	TALENT DEVELOPMENT	12
4	INVESTMENTS	16
	INVESTMENT STRATEGY	17
	INVESTMENT PORTFOLIO PERFORMANCE	20
	FIXED INCOME	22
	EQUITIES	26
	REAL ESTATE	32
	RISK MANAGEMENT	38
5	SOFAZ'S BUDGET	40
	OVERVIEW	40
	BUDGET EXECUTION: REVENUES	41
	BUDGET EXECUTION: EXPENDITURES	46
6	SPARKING AN IMPACT	52
7	ACTING GLOBALLY	57
8	SOVEREIGN WEALTH FUNDS "SANTIAGO PRINCIPLES"	62
9	SOFAZ'S CONSOLIDATED FINANCIAL STATEMENTS	70



1 FACTS AT A GLANCE ¹

¹Unless otherwise indicated in the report, all return figures are expressed in local currencies and are not adjusted for currency fluctuations.

By the end of 2022, the State Oil Fund of the Republic of Azerbaijan's ("SOFAZ" or "Fund") AUM had risen to USD 49.03 billion, representing an increase from USD 45.03 billion in the prior period. Of the total portfolio, 62.1% or USD 30.4 billion was invested in fixed income, while 19.6% or USD 9.6 billion was allocated to equities. Real estate made up 6.2% or USD 3.1 billion of the portfolio, and the remaining 12.1% or USD 5.9 billion was invested in gold.

Chart 1. Growth in SOFAZ assets (in USD billion)

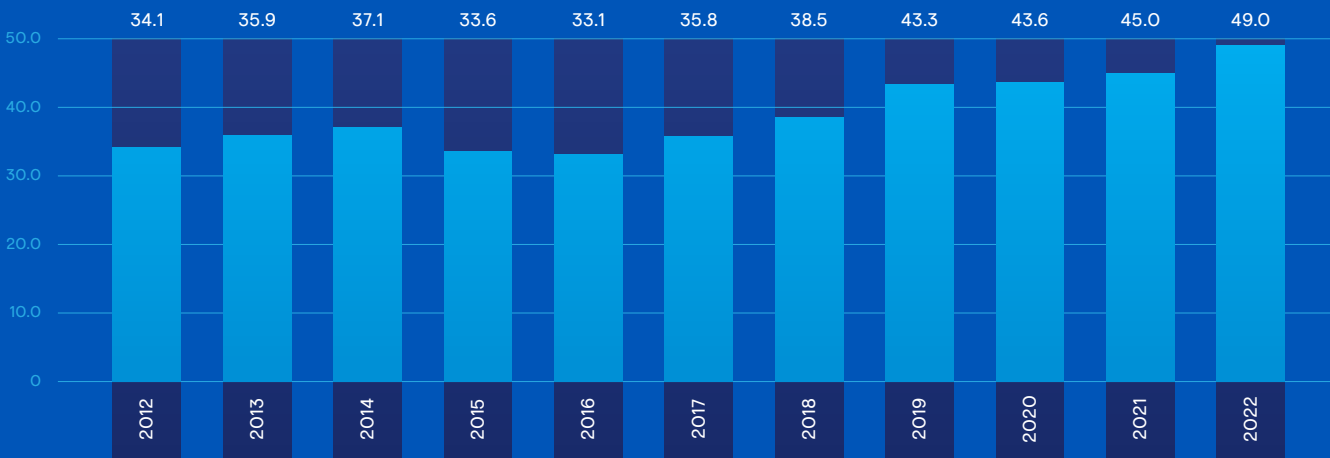
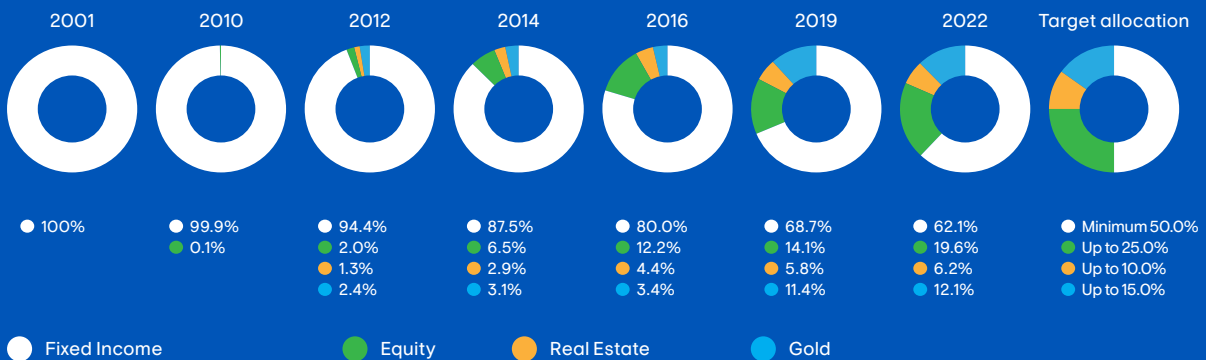


Chart 2. Asset allocation dynamics



As of the end of 2022, SOFAZ had allocated its investments across 66 countries and held 17 currencies.

Chart 3. Currency composition

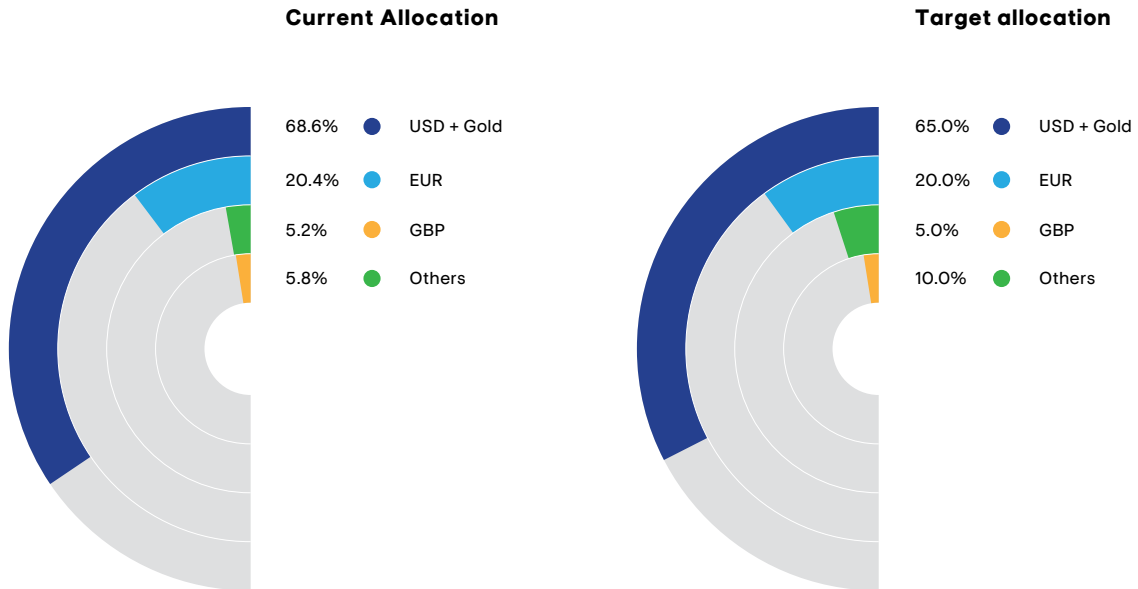
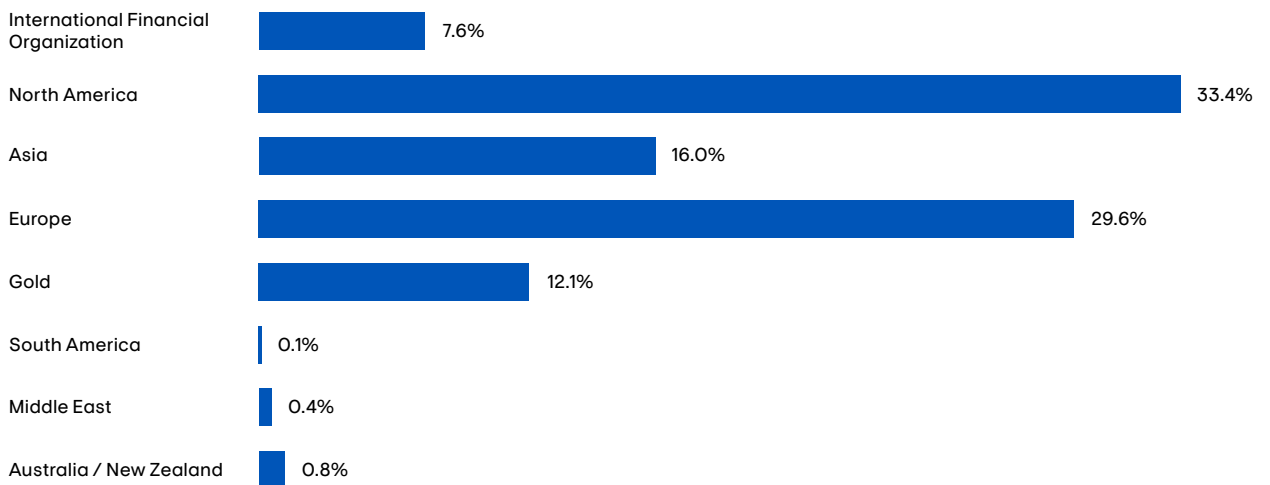


Chart 4. The distribution by region



Since its inception up until the end of 2022 SOFAZ has generated a total of USD 7.8 billion gain in absolute terms, equivalent to an annualized return of 2.3%. In 2022, the Fund's return was -5.2%.

Chart 5. Annualized rate of return on investment portfolio

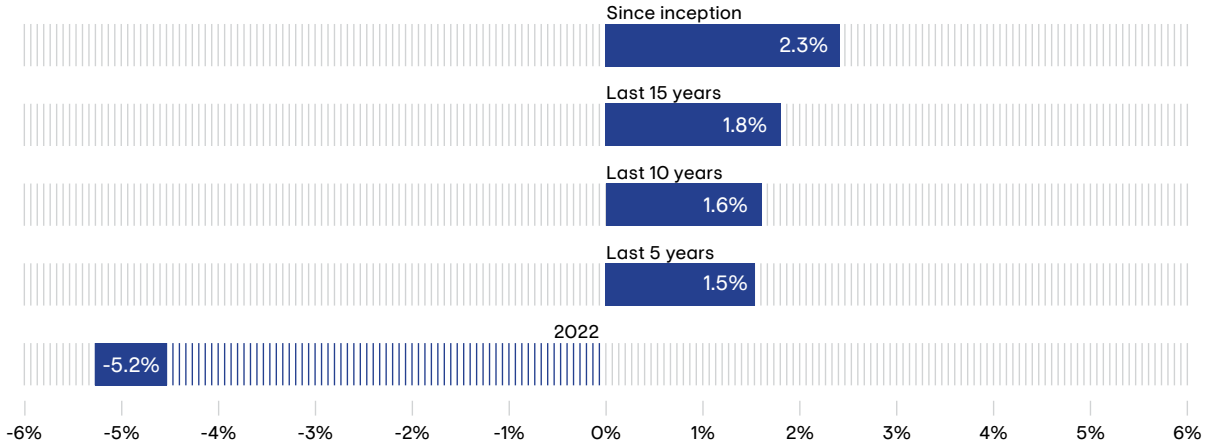
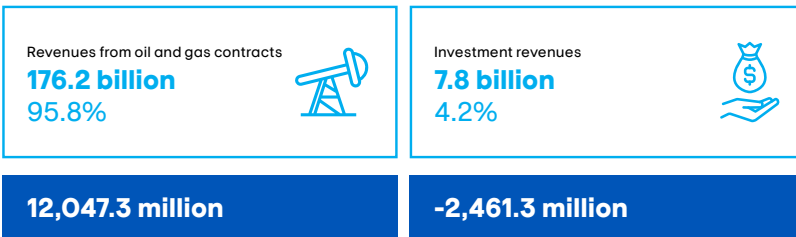
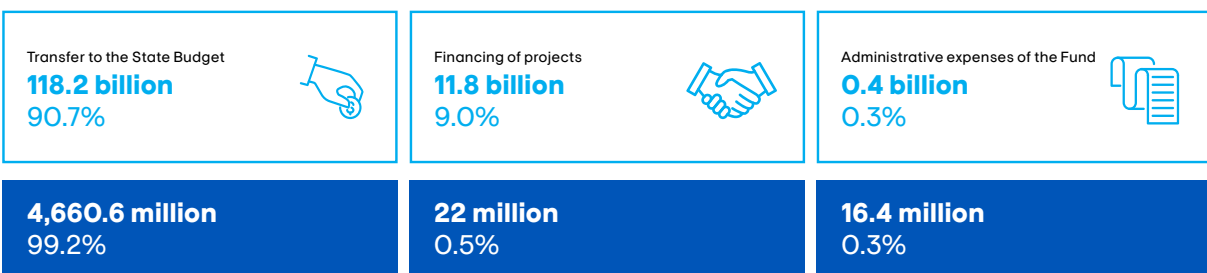


Illustration 1. Budget income of SOFAZ (USD)



□ Since inception
 ■ in 2022

Illustration 2. Budget expenses of SOFAZ (USD)



□ Since inception
 ■ in 2022

2 SOFAZ: A CLOSER LOOK

About SOFAZ

The date 20 September 1994 marked a significant milestone in the history of modern Azerbaijan. Under the leadership of the National Leader Heydar Aliyev, Azerbaijan signed a groundbreaking Production Sharing Agreement (PSA) with a consortium of 11 international oil companies from seven nations on the exploration and exploitation of oil fields in Azerbaijan's sector of the Caspian Sea – Azeri-Chirag-Gunashli. Dubbed the “Contract of the Century”, this transformative agreement spurred the signing of many other oil contracts in subsequent years.

Owing to the successful realization of the National Oil Strategy laid out by Heydar Aliyev, Azerbaijan has ensured its energy security and become a reliable country and partner in the international arena. The three pillars of the National Oil Strategy are the attraction of foreign investments and expertise to the development of the country's oil and gas resources; the establishment of multi-optional export routes; and the efficient and transparent management of revenue-

es. Ilham Aliyev, who at the time was the vice-president of the State Oil Company of the Republic of Azerbaijan, played an increasingly prominent role in the realization of the National Oil Strategy.

Ilham Aliyev's successful diplomatic mission, direct initiative, and forethoughtful proposals led to the idea of establishing SOFAZ in order to enable the prudent management of oil revenues. As proposed by Ilham Aliyev, the experience of similar sovereign wealth funds abroad was thoroughly evaluated, and consequently, SOFAZ was established in accordance with Decree No. 240 of the National Leader Heydar Aliyev on 29 December 1999. SOFAZ is a mechanism for the accumulation of energy-related earnings and their efficient management for future generations.

SOFAZ is structured as an extra-budgetary fund and functions as a legal entity separate from the government or central bank. The SOFAZ Statute was approved in 2000.

Mission

Our mission is to transform depletable hydrocarbon reserves into financial assets generating perpetual income for current and future generations.

Objective

Our objective is to ensure the accumulation and effective management of foreign currency and other assets generated from the implementation of oil and gas exploration and development agreements as well as from the Fund's own activities, in the best interest of citizens and future generations of the Republic of Azerbaijan.

Legal Framework

SOFAZ's operations are guided by the Constitution and Laws of the Republic of Azerbaijan, decrees and orders of the President of the Republic of Azerbaijan, as well as the SOFAZ Statute.

SOFAZ's funding and withdrawal rules are clearly defined by the Statute of the State Oil Fund of the Republic of Azerbaijan and the “Rules on the preparation and execution of the annual programme of revenues and expenditures (budget) of the State Oil Fund of the Republic of Azerbaijan”. According to the Law of the Republic of Azerbaijan “On the budget system”, all SOFAZ expenditures, except for operating expenditures and expenses on placement of its funds in international banks and other financial instituti-

ons, are incorporated into an annual consolidated government budget presented to the Parliament for approval. Thus, indirectly, all citizens participate in the discussions on the SOFAZ budget. In compliance with this Law, SOFAZ can make only the expenditures envisaged in its budget.

SOFAZ's investment and risk management policies are defined by Investment Policy approved by the President of the Republic of Azerbaijan after review by the Supervisory Board. According to the Investment Policy, SOFAZ's investment decisions should aim to maximize risk-adjusted returns. SOFAZ makes its investment decisions in accordance with the requirements of the Investment Policy.

3 MANAGEMENT

The Supervisory Board

The Supervisory Board, consisting of representatives of the state authorities and public organizations, carries out general oversight of SOFAZ's operations. The board reviews and evaluates SOFAZ's draft annual budget, annual report, and financial statements, along with an audit report. Members of

the Supervisory Board are approved by the President of the Republic of Azerbaijan.

In 2022, according to the Order, the Supervisory Board had the following members:

Ali Asadov

Chairman of the Supervisory Board - Prime Minister of the Republic of Azerbaijan

Adil Aliyev

Member of the Supervisory Board - Deputy Chair of the Milli Majlis

Natig Amirov

Member of the Supervisory Board - Assistant to the President of the Republic of Azerbaijan – Head of the Division of Economic Policy and Industrial Issues of the Presidential Administration of the Republic of Azerbaijan

Mikayil Jabbarov

Member of the Supervisory Board - Minister of the Economy of the Republic of Azerbaijan

Shahmar Movsumov

Member of the Supervisory Board - Assistant to the President of the Republic of Azerbaijan – Head of the Division of Economic Issues and Innovative Development Policy of the Presidential Administration of the Republic of Azerbaijan

Samir Sharifov

Member of the Supervisory Board - Minister of Finance of the Republic of Azerbaijan

Taleh Kazimov

Member of the Supervisory Board - Chairman of the Central Bank of the Republic of Azerbaijan

Transparency and accountability

Transparency and accountability have been the key principles in SOFAZ's operations since its inception. Regular auditing of SOFAZ's financial statements by a reputable international audit firm is used as the primary safeguard to ensure the transparency of SOFAZ's operations. SOFAZ's financial performance in 2022 was audited by PricewaterhouseCoopers Audit Azerbaijan LLC.

SOFAZ's public relations are managed in accordance with its Information Policy. SOFAZ's Informa-

tion Policy has been developed in accordance with the Law of the Republic of Azerbaijan "On access to information" with the purpose of the efficient management of SOFAZ's information exchange with stakeholders and the public, and to protect and develop its transparent state entity reputation. The Information Policy defines the principles, purposes, and objectives of the provision of information about SOFAZ's operations and activities to stakeholders and the public to meet the purposes and objectives of the Fund.

SOFAZ Management

Israfil
Mammadov

CEO

Rovshan
Javadov

Deputy CEO

Nargiz Nasrullayeva-
Muduroglu

Advisor to CEO

Bahrüz
Bahramov

Advisor to CEO

The Fund regularly issues press releases about its assets, investment activities, revenues and expenditures and projects, as well as events and meetings organized by SOFAZ.

To ensure the transparency of SOFAZ's activities, the Fund publishes relevant information, including quarterly revenue and expenditure statements, and annual reports on its official website (<https://oilfund.az/>) and on its official pages on social media sites.

SOFAZ is always open to questions from the public, and responds to all verbal and written Fund-related enquiries within the timeframe prescribed by the Law of the Republic of Azerbaijan "On access to information".

3 SOFAZ'S ORGANIZATIONAL STRUCTURE

Illustration 3. SOFAZ's Organizational Structure.



3 TALENT DEVELOPMENT

As a sovereign wealth fund SOFAZ plays an essential role in fostering socio-economic growth. Our dedicated staff members make valuable contributions to every project that SOFAZ funds, and their efforts are essential to the success of each step taken towards our goals. We prioritize the development of human capital that aligns with the values and vision of SOFAZ, promotes cooperation and mutual support, and is oriented towards growth and the future.

“ Our people are our valuable asset

The organization strives to attract and retain highly skilled and intellectual professionals to work towards achieving common goals with innovative and efficient ways. From the onboarding process forward, new members of the SOFAZ family are expected to uphold the organization's fundamental values.

SOFAZ employees are expected to adhere to the Ethic Codex, which serves as a guiding document outlining the expected standards for ethical and professional behavior in the workplace. The codex covers various aspects such as confidentiality, conflict of interest, anti-corruption measures, political and social activities, discipline, environmental protection, and more.





“ We believe that having a diverse workforce can lead to new opportunities, innovation, and creativity

By the end of 2022, SOFAZ employs 151 individuals. The Transformation Project implemented by the Human Resources Department resulted in significant optimization of SOFAZ's operations by restructuring its organizational units and modernizing the job responsibilities of its employees. This new environment has continued to promote diversity including people of different ages, ethnicities, religions, genders, academic achievements, and work experiences. This diversity adds strength to SOFAZ's workforce and enriched its culture. The role of women in SOFAZ increases and evolves at both staff and management levels to support gender balance. According to the 2022 statistics, the percentage of women in the SOFAZ family is increasing and stands at 41%, while women's representation in SOFAZ leadership is 28%.

SOFAZ recognizes the importance of diversity, especially when it comes to young people. For over two decades, SOFAZ has been offering a Summer Internship Program for students and recent

graduates. The Program allows interns to gain professional experience, knowledge, and insights into SOFAZ's unique business conditions, culture, and values. The interns undergo a comprehensive evaluation methodology and receive mentoring and training, which contributes to their future employment prospects and the country's Employment Policy. The Program's success is demonstrated by the number of individuals who hold significant positions at SOFAZ and other organizations.

SOFAZ intends to expand its cooperation with leading local and international universities, including global educational institutions, to attract the young talents by offering internship programs, organizing info sessions and visits to SOFAZ.

“ We place great importance on employee skills

SOFAZ puts the greatest emphasis on employee performance and engagement. It implements a performance assessment process to evaluate employees based on their actual work performance and level of initiative. The performance-based bonus system has a positive impact on incentivizing employees to improve their job mastery and contribute to the overall success of the organization. SOFAZ's competency model and personal development plan provides a structured approach for employees to identify their strengths and areas for improvement, also incentivizes them to set goals and advance in their careers. This approach helps our people feel valued and supported which further leads to their growth and development.

Our employees continually test themselves in activities outside the organization. One of the most successful examples is the participation of a total of 7 employees from different business units of SOFAZ at the “Yuksalish” competition, initiated by order of the President of the Republic of Azerbaijan, Ilham Aliyev.

Thus, among 12299 participants Nargiz Balakishiyeva, Deputy Director of the Legal Department, and Elshan Haziye, the Portfolio Manager of the Real Estate Division of the Investment Department were the winners of the competition. In addition, Togrul Rahimbayli, the Senior Analyst of the Quantitative Solutions and Performance Measurement Division of the Risk Management Department, could manage to advance to the final stage of the competition.



Elshan Haziyeu

"I am proud to work at SOFAZ, as each investment decision we make has a direct impact on future generations, ensuring their prosperity and securing a thriving legacy for Azerbaijan."



Nargiz Balakishiyeva

"SOFAZ recruits professional candidates, creates opportunities for their training and continuous development as leaders."

“ We invest primarily in employee development through training programs and further education opportunities

SOFAZ recognizes the importance of soft skills in addition to technical skills and encourages employees to participate in training programs offered by advanced local and international educational institutions.

SOFAZ supports its main business function employees in the acquisition of international certifications such as "Association of Chartered Certified Accountants"

("ACCA"), "Chartered Financial Analyst" ("CFA"), "Certified Internal Auditor" ("CIA") and "Chartered Institute of Personnel and Development" ("CIPD"). It also emphasizes the importance of different development programs in cultivating future leaders. Continuous learning and development will remain as a priority of the Fund for the upcoming years.

4 INVESTMENTS

THE YEAR OF MARKET FRAGILITY

The 2022 started with financial assets experiencing a transition from favorable economic conditions, supported by extended period of QE, to a new market regime featured with elevated inflation, moderation in growth, and increased volatility.

The novel environment has been tumultuous for conventional portfolios, particularly as high levels of inflation caused both bonds and stocks experience a selloff during the year.

Throughout the year, slowing growth expectations and persistent inflation were fueling market volatility, leaving market participants uncertain on how to position themselves. The expectations were largely centered on which of three economic scenarios would be the most dominant at the year-end: recession, stagflation, or a soft landing.

While some of the components of inflation that had been impacted by pandemic and geopolitical tension were slowing closer to the year end, other stickier items, such as rents and core services, were picking up. Meanwhile, economic activity was

decelerating, as higher prices and rising borrowing costs weighed on both consumer spending and residential investment.

As a consequence, central banks have been facing a challenging dilemma as they have strived to control inflation without slowing down economic growth. Despite the moderation in growth, inflation has remained too high to pivot from tightening. In the US and the UK, the robust labor market has made it even more difficult for central banks to execute their monetary policies to curb inflation, implying that restrictive policies would likely continue for an extended period. In Europe, core inflation has remained high in most European countries, indicating more interest rate hikes yet to come.

Table 1. Current and target asset allocation

Asset Allocation	\$ million	Current weight	Target allocation
Fixed Income	30,429	62.1%	50%
Equities	9,609	19.6%	25%
Real Estate	3,050	6.2%	10%
Gold	5,944	12.1%	15%
Investment portfolio	49,033	100%	100%

INVESTMENT STRATEGY

We focus on preserving the fund’s capital and generating sustainable returns over the long-term, while also contributing to the country’s economic stability and development.

The investment strategy of SOFAZ aims to maximize long-term risk-adjusted returns through low beta global portfolio with broad diversification among asset classes and across geographies, while also monitoring and analyzing the macroeconomic environment to ensure stable investment performance.

SOFAZ’s investment portfolio is managed in accordance with the “Rules on managing the foreign currency assets of SOFAZ” (thereafter “Investment Guidelines”) and the Investment Policy, which are approved by presidential decrees on an annual basis. The Investment Guidelines define the permissible asset classes, credit quality limits for counterparties, and other principles of SOFAZ’s asset management.

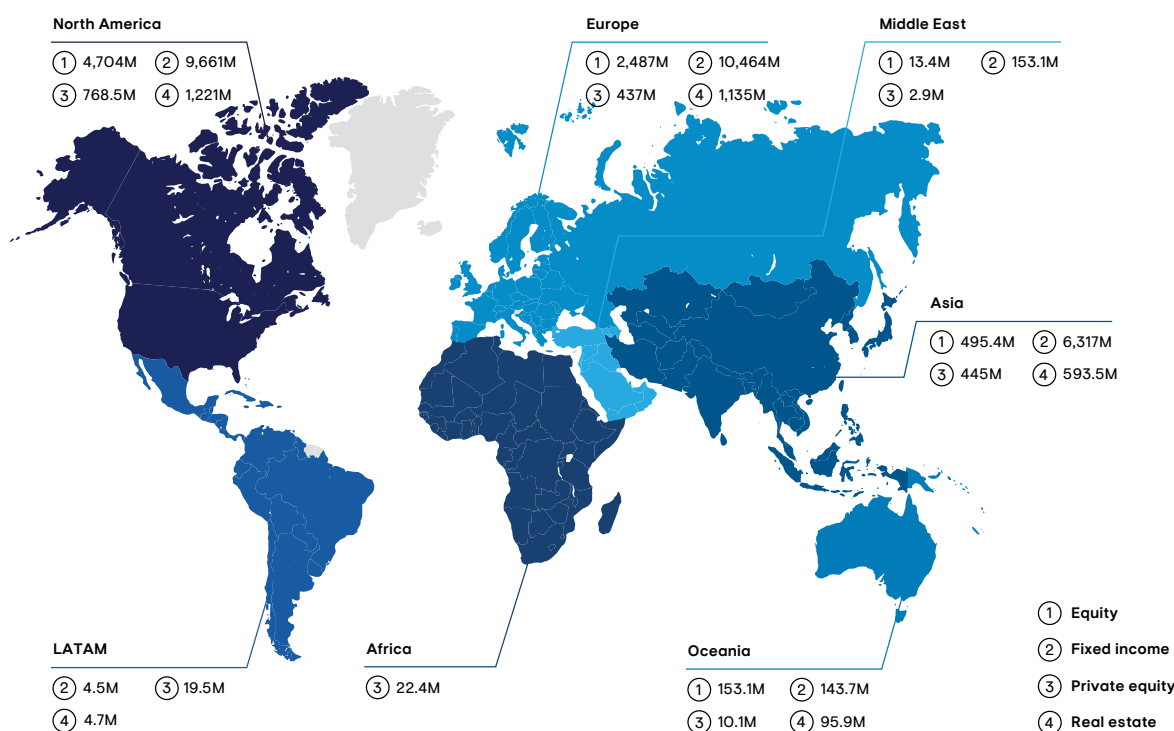
The Investment Policy defines the Fund’s objectives, asset and currency allocations, benchmarks, risk limits, and minimum requirements for external managers.

The asset class composition of SOFAZ’s investment portfolio is reviewed and approved annually in line with the long-term objectives. As of December 2022, the investment portfolio comprised 62.1% fixed income and money market securities, 19.6% equities (including private equity and non-rated debt funds), 12.1% gold, and 6.2% real estate. The 2022 Investment Policy defines the asset allocation as 50% debt obligations and money market instruments, 25% equities, 10% real estate, and 15% gold, with specific upper and lower deviation limits for each asset class.

Table 2. Investment directions and strategies

Asset classes	Strategy employed	
Traditional	Public Equity	Exposure to global equities
	Fixed Income	Exposure through bonds and money market instruments
Alternative	Private Equity	Exposure through private equity funds and co-investments
	Real Estate	Exposure through real estate funds and co-investments
	Gold	Exposure through physical purchase

Geographical diversification of investment portfolio



V THE SENTYABR 1999



1999

While delivering a speech at the official reception organized in honor of the 5th anniversary of the "Contract of the Century", Baku, September 20

On September 20, 1994, Azerbaijan signed the Azeri-Chirag-Gunashli Production Sharing Agreement (PSA) with leading international oil companies. Dubbed the "Contract of the Century," this agreement not only catalyzed the signing of subsequent oil contracts but also yielded substantial revenues that significantly impacted the nation's economy. The Contract of the Century, spearheaded by the National Leader Heydar Aliyev, stands as a magnificent chapter in our republic's new oil strategy.

The agreement is recognized as one of the most substantial contracts worldwide, encompassing both the

significant reserves of hydrocarbons and the extensive volume of investments involved. The execution of the Contract of the Century brought a transformative effect on Azerbaijan's economy, leading to the initiation of major projects. One of the most significant contributions of the new oil strategy established by the National Leader for our nation was the inception of a novel institution designed to gather, adeptly administer, and safeguard proceeds from oil and gas resources, intended for the benefit of future generations. For this purpose, by the decree of Heydar Aliyev the State Oil Fund of the Republic of Azerbaijan was founded through the direct initiative



of Ilham Aliyev, who was then held the position of the first vice president of SOCAR.

On September 14, 2017, President Ilham Aliyev, a worthy successor of the National Leader's legacy, played a pivotal role in the joint operation of the Azerbaijani sectors in the Caspian Sea, including the shallow and deep sections of the Azeri-Chirag-Gunashli (ACG) oil fields achieved through the signing of the revised version of the Agreement on the allocation of oil production shares. As the New Contract of the Century, this agreement holds immense significance for the future development of Azerbaijan and the expansion of the

country's financial prospects. It paves the way for new avenues of growth and opportunity, establishing the groundwork for a transformative era in Azerbaijan's economic landscape.

The ceremony held on the occasion of the 25th anniversary of the "Contract of the Century" and Oilmen Day, September 20

2019

4 INVESTMENT PORTFOLIO PERFORMANCE²

Returns on SOFAZ's assets are calculated in accordance with the "Performance measurement methodology for the investment portfolio and sub-portfolios of the State Oil Fund". The investment policy uses USD as the base currency, and performance is calculated with and without considering currency exchange fluctuations.

In 2022, SOFAZ returned -5.2%, with fixed-income investments declining by -3.8%, equity investments by -16.7%, and unlisted real estate investments rising by 9.2%. The fixed income sub-portfolio exceeded the benchmark by a margin of 3.7%, whereas the equity sub-portfolio (excluding AzRigs) outperformed by 2.4%.

Chart 6. Performance of investment portfolio by asset class³

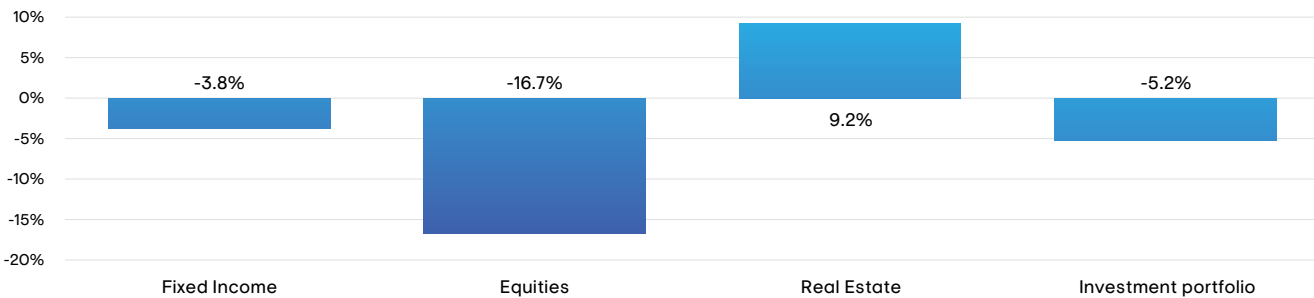
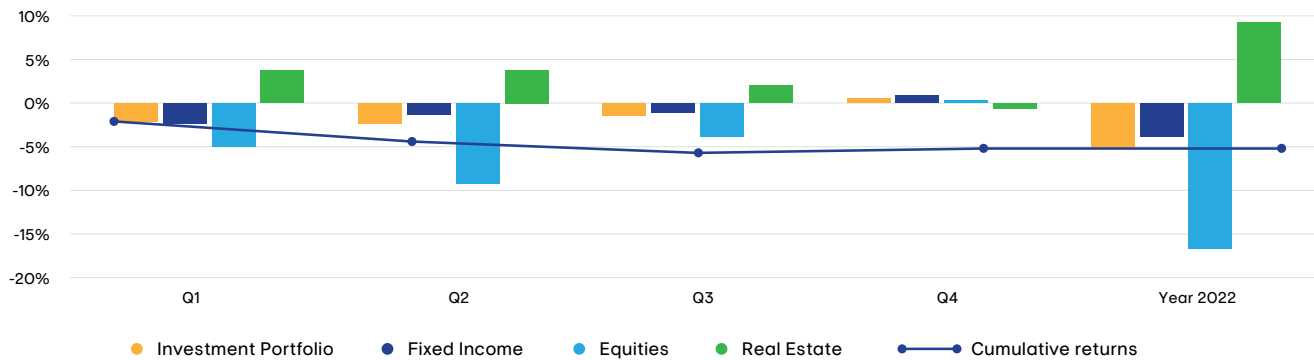


Chart 7. Quarterly returns



The tables 3 and 4 below present historical returns in local currency over the last five years.

² Unless otherwise indicated in the report, all return figures are expressed in local currencies and are not adjusted for currency fluctuations.

³ The gold investments are treated as an FX effect.

Table 3: Historical returns over the last five years in percent

Asset class	2022	2021	2020	2019	2018
Fixed Income	-3.8%	0.1%	2.5%	3.0%	0.9%
Equities	-16.7%	22.8%	8.2%	21.5%	-6.6%
Real Estate	9.2%	12.5%	-1.5%	7.4%	9.9%
Investment portfolio return	-5.2%	4.5%	2.8%	5.3%	0.3%

Table 4: Historical returns over the last five years in millions USD

Asset class	2022	2021	2020	2019	2018
Fixed Income	(1,107)	27	686	889	253
Equities	(1,608)	1,581	521	1,075	(351)
Real Estate	254	327	(43)	169	204
Investment portfolio return	(2,461)	1,934	1,164	2,133	107

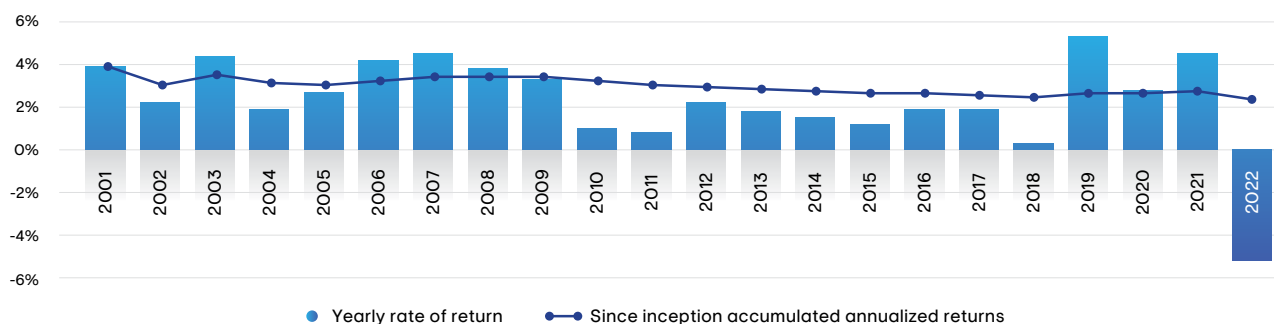
The following table displays the past five years' contributonal returns in local currency.

Table 5: Historical contributonal returns over the last five years

Asset class	2022	2021	2020	2019	2018
Fixed Income	-2.4%	0.1%	1.6%	2.2%	0.7%
Equities	-3.3%	3.7%	1.3%	2.7%	-0.9%
Real Estate	0.6%	0.8%	-0.1%	0.4%	0.5%
Investment portfolio return	-5.2%	4.5%	2.8%	5.3%	0.3%

The Fund's yearly and since inception accumulated annualized returns are provided below.

Chart 8. Historical returns



4 FIXED INCOME INVESTMENTS

SOFAZ's fixed income investments returned -3.8% in 2022. The low starting point for yields coupled with historic increases to levels not seen since global financial crisis pushed bond market returns to deeply negative.

Our fixed income investments are primarily comprised of bonds issued by governments, government agencies, international organizations, and corporates. The investments are spread across six currency portfolios: USD, EUR, GBP, CNY, TRY, and AUD. Each currency portfolio has its corresponding benchmark index. The size and distribution of our fixed income investments are typically determined by the benchmark indices, which are used as a standard for measuring the performance of the Fund's fixed income investments.

We aim to replicate the benchmark's composition and characteristics to ensure that the fund's performance is in line with the benchmark. However, we also exercise discretion to make adjustments to the fund's fixed income investments based on an analysis of market conditions and outlook for the economy. Ultimately, the goal is to maximize returns with acceptable level of risk.

Table 6. Benchmarks of fixed income sub-portfolios and durations

Index	Duration as of December, 2022
ICE BofA 1-10 Year US Treasury & Agency Index	3.7
ICE BofA 1-10 Year Euro Government Index	4.5
ICE BofA 1-5 Year Sterling Broad Market Index	2.6
ICE BofA 1-3 Year China Government Index	1.9
ICE BofA 1-3 Year Turkey Government Index	1.6
ICE BofA 1-3 Year Australia Broad Market Index	1.9

Table 7. Currency Composition for fixed income investments

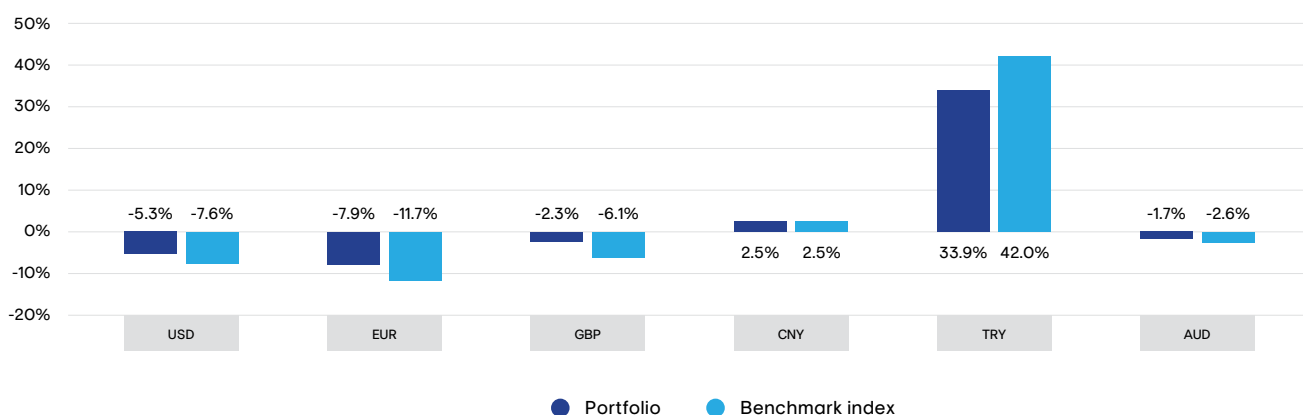
Fixed Income	Holdings million USD	%
USD	20,059.9	66.1%
EUR	7,486.0	24.7%
GBP	2,001.9	6.6%
CNY	542.7	1.8%
TRY	172.4	0.6%
AUD	98.1	0.3%

Internally managed USD-denominated bond holdings⁴ returned -5.3%, outperforming the return of benchmark index by 2.3%. This positive contribution was mainly due to a shorter portfolio duration compared to benchmark. During the year, the bond market had been affected by high inflation, rising interest rates, and debates about how committed central banks were in their hawkish policies. Yields on 10-year Treasuries rose sharply from 1.51% to 2.34% in the first quarter after the Federal Reserve signaled its intention to quickly adjust policy rates to a neutral setting. Throughout the first half of the year, robust aggregate demand and longer-lasting than anticipated supply

constraints led to widespread increases in prices for goods and services. These increases were further exacerbated by the surge in crude oil and commodity prices following the geopolitical tension, which particularly affected gasoline and fuel prices. Continued aggressive tightening by the Federal Reserve coupled with stickier than expected inflation rate have resulted in further increase in rates, particularly in the shorter end of the curve, while 10-year Treasury yields reached 3.9% at the end of the year.

⁴ Excludes bonds included in the SOFAZ's investment portfolio as a result of investments made for implementation of projects in accordance with the acts of the President of the Republic of Azerbaijan.

Chart 9. Portfolio vs. Benchmark index returns



The EUR fixed income portfolio outperformed the corresponding benchmark index by 3.8%, primarily due to a lower duration and an underweight allocation in periphery countries. This proved advantageous as these countries experienced a rise in spreads against the German sovereign curve.

Due to upside inflation surprises across major Eurozone economies, European Central Bank was forced to implement aggressive monetary policy, hiking interest rates by 250 bps in 2022. The aggressive hiking campaign also impacted the spreads, especially those of

periphery countries, as withdrawal of a pandemic era stimulus and end of negative rates were seen especially problematic for highly indebted countries.

However, Transmission Protection Instrument, a new tool designed by ECB to prevent fragmentation and to ensure smooth transmission of the monetary policy, was welcomed by the markets, providing relative stability in spread levels in the second half of the year.

For holdings in GBP, the underweight allocation in duration and the corporate bond sector were the main reasons for outperformance. Given the reliance of UK economy on natural gas and general increase in commodity and energy prices, like in mainland Europe, inflation data in the UK consistently was above the consensus, leading to major corrections in the gilt markets.

On top of fundamental factors necessitating aggressive monetary policy stance, Bank of England was also forced to respond to dislocations in the gilts market, caused by proposed fiscal policies of the previous government, via asset purchases and a 75 bps hike in November. The reversal of the proposals by the cur-

rent government lead to stabilization in the gilt market, with yields decreasing by 100 bps. However, the tight monetary policy and political risks left corporate bond market scarred, with spreads widening considerably compared to the beginning of the year. However, the tight monetary policy and political risks left corporate bond market scarred, with spreads widening considerably compared to the beginning of the year.

While our main investment focus has been to achieve and sustain duration neutrality against the benchmarks until the end of the year, we increased investments into longer maturity bonds gradually, with the majority of these investments made in the fourth quarter.

Chart 10. Duration by currency portfolio

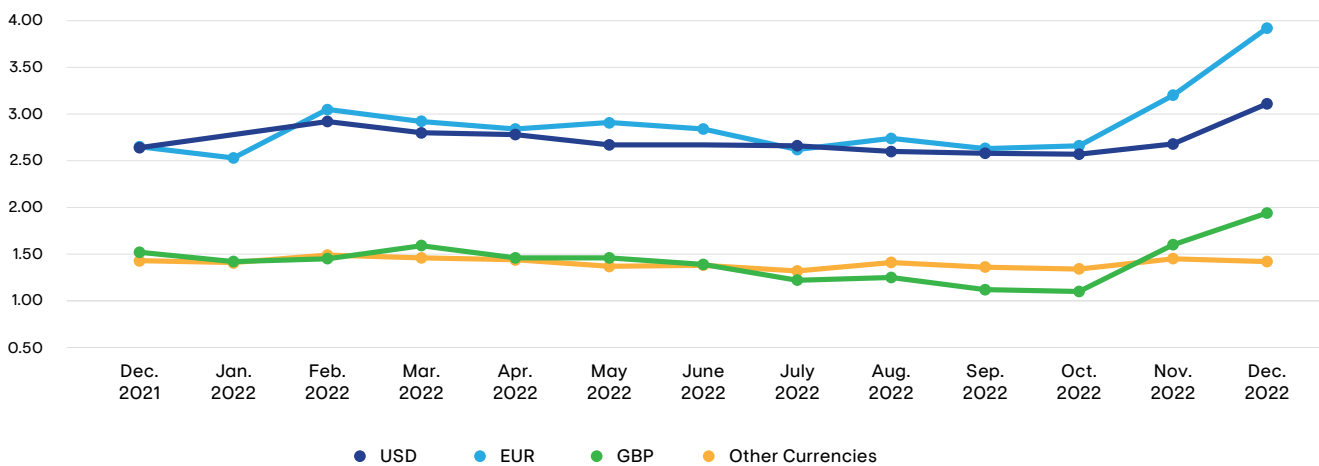
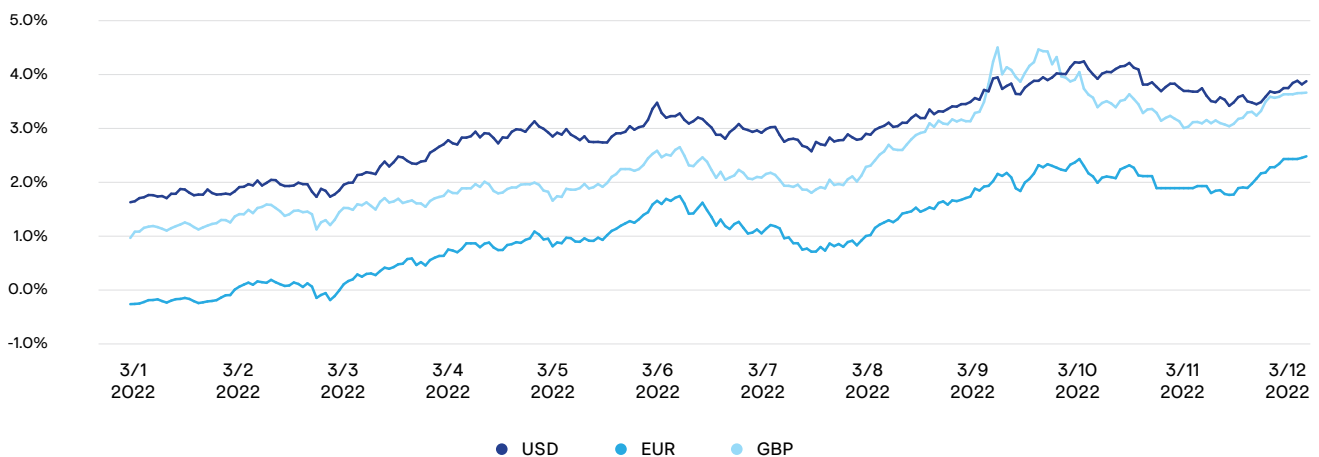


Chart 11. 10Y Government Yields



Majority of longer duration bonds investments were made through sovereign debt securities, which made up 47% of fixed income investments, and returned -7.0%. The Fund's largest holding of government debt from a single issuer is accounted for by US Treasuries, which made up 27.7% of fixed income investments. The short term and money market instruments returned 1.8%.

Investments managed by external managers made up 1.2% of fixed income investments. As of December, 2022, USD 240 million was managed by the World Bank Treasury and returned -2.2%, outperforming the benchmark index of 0-3 year US Treasury index by 0.1%. USD 114 million was managed by DWS international and returned -0.7%. Benefits brought by external managers include market expertise, specific industry experience, and regional presence thereby adding value to the investment portfolio.

Chart 12. Breakdown of fixed income portfolio by product types

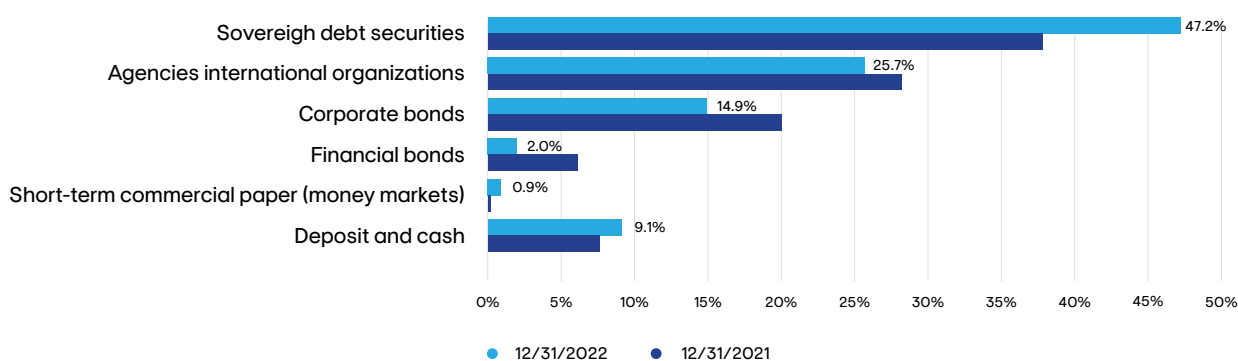
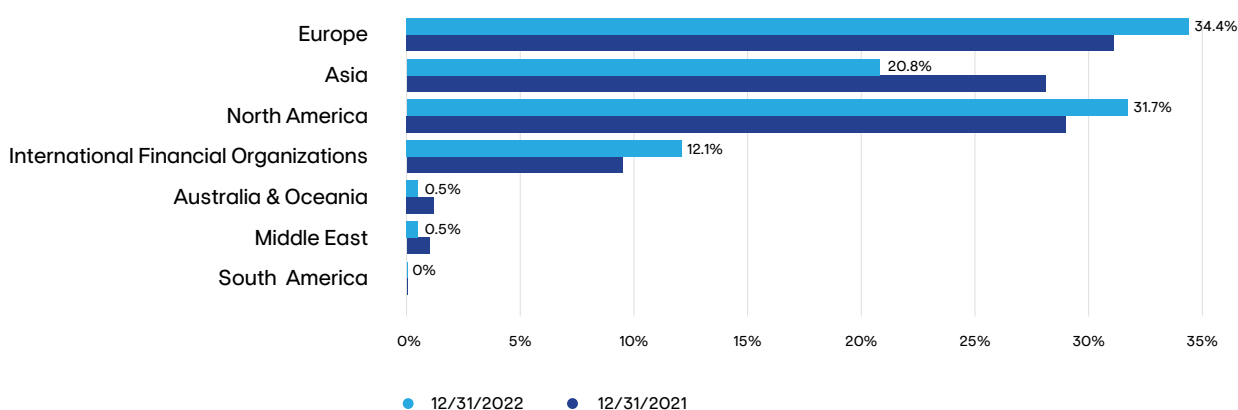


Table 8. Top 10 largest holdings, millions of USD as of 31 December, 2022⁵

Issuer	% of fixed income investments	Total value
Government of the United States of America	27.7%	8,436.8
Government of Germany	5.7%	1,723.9
United Kingdom Government	3.7%	1,135.2
European Investment Bank	2.2%	670.0
Government of Spain	2.2%	659.5
Kreditanstalt für Wiederaufbau	2.0%	591.9
International Bank for Reconstruction & Development	1.9%	585.0
European Union	1.8%	539.8
Asian Development Bank	1.8%	533.0
Inter-American Development Bank	1.8%	532.0

Chart 13. Breakdown of fixed income investments by geographical distribution



⁵ Excludes bonds included in the SOFAZ's investment portfolio as a result of investments made for implementation of projects in accordance with the acts of the President of the Republic of Azerbaijan, and deposit placed with the Central Bank of the Republic of Türkiye.

4 EQUITY INVESTMENTS

In 2022, our public equity portfolio experienced a decline of 16.9%. The year was marked by numerous challenges, including heightened inflation and interest rates, the conflict in Ukraine, and concerns of a looming recession, all of which contributed to the market downturn.

16.1%

Portfolio share

\$7.9

Billion value

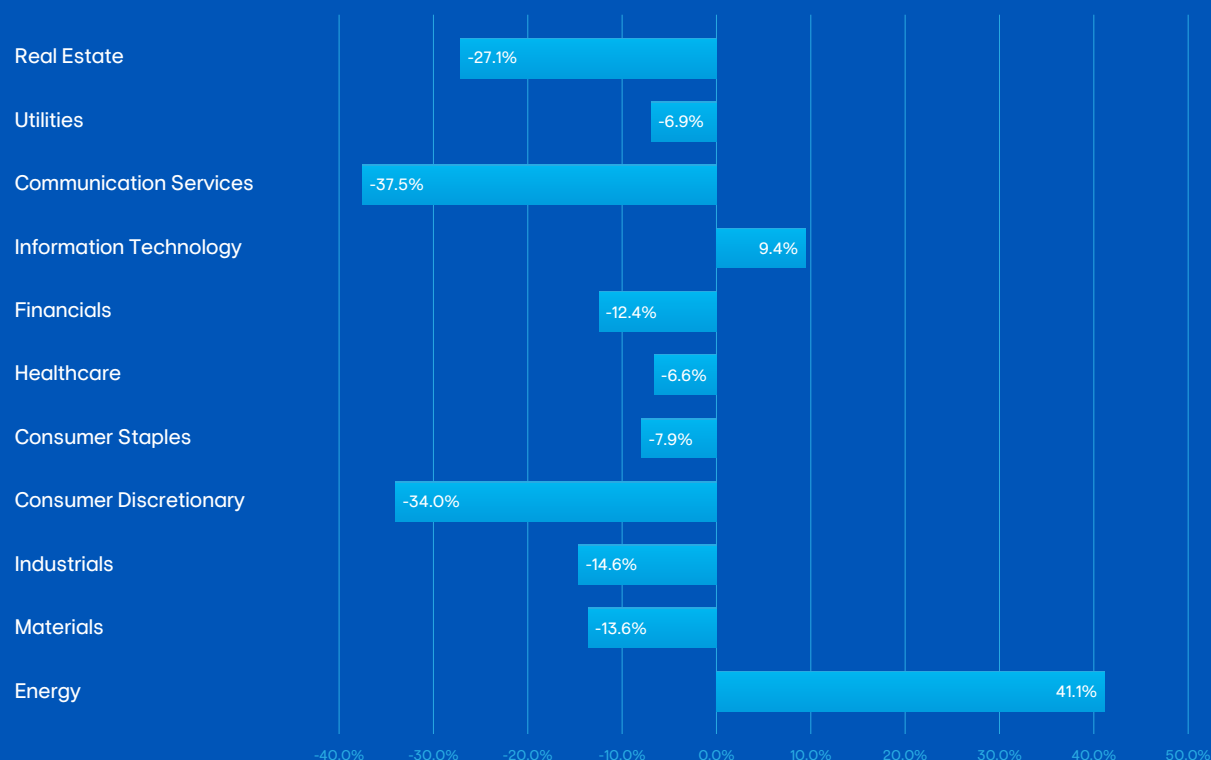
26

Markets

As an investor with a long-term perspective, we seek long-term returns by pursuing a global mandate within public equities. And throughout the years, listed equities have not only boosted our returns but also provided diversification to overall investment portfolio. SOFAZ's public equity portfolio witnessed an increase to 16% of the total AUM by the end of 2022, up from 14.3% in 2021. This was due to public equity increase plan that we commenced in Q2 2022. An additional injection of 2.7 billion USD was made into the public equity portfolio over a nine-month period starting from April, taking advantage of the relatively low stock valuations caused by the inflationary and tight monetary environment. Our public equity

investments experienced a decline of 16.9% in local terms (19.6% in USD terms) throughout the year. We seek to maintain a diversified equity portfolio that is well-balanced by investing predominantly in the MSCI World index, which provides extensive diversification across various global markets and sectors. The portfolio tracking MSCI World index had a negative return of 15.5% in local terms (-17.6% in USD terms) in 2022. It is worth noting that most major indexes worldwide, including the MSCI Europe ex-UK, fell into bear market territory. The portfolio tracking the MSCI Europe ex-UK index suffered losses of 12.5% in local and 17.3% in USD terms in 2022.

Chart 14. MSCI World Sectors Performance



Regarding sector segments, only 2 sectors ended the year with a positive return. The energy sector was the most notable performer, showing significant gains since the start of the year due to Russian sanctions affecting the supply of oil and gas, leading to sharp increases in prices. On the other hand, communication services was the worst performer in the same period along with consumer discretionary as rising interest rates increased the cost of capital, thereby affecting the value of future earnings.

Our public equity portfolio spans across 26 markets worldwide and is entrusted in a cost-effective manner to external managers with deep market knowledge and expertise. The 5 external managers responsible for our public equity portfolio are UBS Asset Management, State Street Global Advisors (SSGA), Mellon Investments Corporation, Blackrock Investment Management, and Sumitomo Mitsui Trust International managing 3.7%, 2.5%, 3%, 3.4%, and 3.3% of the investment portfolio, respectively.

4 PRIVATE EQUITY INVESTMENTS

PRIVATE EQUITY PORTFOLIO

SOFAZ's private equity investments returned 3.7%⁶ in 2022, while benchmarks are valued at -12.6%⁷.

A drop-off in private equity deal activity has been experienced due to rising inflation and interest rates.

Peak levels in private equity deal activity from 2021 continued until the second half of the year when the markets slowed down due to the rate hikes of Federal Reserve, ending the era of cheap debt. In line with this activity, in 2022 SOFAZ has deployed approximately USD 514 million capital across 13 private equity investments with 8 of them made in the first half of the year. We have continued to invest in large-cap, market leading buyout funds and co-investments with our preferred partners. We have focused on regional diversification by investing in both Europe and U.S. funds with global reach.

Asia funds were not in our focus for 2022 strategy in light of uncertainty and economic challenges that were persistent in the region. Over the years, while maintaining the sectoral diversification we have increased our allocation to attractive sectors like technology and healthcare backed by major industry tailwinds. We believe, our portfolio is well-positioned to show resilient performance throughout the different cycles of the economy and is comprised of fund and co-investments diversified across 23 fund managers mostly operating in advanced economies with high-quality asset base.

Fund Investments

40

Funds

\$1.6

Billion value

Co-investments

8

Deals

\$94

Million value

⁶ Return figure is calculated excluding AZRIGS.

⁷ We utilized MSCI ACWI + 3% with a 66-business day lag as our benchmark for private equity. This index belongs to the MSCI family of indices and aligns with our investment policy.

Our investment strategy remains focused predominantly on buyout investments with top ranking firms that are reliable partners of SOFAZ, have long term track record in the market and have proven their investment philosophy by consistently being in top quartiles for their performance.

Growing importance of Environment, social and governance (ESG) is set to shape all the industries in years to come. We put the emphasis on importance of ESG factors in investment decision making.

We believe increasing relevance of ESG will create positive and sustainable footprint on the society and environment.

In 2022, SOFAZ committed to eleven funds and two co-investment opportunities. Below are short descriptions of these investments:

Table 9. SOFAZ's private equity investments in 2022 ⁸

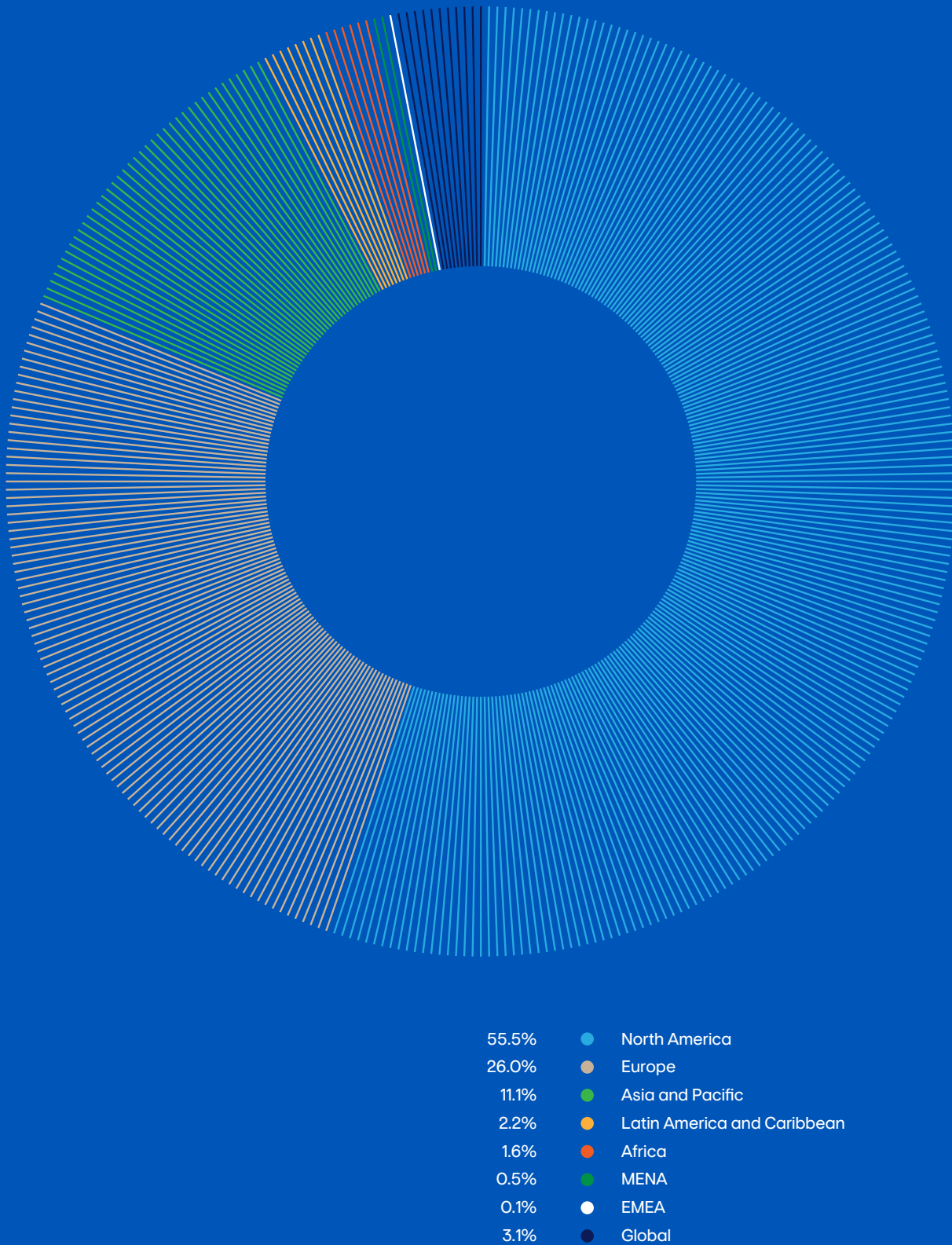
Fund Manager	Fund	Fund size	SOFAZ commitment	Description
Cinven	CNV VIII	EUR 12 billion	EUR 40 million	The firm targets businesses in diverse sectors with European headquarters or operations, where transformational value creation potential can be identified, both in Europe and globally.
Leonard Green & Partners	GEI IX	USD 13.5 billion	USD 40 million	The firm founded in 1989 by Leonard Green is a pioneer of leveraged buyout industry with a focus on US market.
Vista Equity Partners	VEP VIII	USD 20 billion	USD 40 million	The firm focuses on acquiring controlling interests in mid to large cap companies that develop and market software, software as a service, and technology-enabled businesses and information services with a focus on US market.
Brookfield Asset Management	BIF V	USD 25 billion	USD 40 million	Brookfield is a leading global alternative asset manager, focused on investing in long-life, high-quality assets across real estate, infrastructure and private equity.
Thoma Bravo	TB XV	USD 22 billion	USD 40 million	The firm is focused on investing in software companies operating mainly in US.
Carlyle Group	CETP V	EUR 2.5 billion	EUR 35 million	The firm primarily expects to invest in a portfolio of small and mid-cap buyout and growth, technology-focused investments in Europe and selectively in the United States.
Francisco Partners	FP VII	USD 10 billion	USD 30 million	The firm is a leading global investment firm that specializes in partnering with technology and technology-enabled businesses mainly in US.
FSI	FSI II	EUR 1.5 billion	EUR 40 million	The firm targets businesses in diverse sectors based in Italy.
Apollo Global Management	APL X	USD 25 billion	USD 40 million	The firm is aimed at realizing buyout and distressed investments globally, predominantly in the US.
Clayton Dubilier & Rice	CDR XII	USD 20 billion	USD 40 million	The firm manages capital in a single line of business which invests across North America and Europe in market-leading companies.
Neuberger Berman	NB Caspian Partners	USD 500 million	USD 100 million	The manager aims to invest mainly in mid-cap buyout funds and co-investments within the mandate.

- During 2022, SOFAZ has invested approximately USD 20.7 million to 2 co-investment opportunities alongside its General Partners.

⁸ Fund sizes indicated in the table are target sizes at the time of SOFAZ's commitments and actual sizes may differ from these with some funds still raising capital in the market.

North America and Europe based investments hold for 82% of the private equity investments.

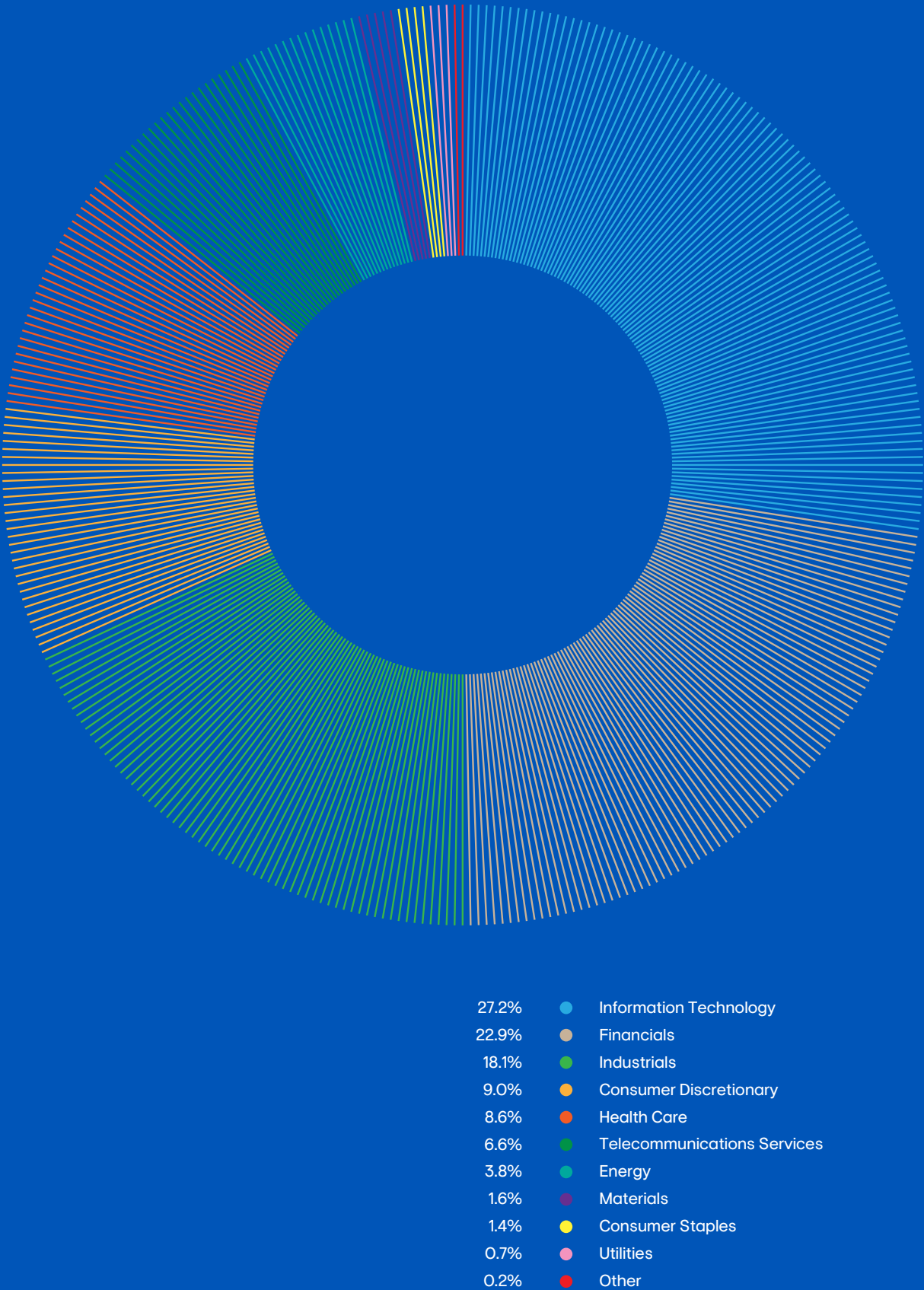
Chart 15. Breakdown of private equity portfolio by regions ⁹



⁹Information represented in charts 15 and 16 excludes SOFAZ's investment into AZRIGS.

Information technology and financials dominate the sectoral allocation with a diversified focus.

Chart 16. Breakdown of private equity portfolio by sectors



4 REAL ESTATE INVESTMENTS

SOFAZ's real estate investments returned 9.2% in 2022. Despite rising interest rates, decrease of demand in certain real estate asset classes and drop in overall consumer confidence, growing interest in resilient and market-driven property types and steady cash flow from investments led to positive yield in our well-diversified portfolio.

SOFAZ included real estate investments in its asset classes a decade ago, and 2022 marked the milestone of this 10-year anniversary. Real estate portfolio plays an important role as a valuable portfolio diversification tool and safeguard against inflation in our portfolio.

Our real estate portfolio is well-positioned to yield long-term steady cash flow and valued at USD 3.1

billion which constitutes 6.2% of the total SOFAZ's AUM, and is expected to reach the target 10% in the upcoming years.

The real estate investments have generated 6.8% accumulated annual compounded return with USD 1.3 billion gain since inception, and 9.2% return since the beginning of the year even with significant turmoil in the market.

\$3.1

Billion value

\$1.3

Billion gain

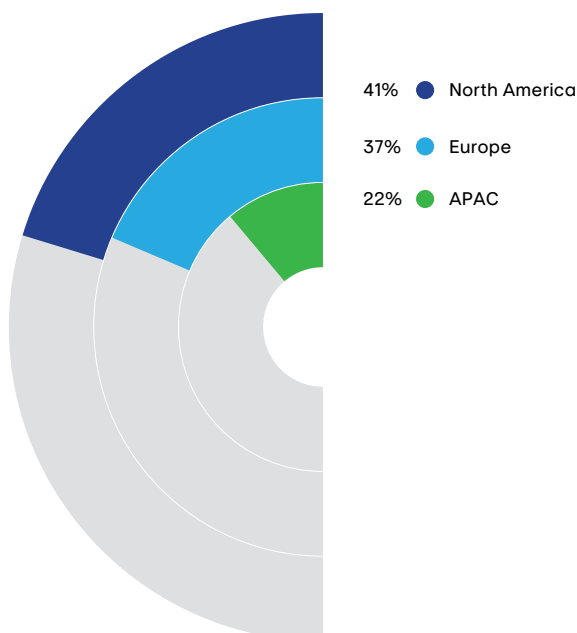
50

Investments

30+

Markets

Chart 17. SOFAZ Real Estate investment by regional allocation



Real Estate Portfolio Snapshot

In order to adapt to dynamic market shifts, along with traditional asset classes such as office, retail, residential, hospitality and logistics, current real estate portfolio encompasses tactical and market driven alternative classes such as life-science, data centers, senior housing and student housing assets. To date we have made 50 investments, including 6 direct, 13 co-investments and 31 fund investment across more than 30 countries with 17 reliable partners. The portfolio is highly diversified by regions and risk profiles. With sole concentration on non-listed real estate investments, real estate fund investments constitute 61% of portfolio.

61%

Indirect investments

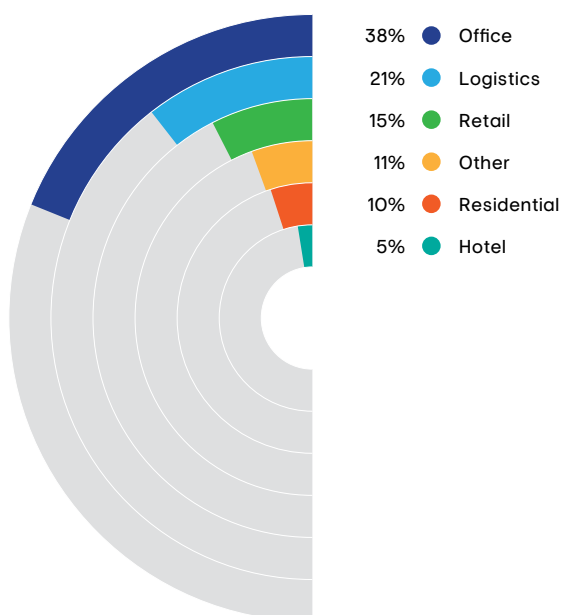
21%

Direct investments

18%

Co-investments

Chart 18. Current real estate allocation by sector



As the global market has entered the period of high uncertainty, the real estate market outlook still remains in favor but varies across many factors such as property type, location, individual strategy and local market fundamentals. Forecasts of weaker global growth akin to a short, possibly localized recession; falling – yet elevated – inflation in most developed markets create both headwinds and tailwinds for the real estate market. We will continue to keep our focus on prudent and resilient asset classes with strong market fundamentals. In line with our strategic objectives, we will also take the opportunity to explore new asset classes and expand real estate investing to new markets and strategies.

The increasing prominence of ESG is likely the most significant catalyst for change. Real estate, encompassing construction, finance, and operations, is incorporating environmental, social, and corporate governance considerations into its business decisions. We recognize the importance of these factors in promoting sustainable development and minimizing negative impacts on communities and the environment. Going forward, we will continue to prioritize investments in projects that contribute to the broader community and addresses environmental sustainability.



1997

After the solemn ceremony held to mark the commencement of initial oil production under the "Contract of the Century" on the "Chirag-1" platform. Baku, November 12

In November 1999, during a meeting held in Istanbul, Turkey, on the sidelines of the OSCE Summit, the presidents of the United States, Turkey, Azerbaijan, Georgia, Kazakhstan, and Turkmenistan signed an international treaty concerning the construction of the Baku-Tbilisi-Ceyhan (BTC) pipeline, which was intended to serve as the primary route for petroleum exports. On September 18, 2002, the groundwork for the Baku-Tbilisi-Ceyhan (BTC) oil pipeline was laid at the Sangachal terminal in Baku, with the participation of prominent international leaders including Heydar Aliyev, the presidents of Turkey and Georgia. Subsequently, the construction of

the pipeline commenced. President Ilham Aliyev continued the successful policies of his predecessor, Heydar Aliyev, and diligently worked on the development of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline. In October 2004, the Azerbaijani section of the pipeline was integrated with the Georgian section. Acknowledging the remarkable contributions of the visionary statesman Heydar Aliyev, the participants of the project decided to name the BTC main export pipeline after him in 2004. In May 2005, the BTC was hit by the first oil spill from the Sangachal terminal in Baku, and it reached the port of Jeyhan in the first round of 2006. Currently, the BTC



carries mostly oil extracted from the Azeri-Chirag-Gunashli oil fields and gas condensation produced from the Shah Deniz.

The Baku-Tbilisi-Ceyhan (BTC) oil pipeline has not only facilitated the export of Azerbaijani oil to global markets but has also become a symbol of the Silk Road and a significant focal point for Turkic-speaking countries. This internationally-led initiative has transformed the BTC oil pipeline system into a vital global "artery." Consequently, this strategic oil route has played a pivotal role in fostering new relationships between Azerbaijan and governments

worldwide, reestablishing connections with diverse nations, strengthening foreign policy, enhancing international influence, and promoting political and economic development within the country.

Moreover, the significance of the BTC extends beyond Azerbaijan, as it holds exceptional importance for all countries that have collaborated successfully with Azerbaijan in the realm of energy security and international oil exports. The project has contributed to strengthening cooperation and ensuring energy stability on a global scale.

After the solemn ceremony dedicated to the 20th anniversary of the "Contract of the Century" and the laying of the foundation of the Southern Gas Corridor. Baku, September, 20

2014

Real Estate direct portfolio

Direct investments make 21% of our real estate portfolio with four assets located in Moscow, London, Paris and Tokyo. All four assets are independently valued on an annual basis.

Please, refer to the Table 10 for valuation results of our direct real estate assets and respective valuation companies:

Table 10. Valuation results of direct real estate investments for 2021 and 2022

Assets	Currency	2021 Valuation results	2022 Valuation results	Valuation company
78, St James Street	GBP	174,500,000	193,500,000	JLL
8, Place Vendome	EUR	205,970,000	197,773,087	Cushman & Wakefield
Tverskaya 16	RUB	3,159,500,000	2,681,000,000	Commonwealth Partnership
Kirarito Ginza	JPY	56,800,000,000	56,900,000,000	Daiwa Real Estate Appraisal Co

78 St. James



Kirarito Ginza



2022 investments

Despite challenging macroeconomic backdrop and uncertainties, we made several significant commitments in 2022, totaling roughly USD 520 million across multiple leading investment firms.

Table 11. SOFAZ's real estate investments in 2022 ¹⁰

Fund Manager	Fund	Fund size	SOFAZ commitment	Description
PAG	PREP III	USD 2.5 billion	USD 100 million	The firm primarily targets core+ office and residential investments in APAC.
GAW Capital	GREF VII	USD 2.5 billion	USD 100 million	This pan-Asia opportunistic diversified real estate fund is focused on value-add and distressed opportunities in the region.
Blackrock	EPF VI	EUR 2.5 billion	EUR 200 million	The firm invests in high quality diversified assets across Europe.
Blackstone Group	Mileways Logistics	EUR 21 billion	EUR 88.5 million	This colossal logistics real estate platform acquires and manages high-quality last-mile logistics properties across Europe.

Mileway

Mileway was marked as the largest private real estate transaction ever with total value of EUR 21 billion and 14.7 million square meter logistics assets. Blackstone has built Mileway through 220 primarily off-market transactions beginning in 2016 across its different funds. Mileway is the largest last mile, pan-European logistics company in Europe with nearly 90% of its portfolio concentrated in assets located in last mile locations. The portfolio comprises 1735 assets.

Mileway is well-positioned with a footprint twice the size of the next largest last mile logistics platform in Europe and it has reached great scale in each of its markets (including the U.K., Germany, the Netherlands, Sweden, and France).

¹⁰ Fund sizes indicated in the table are target sizes at the time of SOFAZ's commitments and actual sizes may differ from these with some funds still raising capital in the market.

4 RISK MANAGEMENT

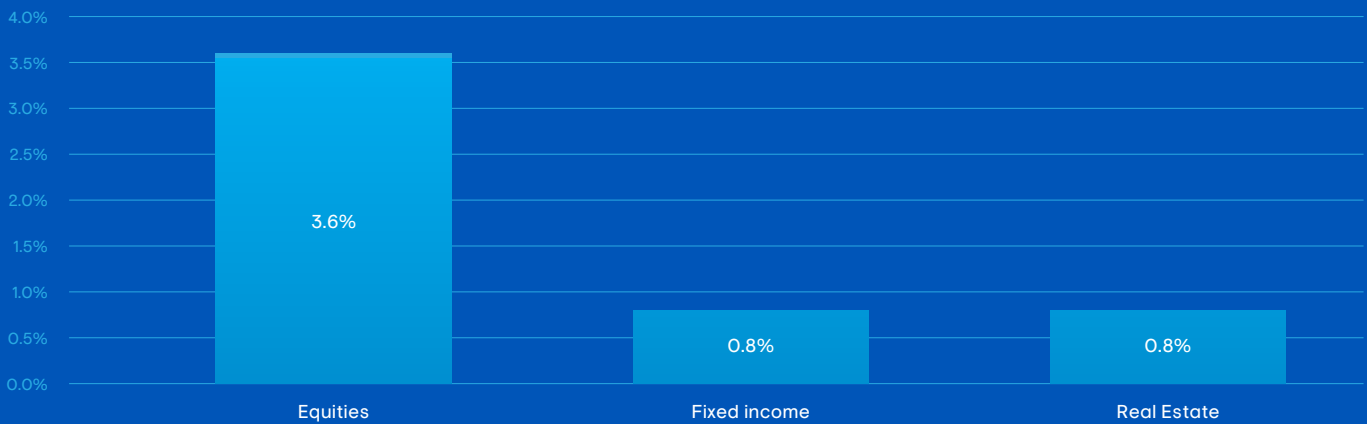
The Investment guidelines and Investment policy constitute the framework for risk management in SOFAZ. SOFAZ's risk management and monitoring procedures involve examining various types of risks. These include market risk, credit risk, liquidity risk, and other relevant indicators, which are reported to both internal and external audiences.

The fund's market risk is influenced by factors such as changes in interest rates, credit risk premiums, share prices, exchange rates, gold prices, and private assets' values. A range of measures and analyses, including but not limited to duration, Value at Risk, tracking error, concentration analysis, scenario analysis

and stress testing are employed to gain a comprehensive understanding of the market risk associated with the Fund.

Value at Risk (VaR) is a commonly accepted metric for quantifying a portfolio's overall risk. We calculate the portfolio's VaR using both Monte Carlo and historical simulations methods. As of December 31, 2022, SOFAZ's 1-year horizon 95% VaR was USD 2,559 million or 5.2% of Investment portfolio, compared to USD 1,845 million the previous year.

Chart 19. Contribution to total VaR by asset classes (without considering currency exchange movements)



* The overall VaR does not include the impact of gold investments' performance, it is treated as an FX effect.

To monitor the risk of divergence of SOFAZ's sub-portfolio returns from their passively tracked benchmarks, tracking errors are continually observed. Ex-ante tracking error limits for the equity sub-portfolios managed

by equity external asset managers are established at the level of 30 bps on an annual basis. The table below displays the annual tracking errors as of December 31, 2022.

Table 12. Ex-ante tracking errors

External Asset Managers	Tracking error
UBS Global Asset Management (MSCI World mandate)	14
State Street Global Advisors	8
Mellon Investments Corporation	14
BlackRock Investment Management	5
Sumitomo Mitsui Trust International	13
UBS Global Asset Management (MSCI Europe ex UK index mandate)	10

According to SOFAZ's Investment policy, the duration for the debt obligations and money market instruments sub-portfolio is decided based on the current state of the global financial markets and must not surpass the

weighted average duration of the corresponding benchmark. Fixed income sub-portfolio's duration figures are displayed in the table below.

Table 13. Durations of Portfolio and benchmark

Internally managed fixed income portfolios	Sub-portfolio's duration	Benchmark's duration
USD fixed income portfolio	3.1	3.7
EUR fixed income portfolio	3.9	4.5
GBP fixed income portfolio	1.9	2.6
AUD fixed income portfolio	1.7	1.9
CNY fixed income portfolio	1.4	1.9
TRY fixed income portfolio	1.3	1.6

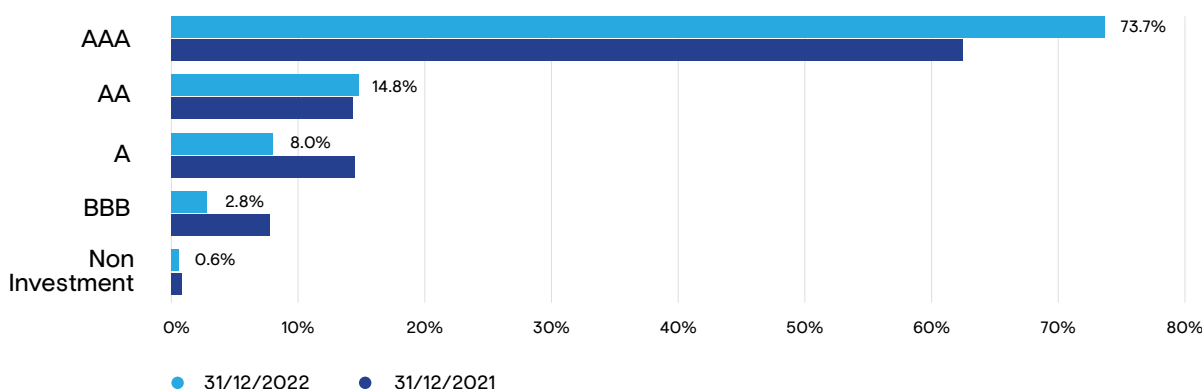
Our objective is to manage liquidity risk effectively to guarantee smooth daily operations and fulfill financial obligations. To achieve this, we have established internal cash management frameworks that maintain sufficient liquidity levels and comply with the constraints outlined in the Investment policy.

lines impose limitations on both issuers and securities' credit ratings within fixed income investments, as well as defining credit limits for counterparties, bank account and custodian services.

Managing credit risk is an essential aspect of the risk management procedures of SOFAZ. Investment Guide-

Chart below displays the changes in the fixed income portfolio's credit rating-based composition from 2021 to 2022.

Chart 20. Composition of the fixed income portfolio by credit ratings



5 SOFAZ'S BUDGET

OVERVIEW

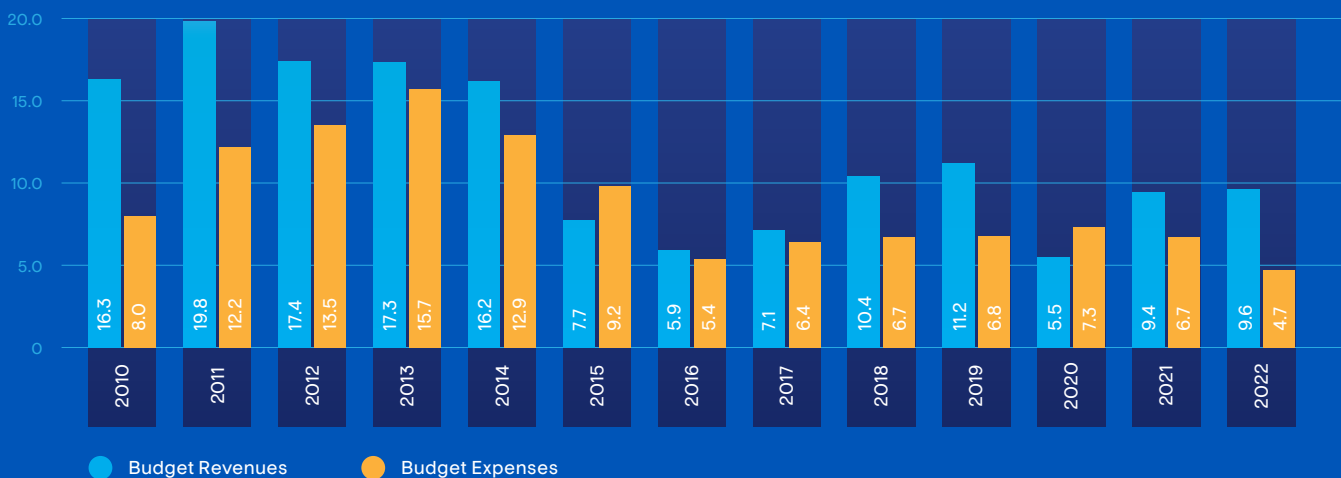
According to the Presidential Decree (dated december 23, 2021, numbered 1527) on SOFAZ's budget for 2022, the budgetary revenues and expenditures were approved as AZN 10,589,701.9 and AZN 12,789,674.6, respectively.

Following amendments to the State Budget, the Fund made revisions (dated Decree No. 1759 dated July 22, 2022) to its initial approved budget with the objective of optimizing accuracy and precision. According to the amended budget, the revenues of SOFAZ have been increased to AZN 15,789,147.9 thousand, while the expenditures have been decreased to AZN 11,597,136.5 thousand.

In the reporting year, total budget revenues constituted AZN 16,866.5 million or USD 9,586.0 million, meaning that the sum conceived in the budget plan (AZN 15,789.1 million) was executed at the level of 106.8%. At the same time, budget expenses were AZN 7,988.3 million or USD 4,699.0 million. The expenses were executed at the level of 68.9% compared to the budgeted amount (AZN 11,597.1 million). In the fiscal year 2022, the budget of SOFAZ reflected a surplus of AZN 8,878.2 million.

“ SOFAZ budget was executed with surplus

Chart 21. SOFAZ revenues and expenses (in billion USD)



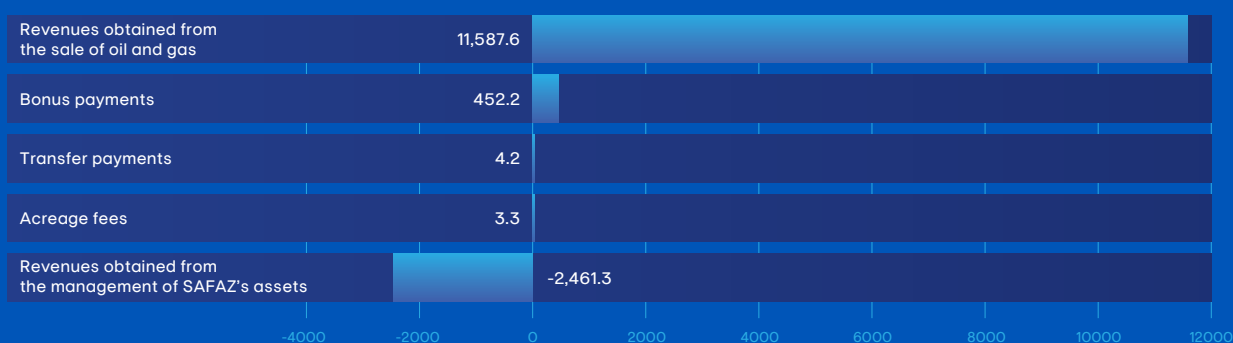
BUDGET EXECUTION: REVENUES

In 2022, the revenues of SOFAZ came from the sales of the Azerbaijan's share of hydrocarbons, acreage fees, fees paid to Azerbaijan for oil and gas transit through its territory (transit fees), bonus payments, and revenues from the management of SOFAZ's assets.

Budget revenues amounted to AZN 16,866.5 million (USD 9,586.0 million), which represents 106.8% execution compared to the approved budget and increased by USD 182.7 million compared to 2021 (which was USD 9,403.3 million).

“ High oil and gas prices have created conditions for additional income

Chart 22. Revenues of SOFAZ (in million USD)



Revenues from the sale of profit oil and gas.

In the fiscal year 2022, the budget of the SOFAZ recorded revenues amounting to AZN 19,698.9 million or USD 11,587.6 million from the sale of profit oil and gas and exceeded the approved budget by 31.4%, (AZN 14,993.4 million). These revenues were 65.6% higher compared to the previous year's income of USD 6,996.8 million. Oil and gas prices surpassed the levels approved in the 2022 budget, resulting in revenues from the sale of profit oil and gas exceeding the forecasted amounts. The average sale price per barrel of oil equalled to USD 101.1 (net price USD 98.1) in 2022, USD 32.5 higher than the respective figure for 2021 (USD 68.6).

In accordance with the Production Sharing Agreements (PSA) concluded for the development of offshore and onshore fields in the Republic of Azerbaijan, the amount received from the sale of profit oil produced from the Azeri-Chirag-Guneshli (ACG) field constitutes approximately 85.3 % (USD 9,888.8 million) of the total income.

USD 1,114.4 million were received from the sale of natural gas produced from the Shah Deniz field, USD 328.6 million from the sale of condensate and USD 91.4 million from other fields.

“ Oil and gas revenues exceeded approved budget by 31.4%

Chart 23. Revenues from sale of oil and gas in 2022 (in millions of USD)

ACG	9,888.8
Shah Deniz	1,442.9
Balakhani-Sabunchu	28.2
Binagadi	22.3
Kurovdagh	15.5
Kursangi-Kharabaghli	12.9
Surakhani	5.3
Zigh-Hovsan	4.0
Gum-Deniz and Bahar	2.0
Mishovdagh Kelameddin	0.6
Neftchala and Khilli	0.6

In 2022, SOCAR (State Oil Company of Azerbaijan Republic) paid a total of USD 529.7 million as part of the Agreement Protocol for managing revenues from its shares in the Shah Deniz, South Caucasus Pipeline, and Southern Gas Corridor projects. Out of this amount, USD 311.7 million was paid to SOFAZ (State Oil Fund of Azerbaijan Republic), and USD 218 million was paid to the State Tax Service of the Ministry of Economy of Azerbaijan to fulfill tax liabilities related to the Shah Deniz project.

As part of budget payments under the Protocol, USD 27.25 million was paid for the crude oil price differential from the sale of crude oil in 2007-2008, and USD 355.2 million (of which USD 137 million to SOFAZ, USD 218 million to tax liability) was fulfilled for gas debt. Additionally, within the investment portfolio, USD 147.2 million of obligations related to borrowings obtained by SOFAZ for the financialization of the Baku Shipyard construction has been executed.

“11.3 billion USD of revenue has been received by SOFAZ from the ACG and Shah Deniz fields together

Bonus payments. In 2022, the bonus payments received by SOFAZ constituted USD 452.2 million (AZN 768.7 million).

This income item has been implemented 100.0% compared to the budget. Revenues from this item constituted 4.9% of total budget revenues.

Table 14. SOFAZ's proceeds from bonus payments in 2022

Name of issuing organization	Name of the field	Date	Amount	
			million USD	million AZN
BP	ACG	05.01.2022	182.25	309.82
MOL Azerbaijan Ltd.			57.41	97.60
Inpex Southwest Caspian Sea Ltd.			55.84	94.93
Equinor			43.61	74.14
Exxon Azerbaijan Limited			40.75	69.27
TPAO			34.38	58.44
Itochu Oil Exploration (Azerbaijan) Inc			21.89	37.22
ONGC Videsh Limited			13.86	23.56
BP	Shah Deniz	27.01.2022	0.06	0.10
TPAO		28.01.2022	0.04	0.07
NICO		31.01.2022	0.02	0.04
Petronas			0.03	0.06
LUKOIL			0.02	0.04
Neftchala Operating Company LTD.	Neftchala	20.05.2022	2.00	3.40
Total			452.2	768.7

Transit fees. In 2022, SOFAZ received USD 4.2 million (AZN 7.2 million) from the transit fee for oil and gas transportation through Azerbaijan's territory. This income item was executed at the level of 33.1% of the budgeted figure (AZN 21.76 million) and decreased by 66.3% compared to 2021 (AZN 21.4 million).

The reason for this decrease was the suspension of Western Export Pipeline shipments due to ongoing conflict in Ukraine and transportation restrictions in the Black Sea.

Table 15. Proceeds from transit fees in 2022

Name of issuing organization	Date	Amount	
		million USD	million AZN
Azerbaijan International Operating Company (AIOC)	13.01.2022	1.21	2.06
	14.02.2022	1.13	1.92
	14.03.2022	1.06	1.80
	14.04.2022	0.50	0.86
	02.06.2022	0.33	0.56
	15.07.2022	0.01	0.01
Total		4.2	7.2

Acreage fees. In 2022, SOCAR and BP Exploration (Caspian Sea) Ltd. transferred a total of AZN 5.58 million (USD 3.28 million) to SOFAZ as per their contracts for exploration, development, and production sharing of the Shafag-Asiman sea block and the surrounding South-West Absheron area (SWAP). Additionally, "Equinor" and the joint oil company of SOCAR also transferred funds for exploration, development, and production

sharing of the Ashrafi-Dan Ulduzu-Aypara area, and a risk service contract related to the development of the Karabakh oil field.

The actual budget revenues for this item were executed at approximately 105.6% of the budgeted amount.

Table 16. Proceeds from acreage fees of SOFAZ in 2022

Name of issuing organization	Name of field	Date	Amount	
			million USD	million AZN
BP Exploration (Caspian Sea) Ltd.	Shallow water area around the Absheron peninsula	26.04.2022	0.37	0.64
Lukoil Absheron Exploration Ltd.	Shallow water area around the Absheron peninsula	28.04.2022	0.27	0.45
BP Exploration (Caspian Sea) Ltd.	Shafag-Asiman	28.06.2022	2.12	3.60
BP Exploration (Caspian Sea) Ltd.	Shallow water area around the Absheron peninsula	29.09.2022	0.09	0.15
Equinor	Ashrafi – Dan Ulduzu – Aypara	04.10.2022	0.35	0.59
Lukoil Absheron Exploration Ltd	Shallow water area around the Absheron peninsula	13.10.2022	0.09	0.15
Total			3.3	5.6

Incomes from the management of SOFAZ funds.

In the fiscal year 2022, SOFAZ experienced a decrease of USD 2,461.3 million in the market value of its assets due to short-term market fluctuations.

The return on investment portfolio for the reporting year was -5.2%. Comprehensive details regarding this income item can be found in the "Investments" section of the report.

Table 17. The implementation level of SOFAZ revenues for 2022

Revenue Sources	Total revenues (million AZN)		
	Approved	Actual	Execution
Net income obtained from the sales of hydrocarbons falling to the share of Azerbaijan (excluding expenditures on transportation, customs clearance and banking services, independent surveyor services, marketing and insurance, as well as the shareholder incomes received by SOCAR in the capacity of investor, shareholder or partner in different projects it is a party to)	14,993.40	19,698.89	131.4%
Acreage fees paid by investors for the land they use for the exploitation of hydrocarbon reserves	5.28	5.58	105.6%
Fees from the transit of oil and gas through the territory of the Republic of Azerbaijan	21.76	7.21	33.1%
Bonus payments made by investors as part of the signing or execution of oil and gas contracts	768.70	768.70	100%
Revenues obtained from the management of SOFAZ's assets	0	-3,613.84	-
Total revenues	15,789.14	16,866.54	106.8%

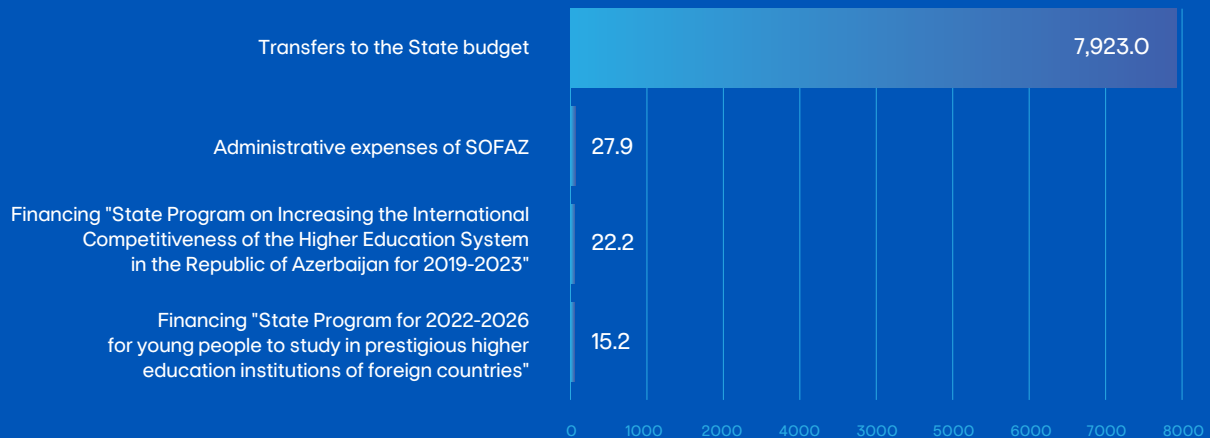
5 BUDGET EXECUTION: EXPENDITURES

“ Budget expenditures executed with 30% cost savings

Expenses of SOFAZ in 2022 were comprised of transfer to the state budget, financing of the “State Program on increasing the international competitiveness of the higher education system in the Republic of Azerbaijan for 2019-2023”, funding of the “State Program for 2022-2026 for youth to study in prestigious higher education institutions of foreign countries” and administrative expenses related to the manage-

ment of SOFAZ. A total of AZN 7,988.3 million or USD 4,699.0 million allocated from SOFAZ’s budget to the mentioned areas was 68.9% of the budgeted amount (AZN 11,597.1 million). The main reason for the budget expenditures being under-executed is that the transfer was 31.2% lower than the planned budget amount (AZN 11,517.5 million).

Chart 24. SOFAZ expenses in 2022 (in million AZN)

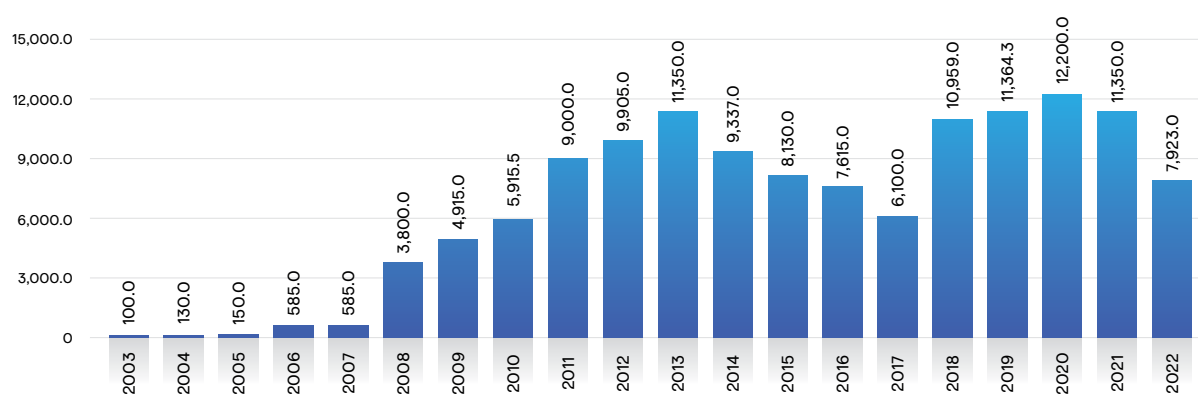


Transfers to the State budget. In 2022, the revenues of the state budget amounted to AZN 30,660.6 million, of which AZN 7,923.0 million or 25.8% were transferred by SOFAZ. At the same time, the transfer constituted 24.7% of the state budget expenditures (AZN 32,008.3 million). Crude oil and gas prices exceeded the budgeted

baseline prices in 2022, resulting in higher-than-expected revenues from oil and gas taxes in the State Budget. As a result, the transfer amount from SOFAZ was reduced. Although the planned transfer to the state budget in 2022 was AZN 11,517.5 million, only 68.8% of this amount has been executed.

“ The amount of transfer to the state budget has decreased

Chart 25. Distribution of transfers from SOFAZ to the state budget by year (in million AZN)



The execution of SOFAZ administrative expenses. SOFAZ's administrative expenses in 2022 were AZN 27.9 million, which is 82.1% of the budgeted amount (AZN 33.99 million) and 24.1% higher than the amount allocated in the 2021 budget. Employee salaries accounted for AZN 10,724.5, which is 69.9% of the projected amount. The expenses for the purchase of goods and services were AZN 13,262.5 thousand or 87.0% of the projected amount. Social payments totaled AZN 74.7 thousand, surpassing the projected amount by 23.0%. Expenses for the acquisition of non-financial

assets amounted to AZN 3,834.0 thousand, which exceeded the projected amount by 14.9%.

“ Up to 20% of the estimated costs of SOFAZ has been saved

Table 18. Implementation of SOFAZ 2022 budget by items

№	Expenses	Code	thousand AZN		Executed (%)
			Approved	Actual	
1	Payment of labor	210000	15,348.44	10,724.51	70%
2	Purchase of goods (works and services)	220000	15,241.75	13,262.50	87%
2.1	Purchase of goods	221000	305.15	198.37	65%
2.2	Procurement of works and services	222000	13,634.38	11,926.75	87%
2.3	Payments related to membership in international organizations	223000	652.22	621.71	95%
2.4	Representation and promotion expenses	224000	650.00	515.66	79%
3	Social payments	270000	60.75	74.70	123%
4	Non-financial assets	310000	3,337.67	3,833.98	115%
Total costs			33,988.60	27,895.69	82%

“State Program on Increasing the International Competitiveness of the Higher Education System in the Republic of Azerbaijan for 2019-2023”.

SOFAZ financed the education of **158 doctoral students**

As of 31 December 2022, the education of a total of 158 doctoral students within the framework of the State Program were financed by SOFAZ. Most of the students studying at the doctorate level in universities of foreign countries are majoring in the fields of Economics and management (41 people), Nature (37 people) and Health and welfare (23 people).

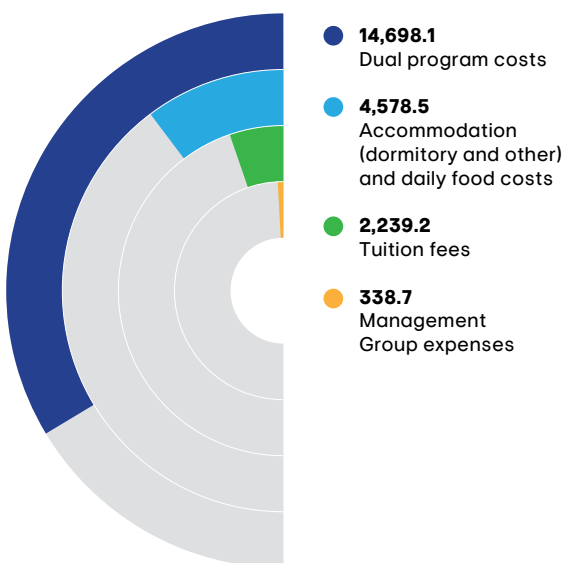
During the year, on the basis of the order of the Ministry of Science and Education of the Republic of Azerbaijan, SOFAZ allocated a total of AZN 22,203.3 thousand including:

- AZN 338.7 thousand allocated for the approved budget of the Management Group involved in the education project;
- AZN 7,166.4 thousand allocated for financing the education of Azerbaijani citizens in foreign doctoral programs (allocated funds are directed towards payment of accommodation, education, visa, insurance, registration, travel, and bank expenses);
- AZN 14,698.1 thousand allocated for financing the implementation of international dual diploma programs in 2022.

According to the budget, AZN 27.8 million was earmarked for financing the State Program. However, only AZN 22.2 million was allocated for this expenditure item, which is 20.1% less than the planned amount.

The factors contributing to the underutilization of funds are delineated as follows:

Chart 26. Allocation of funds by expenditure directions within the State Program (in thousand manats)



The 12.2% reduction in expenses was due to the deferral of expenditures to the subsequent year as a result of ongoing documentation processes until the end of the year;

The planned expenses for international double diploma programs were executed 21.8% less in 2022 (Four out of five programs were successfully implemented);

The underexecution of expenditures related to wages, procurement of goods (works and services), social payments, and acquisition of non-financial assets in the approved budget for the State Program Management Group resulted in a 14% underutilization of funds.

“State Program for the Education of Youth in Prestigious Higher Education Institutions Abroad for 2022-2026”.

The State Program for 2022-2026 was approved by the Order No. 3163 of the President of the Republic of Azerbaijan dated February 28, 2022, with the aim of creating human capital with modern skills necessary for the rapid development of the country and continuing state support for talented youth to study abroad in prestigious universities.

According to the State Program, the implementation of the planned measures will be financed by the resources of SOFAZ, technical and financial assistance from international organizations (funds), loans and grants, donations from foreign and domestic legal and physical entities and other legal sources not prohibited by law. The execution of the Program is carried out by the Ministry of Education of the Republic of Azerbaijan through the Management Group of the State Program established at the Ministry.

The Program aims to send up to 2,000 Azerbaijani students to reputable foreign universities for undergraduate and graduate education, with an annual upper limit of 400 students. In 2022, a total of AZN 15.2 million were allocated and utilized to finance 286 students as part of this program. The expenditure for this item has been executed at a level of 85.4% against the approved budget of AZN 17.9 million resulting in AZN 2.6 million or 14.6% of the allocated funds being underutilized.

“ We have started financing the new education project

“ Up to 300 citizens of Azerbaijan have been selected to study in 100 most prestigious institutions of 17 leading countries of the world

Chart 27. Distribution of funds allocated by SOFAZ under the State Program

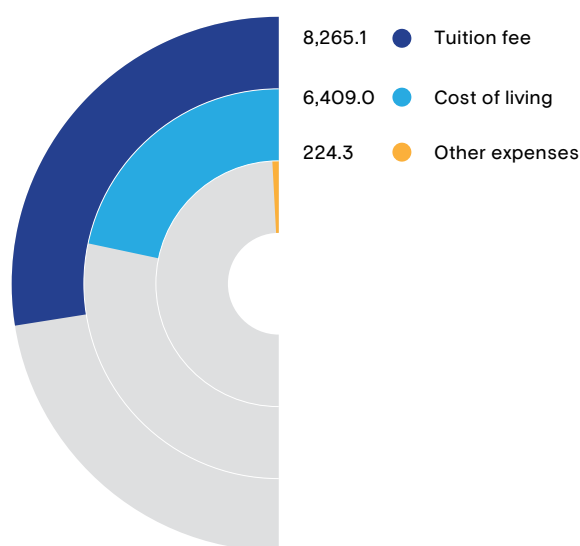


Table 19. SOFAZ expenditures for 2022

№	Expenditure directions	Expenditures (million AZN)		
		Approved	Actual	Execution (%)
1.	Transfer to the 2022 state budget of the Republic of Azerbaijan	11,517.5	7,923.0	68.8%
2.	State Program on Increasing the International Competitiveness of the Higher Education System in the Republic of Azerbaijan for 2019-2023	27.8	22.2	79.9%
3.	State Program for the Education of Youth in Prestigious Higher Education Institutions Abroad for 2022-2026	17.8	15.2	85.4%
4.	Administrative expenditures	34.0	27.9	82.1%
Total expenses		11,597.1	7,988.3	68.9%

Extra-budgetary expenses.

Extra-budgetary expenditures were incurred due to the change in exchange rates of the currencies included in SOFAZ’s investment portfolio against the US dollar. These expenses amounted to –USD 878.5 million in total, with – extrabudgetary expenses of USD 930.2

million being incurred due to changes in exchange rates for currencies such as the US dollar, Euro, and British pound sterling. Furthermore, extrabudgetary income of USD 51.7 million was generated from changes in the value of gold.



1982

Vagif Poetry Days. Shusha, July, 29

Heydar Aliyev's political agenda included a crucial focus on revitalizing the national spirit in Karabakh. He approached this goal with a systematic and purposeful strategy. One of the key elements in this endeavor was Heydar Aliyev's deep understanding of the history, culture, art, and economic development of Karabakh, which instilled in him a profound sensitivity towards the issue. Heydar Aliyev, who possessed extensive knowledge about the historical significance of Shusha as an ancient cultural center of Azerbaijan, placed great importance on the city and made significant efforts for its development. Recognizing Shusha

as a cherished historical artifact and a potent emblem of Azerbaijani resilience, the National Leader exhibited an unwavering dedication to safeguarding its rich legacy. The Shusha Historical-Architectural Reserve, established in 1977 under the visionary guidance of the esteemed leader Heydar Aliyev, achieved a significant milestone by being included in UNESCO's Preliminary List of World Heritage sites in 2001. This notable achievement stands as a testament to the dedicated efforts and strategic foresight directed toward this noble endeavor. Also, the most characteristic feature of the period under the guidance



of the Heydar Aliyev in Azerbaijan is the remarkable absence of any territorial claims asserted by Armenian nationalists. Throughout this period, the National Leader steadfastly pursued a resolution to the Karabakh issue through diplomatic and political ways, exemplifying his dedication to peaceful and constructive solutions. As a successor to the visionary policies of Heydar Aliyev, President Ilham Aliyev of the Republic of Azerbaijan continues to demonstrate remarkable leadership and resilience. Under his guidance, Azerbaijan has achieved significant accomplishments, most notably exemplified by the brilliant victory during the 44-day War, which

showcased the successful restoration of the territory. President Ilham Aliyev's unwavering belief and dedication have been instrumental in establishing Azerbaijan's triumph on the global stage. November 8, 2020, holds an everlasting place in Azerbaijan's history. The liberation of Shusha carries immense political and strategic significance. Through this historic victory, the Commander – in- Chief and the distinguished Azerbaijani army fulfilled the aspirations of Heydar Aliyev, bringing freedom and peace to our Karabakh region. This achievement has profound implications, symbolizing the determination and resolve of the Azerbaijani people.

The opening ceremony of Museum
Mausoleum Complex of the great
Azerbaijani poet and public figure
Molla Panah Vagif after repair and
reconstruction work. Shusha,
August, 29

2021

6 SPARKING AN IMPACT

The annual budget expenditures of SOFAZ are allocated in accordance with the main directions approved by the Presidential decree and in compliance with SOFAZ's Statute. These expenditures are utilized to address the most important nation-wide problems and for the construction and reconstruction of crucial infrastructure facilities to promote socio-economic development in the country. The projects funded through budgetary expenditures and transfers to the

State Budget aim to achieve macroeconomic and financial stability, reduce reliance on resource revenues, and foster sustainable growth of the non-oil sector.

At the end of 2022, SOFAZ had accumulated reserves totaling USD 49 billion. This amount represents 85% of the country's strategic foreign exchange reserves and 62% of Gross Domestic Product (GDP).

“ The role of SOFAZ in ensuring macroeconomic stability

Chart 28. Strategic foreign exchange reserves (in billions of USD)

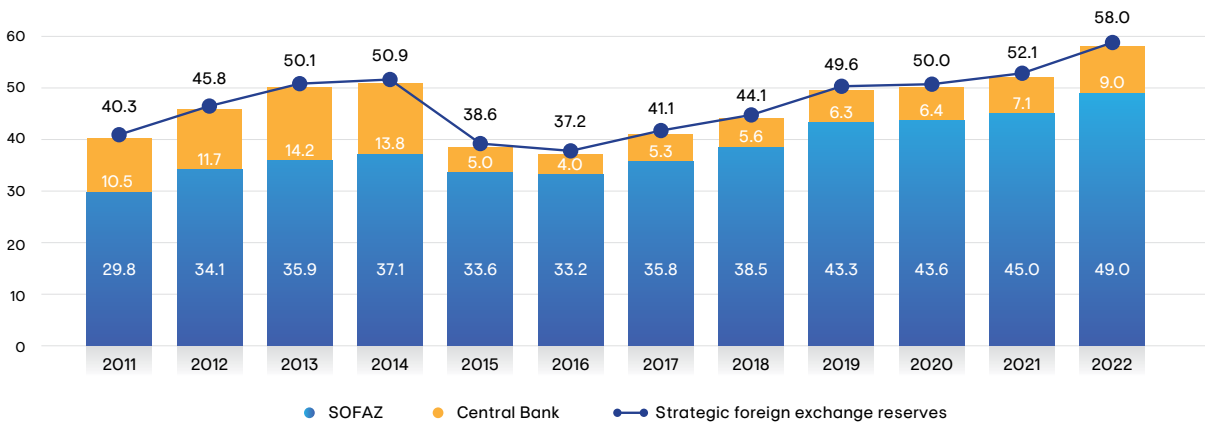
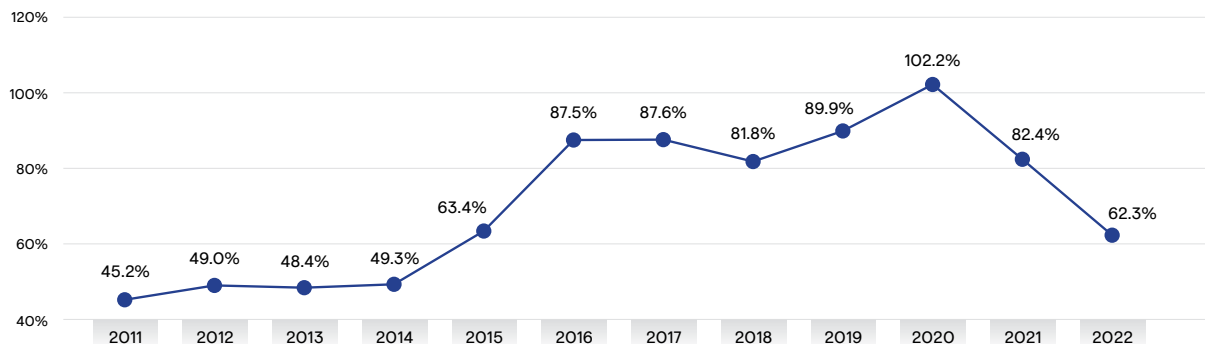


Chart 29. SOFAZ AUM as percentage of GDP



From 2001 to 2022, SOFAZ played a significant role in supporting the development of Azerbaijan's non-oil sector. During this period, SOFAZ transferred USD 118.2 billion to the state budget and allocated USD 11.8 billion to finance projects. Since 2010, excluding

certain years, transfers from SOFAZ to the state budget have constituted approximately 40-50% of the state budget revenues. In 2022, SOFAZ transfers to the state budget decreased due to the rise of other sources of financing in State Budget revenues.

Chart 30. State budget's surplus/deficit as percentage of GDP

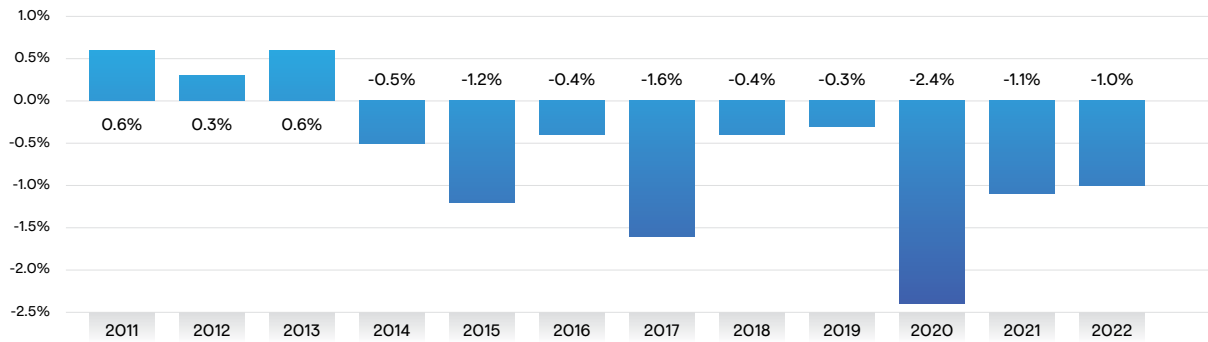
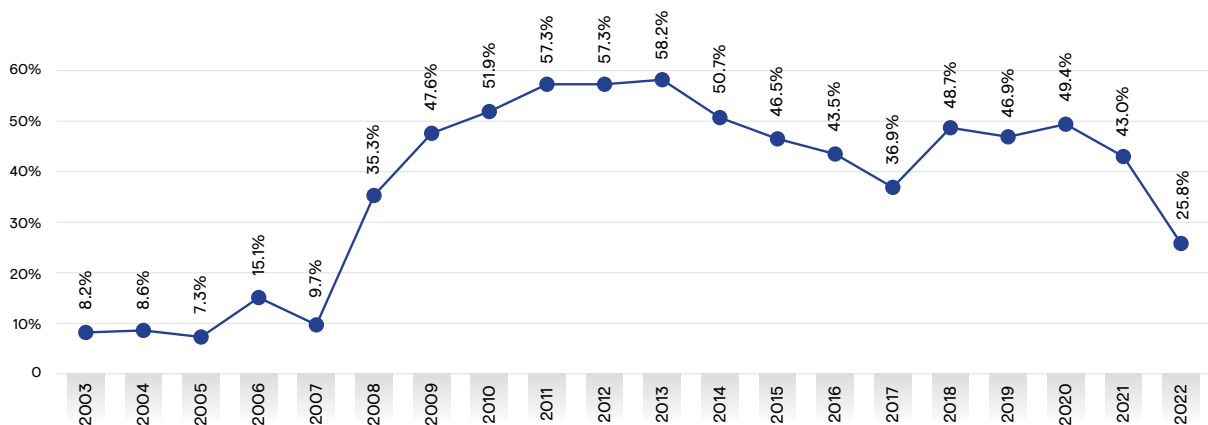


Chart 31. The share of SOFAZ transfers in the revenues of the state budget



“ The impact of projects financed by SOFAZ

Within the framework of the 2022 SOFAZ budget, funding has been allocated towards the “State Program for increasing the international competitiveness of the higher education system in the Republic of Azerbaijan for 2019-2023” and the “State Program for 2022-2026 for youth to study in prestigious higher education institutions of foreign countries”. We target to achieve significant impact in various areas by the implementation of these programs, as with previous projects financed by SOFAZ.

Increasing highly qualified workforce

The implementation of State Programs offers critical skills programs to students, and enables them to pursue studies at world-renowned universities. This initiative is expected to augment the pool of highly qualified labor force available in the job market. Presently, the "State Program on Increasing the International Competitiveness of the Higher Education System in the Republic of Azerbaijan for 2019-2023" has supported 158 doctoral students in their studies at various universities worldwide, while 286 individuals are currently enrolled in different universities under the State Program for 2022-2026. Graduates of these programs who pursue careers in relevant sectors will contribute to the economy and foster growth in these industries.

Development of economic competitive environment

The availability of highly skilled workers has a positive impact on the overall competitiveness of the economy by increasing local and foreign investments to the country and expansion of their operations, ultimately contributing to job creation and economic growth.

Increasing the competitiveness of the education system

The State Program (2019-2023) aims to enhance the competitiveness of the education system. The program fosters partnerships between local and foreign universities, promotes the exchange of best practices in teaching, and facilitates the development of new teaching methods. Currently, cooperation agreements have been signed between local universities and George Washington University of the United States, Inha University of South Korea, as well as Aegean universities of Turkey, which will contribute to the improvement of the quality of education in Azerbaijan.

Strengthening the teaching potential of local universities

Updated curriculum and teaching methods

- As a result of the activity of the academic staff with foreign colleagues

Enhancing skills

- Doctoral students will perform academic activities in 18 higher education institutions located in the country for 5-7 years

International networking

- New research partnerships
- Joint publications and presentations
- Relations with foreign universities

Professional Development

- Participation in conferences and seminars
- Observing the lessons of foreign mentors
- Participate in discussions with professionals

Promotion of institutional partnerships

- Relations between universities
- Research collaboration
- Joint initiatives
- Student and teacher exchange

Diversification of culture and experiences:

The State Program has a positive impact on the country's development by diversifying culture and experiences. Students studying in 21 different countries are offered a unique opportunity to expand their cultural experiences on a global scale. Engaging with different cultures and environments allows students to learn new languages, gain independence, and develop new perspectives on global issues. These experiences contribute to personal development and provide an advantage in future academic or professional pursuits.

Support for the transition to a creative and innovative country

The government aims to transition to a creative and innovative country in response to the challenges posed by the rapidly changing world. To achieve this, the state program offers students opportunities to study innovative fields such as wind energy project management, environmental studies environmental and energy engineering. These students will acquire international certificates and standards and become specialists in these fields, contributing to the development

of innovative solutions in the country. In addition, 285 students studying in the top 10 innovative countries of the world based on the Global Innovation Index 2022 will also contribute to the implementation of these solutions. These efforts will help to reduce the impact of environmental challenges, such as climate change and pollution, and improve the health and well-being of people and the planet.

Countries where students' education is funded through state programs

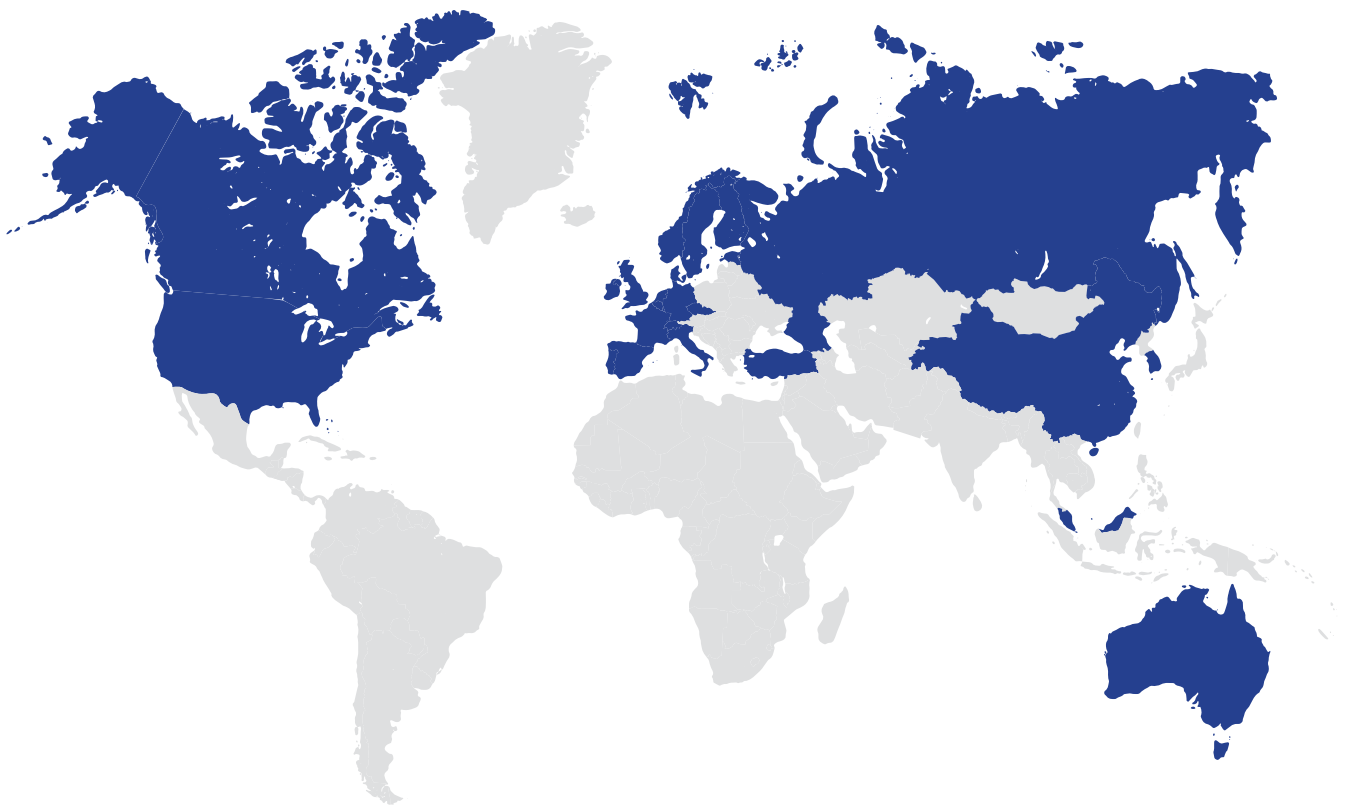


Diagram 1. Completed projects financed by SOFAZ (million USD)



7

ACTING GLOBALLY

We highly value and recognize the importance of our strategic relationships with our partners and put our continued efforts to establish a global outreach and strengthen partnerships with best-in-class asset managers. From the very beginning of our establishment, we put greatest emphasis on engaging with top global managers and leverage their expertise and investment strategies which enable us to achieve our financial objectives while also mitigating risks. We benefit from the deep market, specific industry experience and regional presence of our partners.

We work with big industry names such as UBS Asset Management, BNYM Mellon, Blackrock Inc. We also maintain strong collaborations with the world's largest alternative asset managers, such as

Blackstone, Brookfield Asset Management, UBS Global Asset Management, Blackrock, Gaw Capital Partners, Ares Management Corporation, Apollo Global Management, Neuberger Berman in our private equity and real estate investments. Total AUM of our partner managers is USD 18 trillion. These partnerships provide us with access to a wide range of investment opportunities across various asset classes, enabling us to diversify our portfolio

At SOFAZ, we understand that maintaining strong collaboration with our partners is critical to our success. To this end, we work closely with our partners to ensure that we align our investment goals and objectives. We value their expertise and insights and consider them as an integral part of our investment process.

Blackrock, Inc.

"We are delighted to count SOFAZ to our cornerstone partners. The SOFAZ team has impressed through its professionalism, dedication and commitment to excellence. We look forward to creating a successful future together."

BNY Mellon

"BNY Mellon is proud to serve as the custodian for SOFAZ, one of the world's leading sovereign wealth funds. We particularly value the mutual focus on transparency and governance."

UBS Asset Management

"We have had the privilege to work with the State Oil Fund of Azerbaijan for more than a decade and during this time we have had the opportunity to witness the important developments occurring in the Republic of Azerbaijan as well as with its Sovereign Wealth Fund. The Institution has become a prominent voice within the Sovereign community, with important investments across different asset classes around the globe. The SWF has also been instrumental in producing new generations of investment professionals providing support to the local financial industry. Therefore we look forward to continuing this partnership and working towards greater goals in our future endeavours."

7 MOBILISING CAPITAL FOR CHANGE

In November 2022, the International Forum of Sovereign Wealth Funds (IFSWF) held its annual meeting in Baku, Azerbaijan under the theme “Mobilising Capital for Change.” This was the first time the members met in person since 2019, due to the pandemic. The IFSWF was created by the International Working Group of Sovereign Wealth Funds (SWF) in 2009 as a voluntary group for SWFs to exchange views and promote understanding of the Santiago Principles. Santiago Principle No. 24 requires SWFs to publish self-assessment reports, which SOFAZ has done annually since 2011.

SOFAZ, a member of the IFSWF, hosted the historic first meeting of the forum in Baku in 2009, and regularly participates in its meetings. Since the last annual meeting, the IFSWF has expanded its membership, welcoming five full members: COFIDES from Spain, the Fonds Gabonais d'Investissements Stratégiques, Abu Dhabi's Mubadala Investment Company, the Indonesian Investment Authority (INA), and the Sovereign Fund of Egypt. The forum has also admitted six new associate members, including the Armenian National Interests Fund, Ethiopian Investment Holdings, the

Fonds Souverain de Djibouti, Malta Government Investments, the Mauritius Investment Corporation, and the Natural Resource Fund of Guyana, to broaden its global reach and enhance its expertise in investment. The IFSWF annual meeting convenes members and financial leaders to deliberate on significant global issues impacting investors.

Traditionally, the annual meeting rotates between member countries. However, due to the COVID-19 pandemic, in-person meetings were postponed after the 2019 meeting hosted by the Alaska Permanent Fund Corporation in Juneau, until the 2022 meeting hosted in Baku. According to the IFSWF members' voting, COFIDES will host the 2023 annual meeting in Madrid, followed by Oman Investment Authority in Muscat in 2024.





The 2022 Annual Meeting, titled “Mobilising Capital for Change,” offered a one-of-a-kind platform for members to deliberate on the most pressing concerns of today’s investment landscape. These discussions included critical topics such as the rise in inflation, de-globalisation, environmental, social, and governance (ESG) issues, and the digitisation of the investment process and financial landscape. The meeting was attended by top executives of some of the largest sovereign wealth funds in the world, along with private sector partners of IFSWF and SOFAZ, as well as representatives from the International Monetary Fund and the World Bank.

During the two-day meeting, the IFSWF Board of Directors and member funds held panel discussions and business meetings with representatives of the Azerbaijani government. The event offered a unique opportunity for members to discuss and tackle the most significant challenges of the current investment landscape.

On the second day of the Annual Meeting, high-profile guests from Azerbaijan, including Shahmar Movsumov, Assistant to the President, Head of the Depart-

ment of Economic Issues and Innovative Development Policy, Presidential Administration of Azerbaijan, Mikayil Jabbarov, Minister of Economy, Rashad Nabiyev, Minister of Digital Development and Transport, Mukhtar Babayev Minister of Ecology and Natural Resources and Emin Huseynov, Special Representative of the President in the Karabakh Economic Region convened for the Azerbaijan session. The session centered around discussions of Azerbaijan’s development potential and strategic directions for the next decade, with a focus on the socio-economic strategy for 2022-2026 and the country’s vision for 2030.

For the 2022 Annual Meeting of IFSWF, the Secretariat collaborated with Professor Patrick Schena from Tufts University’s Fletcher School of Global Affairs and Dr. Adam Dixon from Maastricht University to create a white paper summarizing the discussions from the meeting. The research document, titled “Lessons from Baku: Mobilizing Capital in a World of Change,”¹¹ offers valuable insights into the most pressing issues currently facing sovereign wealth funds.

¹¹ “Mobilizing Capital in a World of Change: Lessons From Baku”, Patrick Schena, <https://www.ifswf.org/publication/mobilising-capital-world-change-lessons-baku>



1998

Meeting with the local residents.
Bilasuvar, October, 1

Heydar Aliyev consistently demonstrated concern for the social issues faced by refugees and internally displaced persons. Throughout his leadership, measures were taken at the state level to address their living conditions, and they received international humanitarian assistance. Since 2001 the State Oil Fund of the Republic of Azerbaijan has allocated funds to implement measures aimed at resettling families who were displaced as a result of the Armenia-Azerbaijan Karabakh conflict. These efforts have focused on improving the social and economic situation for refugees and

internally displaced persons, providing them with support and opportunities for a better future.

Throughout his tenure, President Ilham Aliyev, a successful successor of the national leader's political legacy, placed special emphasis on addressing this issue and signed multiple state programs. On July 1, 2004, he signed the State Program aimed at improving the living conditions and enhancing employment opportunities for refugees and internally displaced persons, covering the years 2005-2007. Indeed, President Ilham Aliyev has



continued the legacy of Heydar Aliyev by prioritizing the well-being and livelihood of refugees and internally displaced persons. Efforts are being made to gradually improve their living conditions and employment opportunities. The successful foreign policy pursued by President Ilham Aliyev reflects a promising outlook, indicating that in the near future, through the restoration of territorial integrity achieved by the brilliant victory in the 44-day Patriotic War, our occupied lands will be

liberated, and those displaced from their homelands will have the opportunity to

return to their rightful places. This vision of a hopeful future remains a key focus of President Ilham Aliyev's administration.

Meeting with the residents after becoming acquainted with the work accomplished in the village of Talysh. Tartar, March, 18

2023

8 SOVEREIGN WEALTH FUNDS 'SANTIAGO PRINCIPLES'

Sovereign Wealth Funds Generally
Accepted Principles and Practices
"Santiago Principles" Self-Assessment

April, 2023

Narration of Principles/Subprinciples	Responses
A. Legal Framework, Objectives, and Coordination with Macroeconomic Policies.	
<p>GAPP 1. Principle The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).</p> <p>GAPP 1.1. Subprinciple The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.</p> <p>GAPP 1.2. Subprinciple The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.</p>	<p>Legal framework of SOFAZ is clearly defined in the "Statute of the State Oil Fund of the Republic of Azerbaijan" (hereinafter "Statute of SOFAZ") approved by the decree of the President of the Republic of Azerbaijan.</p> <p>SOFAZ is a legal entity separate from the government or central bank. The Fund's operation is guided by the Constitution and laws of the Republic of Azerbaijan, Presidential Decrees and resolutions, and the Fund's Regulations.</p> <p>All relevant documents related to the legal basis and structure and the legal relationships between SOFAZ and the other government agencies are publicly disclosed and they are available on the Fund's website.</p> <p>For further information: https://www.oilfund.az/storage/images/sswctj9vko.pdf</p>
<p>GAPP 2. Principle The policy purpose of the SWF should be clearly defined and publicly disclosed.</p>	<p>SOFAZ was established for the purpose of accumulation and management of the revenues generated from implementation of oil and gas agreements.</p> <p>SOFAZ's primary objectives are to help maintain macroeconomic stability in the country (neutralize negative impact of the currency inflows) and to generate wealth for present and future generations.</p> <p>Above discussed purpose of establishment, as well as the primary objectives are publicly disclosed on the Fund's website.</p> <p>For further information: https://www.oilfund.az/storage/images/qqh59kviix.pdf https://www.oilfund.az/fund/about/mission</p>
<p>GAPP 3. Principle Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.</p>	<p>According to its bylaws, SOFAZ is not permitted to invest domestically. Expenditures of SOFAZ constitute part of the consolidated state budget approved by the Parliament.</p> <p>According to Budget System Law the consolidated state budget is being prepared in close consultation with all relevant government entities (Ministry of Finance, Ministry of Economy, etc.) and involvement of SOFAZ.</p> <p>For further information: https://www.oilfund.az/storage/images/sswctj9vko.pdf https://www.oilfund.az/storage/images/oigo5rbbvn.pdf https://oilfund.az/storage/uploads/fOwaqk7ikt.pdf</p>

Prinsip 4

There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.

GAPP 4.1. Subprinciple

The source of SWF funding should be publicly disclosed.

GAPP 4.2. Subprinciple

The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.

SOFAZ's Funding and Withdrawal rules are clearly defined by the "Statute of SOFAZ" and "Rules on the preparation and execution of the annual program of revenues and expenditures (budget) of the State Oil Fund of the Republic of Azerbaijan" (hereinafter "Rules on the budget of SOFAZ") which are publicly disclosed on the Fund's website.

For further information:

<https://www.oilfund.az/storage/images/sswctj9vko.pdf>
<https://www.oilfund.az/storage/images/oigo5rbbvn.pdf>
<https://oilfund.az/storage/uploads/f0waqk7ikt.pdf>

GAPP 5. Principle

The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.

SOFAZ submits monthly statistical reports to the President and Ministry of Finance, as well as quarterly and yearly reports to the State Statistical Committee. SOFAZ also reports on its revenues and expenditures to the Parliamentary Chamber of Accounts and on other relevant information to the Ministry of Taxes, State Social Protection Fund and other relevant government agencies. Additionally, SOFAZ regularly provides the relevant information on its activities to the World Bank and International Monetary Fund.

All the relevant statistical data pertaining to the fund, is publicly disclosed on the Fund's website (audited annual reports, quarterly statements, etc.).

For further information:

<https://www.oilfund.az/storage/images/sswctj9vko.pdf>
<https://www.oilfund.az/storage/images/oigo5rbbvn.pdf>
<https://oilfund.az/storage/uploads/f0waqk7ikt.pdf>
<https://www.oilfund.az/report-and-statistics/report-archive>

B. Institutional Framework and Governance Structure

GAPP 6. Principle

The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.

SOFAZ has a three-tier governance structure, with the President of the country being a supreme governing and reporting authority for the Fund.

SOFAZ's activities are overseen by a Supervisory Board which is headed by the Prime Minister and consists of the Vice-Speaker of Parliament, Minister of Finance, Minister of Economy, Governor of the Central Bank and the Economic Advisor to the President.

The operational management of SOFAZ is vested in the Executive Director. The relevant duties and responsibilities of the President of the country, Supervisory Board and Executive Director are clearly defined in the "Statute of SOFAZ".

For further information:

<https://www.oilfund.az/storage/images/sswctj9vko.pdf>

<p>GAPP 7. Principle The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.</p>	<p>The objectives of SOFAZ are clearly defined in "Statute of SOFAZ" approved by the President of the Republic of Azerbaijan.</p> <p>Please see also the response on GAPP 5 and 6.</p> <p>For further information: https://www.oilfund.az/storage/images/sswctj9vko.pdf</p>
<p>GAPP 8. Principle The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.</p>	<p>The Supervisory Board of the Fund, which is headed by the Prime Minister and consists of the Minister of Finance, Governor of the Central Bank, Minister of Economy, Vice-Speaker of Parliament and the Economic Advisor to the President, have a clear mandate and adequate authority and competency to fulfil its functions.</p> <p>All roles and responsibilities of the Supervisory Board are clearly defined in the relevant legislation.</p> <p>For further information: https://www.oilfund.az/storage/images/sswctj9vko.pdf https://oilfund.az/fund/Governance/supervisory</p>
<p>GAPP 9. Principle The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.</p>	<p>"Statute of SOFAZ", "Rules on management of foreign currency assets of the State Oil Fund of the Republic of Azerbaijan" (hereinafter "Investment guidelines") and "Rules on the budget of SOFAZ" clearly define the role and responsibilities of the Executive Director.</p> <p>In accordance with these role and responsibilities Executive Director has independence in operational management.</p> <p>For further information: https://www.oilfund.az/storage/images/sswctj9vko.pdf https://www.oilfund.az/storage/images/lfldho8sr9y.pdf https://www.oilfund.az/storage/images/oigo5rbbvn.pdf</p>
<p>GAPP 10. Principle The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.</p>	<p>Accountability framework of SOFAZ is clearly defined in the "Statute of SOFAZ", "Investment guidelines", "Rules on the budget of SOFAZ" and Budget System Law all of which are available on the Fund's website.</p> <p>Fund produces and publicly discloses audited annual reports and quarterly reports. Information about Fund's activities is also disseminated through regular press conferences and published on the Fund's website.</p> <p>See also response on GAPP 5.</p> <p>For further information: https://www.oilfund.az/storage/images/sswctj9vko.pdf https://www.oilfund.az/storage/images/lfldho8sr9y.pdf https://oilfund.az/storage/uploads/f0waqk7ikt.pdf https://e-qanun.az/framework/2747</p>

GAPP 11. Principle

An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.

Since the start of its operations, SOFAZ has prepared annual reports and accompanying financial statements.

All financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

All annual reports and accompanying financial statements are published on the Fund's website.

For further information:

<https://www.oilfund.az/storage/images/sswctj9vko.pdf>

<https://www.oilfund.az/report-and-statistics/report-archive>

<https://e-qanun.az/framework/1029>

GAPP 12. Principle

The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.

Since the start of its operations SOFAZ has been audited by reputable international audit firms. In line with the Public Procurement Law, the Fund conducts open market tender processes to select its auditor. Price Waterhouse Coopers has been appointed to audit SOFAZ financial statements for years 2016- 2018.

All annual reports and accompanying financial statements are available on the Fund's website.

SOFAZ also has Internal Audit department that prepares periodic internal audit reports.

For further information:

<https://www.oilfund.az/storage/images/sswctj9vko.pdf>

<https://www.oilfund.az/report-and-statistics/report-archive>

<https://e-qanun.az/framework/1029>

GAPP 13. Principle

Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body, management and staff.

Professional and ethical standards are clearly defined in the "Investment Guidelines".

Management and staff of the Fund have to comply with ethical norms and rules of the International Financial Markets Association (ACI, Paris) and "Rules of Ethical Conduct for the Employees of SOFAZ".

For further information:

<https://www.oilfund.az/storage/images/lfdho8sr9y.pdf>

<https://www.oilfund.az/fund/Governance/behavior-rules>

<https://www.oilfund.az/investments/investment>

<p>GAPP 14. Principle Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.</p>	<p>Fund's activities related to third parties are based on economic and financial grounds. Fund's "Investment Guidelines" and "Investment Policy" regulate SOFAZ's dealing with third parties.</p> <p>All aspects of dealing with external managers are clearly defined in relevant documentation about Fund's activity. Appointment of external managers is carried out in compliance with the current legislation of Azerbaijan Republic on "State Procurement". External managers are selected on the basis of the criteria, such as credit rating of manager, assets under management, experience in the asset management industry, proposed rate of return and risk, proposed fees schedule etc. Compliance of the external managers' investments to their mandate is monitored daily. Performance of external managers' portfolios is monitored monthly.</p> <p>For further information: https://www.oilfund.az/storage/images/lfldho8sr9y.pdf https://www.oilfund.az/investments/investment</p>
<p>GAPP 15. Principle SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.</p>	<p>Fund conducts its operations and activities in host countries in compliance with all applicable regulatory and disclosure requirements of those host countries.</p>
<p>GAPP 16. Principle The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.</p>	<p>Fund's governance framework, objectives and its operational independence are clearly defined in the relevant legislation.</p> <p>For further information: https://www.oilfund.az/storage/images/sswctj9vko.pdf https://oilfund.az/fund/Governance/information</p>
<p>GAPP 17. Principle Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.</p>	<p>Audited financial statements are published in Fund's annual report, which is publicly available. Quarterly reports and all other relevant financial information about the Fund's activities are published on the Fund's website. Disclosed financial information includes AUM, asset allocation, benchmark, annual rates of return, etc.</p> <p>For further information: https://oilfund.az/report-and-statistics/report-archive https://oilfund.az/investments/quarterly-investment-results</p>

C. Investment and Risk Management Framework

GAAP 18. Principle

The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.

GAPP 18.1. Subprinciple

The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.

GAPP 18.2. Subprinciple

The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.

GAPP 18.3. Subprinciple

A description of the investment policy of the SWF should be publicly disclosed.

"Investment Guidelines" and "Investment Policy" set up SOFAZ's asset management framework and ensure the transparency in its investment decisions. Among the others, they define strategic asset allocation, currency composition, benchmarks, risk limits, minimum requirements for the Fund's external managers and limitations on the investment directions, as well as the credit quality limits for Fund's counterparties (custodian banks, correspondent banks, etc.).

Derivatives (i.e. swaps, forwards, futures, etc.) may only be used for hedging or optimizing the currency composition and asset allocation of the Investment Portfolio.

For policies and procedures related to the Fund's external managers please see our response on GAPP 14.

Fund's "Investment guidelines" and "Investment Policy" are available on its website.

For further information:

<https://www.oilfund.az/storage/images/lfldho8sr9y.pdf>
<https://www.oilfund.az/investments/investment>

GAPP 19. Principle

The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.

GAPP 19.1. Subprinciple

If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed

GAPP 19.2. Subprinciple

The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.

According to its "Investment Policy", Fund's investment decisions should aim at maximizing the risk adjusted returns. Fund's all investment decisions are made purely on an economic and financial basis according to the sound asset management principles.

See also response on GAPP 18.

For further information:

<https://www.oilfund.az/investments/investment>

GAPP 20. Principle

The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities

According to its bylaws, SOFAZ is not permitted to invest domestically. In line with the "Investment guidelines", SOFAZ makes investment decisions independently of the government. Institutional and legal framework of SOFAZ has been designed in a way that the Fund cannot seek or take advantage of any privileged information.

For further information:

<https://www.oilfund.az/storage/images/lfldho8sr9y.pdf>
<https://www.oilfund.az/storage/images/sswctj9vko.pdf>

<p>GAPP 21. Principle SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments.</p> <p>The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.</p>	<p>SOFAZ started to invest in equities in 2012 and has chosen not to exercise its ownership rights at this stage.</p>
<p>GAPP 22. Principle The SWF should have a framework that identifies, assesses and manages the risks of its operations.</p> <p>GAPP 22.1. Subprinciple The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.</p> <p>GAPP 22.2. Subprinciple The general approach to the SWF's risk management framework should be publicly disclosed.</p>	<p>Identification, assessment and management of the risks of the Fund's operations play crucial role in the Fund's overall management framework. SOFAZ's risk management system is supported with appropriate legal framework ("Investment Guidelines", "Investment Policy", etc), a specialized risk unit (Risk Management Department), internal and external audit functions and tools like RiskManager 4 by RiskMetrics and proprietary models.</p> <p>"Investment Guidelines" and "Investment Policy" set the main principles of risk management framework and clearly define limits on major factors for market, credit, concentration and liquidity risks. Certain pre-trade limits are set based on these factors. Furthermore, these risk factors are monitored on a daily basis via regular risk and performance reports. In addition to the factors set in the "Investment Guidelines" and "Investment Policy", a more in-depth analysis and monitoring of the market risk is performed on a regular basis through: interest rate sensitivity analysis (key rate durations, PVO1, etc.), risk concentration analysis (duration by groups, VaR by groups, marginal VaR, etc.), tail events (conditional VaR, stress tests) and scenario analyses.</p> <p>Operational risk is managed in accordance with Fund's Operational Manual and business continuity planning.</p> <p>For further information: https://www.oilfund.az/storage/images/lfdh08sr9y.pdf https://www.oilfund.az/investments/investment</p>
<p>GAPP 23. Principle The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.</p>	<p>Comprehensive reports on assets of SOFAZ (including information on breakdown of investment portfolio by foreign currencies, asset class, credit ratings, maturities and geographic regions) are disseminated through the quarterly press releases. The performance of the Fund's investments is measured according to best industry standards and reported on an annual basis. Annual reports and quarterly statements are posted on the Fund's website.</p> <p>For further information: https://oilfund.az/report-and-statistics/report-archive</p>
<p>GAPP 24. Principle A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.</p>	<p>This report was first published on SOFAZ's official website in April, 2011 and it is reviewed on an annual basis.</p>

9 SOFAZ'S CONSOLIDATED FINANCIAL STATEMENTS

THE STATE OIL FUND
OF THE REPUBLIC OF AZERBAIJAN

31 December 2022

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position	72
Consolidated Statement of Profit or Loss and Other Comprehensive Income	73
Consolidated Statement of Changes in Equity	74
Consolidated Statement of Cash Flows	75

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. The State Oil Fund of the Republic of Azerbaijan and its Operations	78
2. Operating Environment of the Fund	79
3. Significant Accounting Policies	80
4. Critical Accounting Estimates and Judgements in Applying Accounting Policies	85
5. Adoption of New or Revised Standards and Interpretations	85
6. New Accounting Pronouncements	85
7. Cash and Cash Equivalents	86
8. Term Deposits	88
9. Financial Assets at Fair Value through Profit or Loss	88
10. Gold Bullion	97
11. Investment Properties	97
12. Investments in Joint Ventures	99
13. Capital Contributions	100
14. Non-Current Liabilities	101
15. Specification of income/expense from bonds and equity investments	101
16. Foreign Currency Translation Differences	102
17. Operating Expenses	102
18. Transfers by the Fund	103
19. Income Taxes	103
20. Fair Value Disclosures	103
21. Financial Risk Management	107
22. Commitments and Contingencies	113
23. Transactions with Related Parties	113
24. Interests in Structured Entities	115
25. Events after the Reporting Period	115



Independent Auditor's Report

To the Supervisory Board of the State Oil Fund of the Republic of Azerbaijan:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the State Oil Fund of the Republic of Azerbaijan (the "SOFAZ") and its subsidiaries (together – the "Fund") as at 31 December 2022, and the Fund's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Fund's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of profit and loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

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

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

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 International Financial Reporting Standards, 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund'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 Fund'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 Fund'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 Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Fund 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.

PricewaterhouseCoopers Audit Azerbaijan LLC

Baku, the Republic of Azerbaijan

31 May 2023

In thousands of Azerbaijani Manats	Notes	31 Dec. 2022	31 Dec. 2021
Assets			
Non-current assets			
Investment properties	11	1,579,873	1,784,341
Property and equipment		116,247	118,888
Intangible assets		342	19
Investments in joint ventures	12	791,488	1,103,590
Total non-current assets		2,487,950	3,006,838
Current assets			
Cash and cash equivalents	7	3,071,753	3,647,015
Term deposits	8	1,820,089	11,660
Financial assets at fair value through profit or loss	9	66,595,426	60,217,643
Gold bullion	10	10,105,441	10,017,529
Other current assets		28,851	16,726
Total current assets		81,621,560	73,910,573
TOTAL ASSETS		84,109,510	76,917,411
Equity			
Contributed capital		46,365,725	33,845,780
Foreign currency translation reserve		525,086	652,370
Retained earnings		36,585,134	41,825,204
Equity attributable to the Owner		83,475,945	76,323,354
Non-controlling interest		5,736	9,079
Total equity		83,481,681	76,332,433
Liabilities			
Non-current liabilities			
Borrowings of subsidiaries		402,506	463,382
Tenancy deposits		15,661	17,342
Deferred tax liability		10,421	12,519
Lease liabilities		43,111	78,552
Total non-current liabilities	14	2,487,950	3,006,838
Current liabilities		156,130	13,183
TOTAL LIABILITIES		627,829	584,978
TOTAL EQUITY AND LIABILITIES		84,109,510	76,917,411

In thousands of Azerbaijani Manats	Notes	2022	2021 (Reclassified)
Interest income calculated using the effective interest method		71,445	4,329
Income/(expense) from:			
Bonds	15	(1,928,619)	77,188
Equity investments	15	(1,703,042)	3,336,129
Gold	10	87,912	(472,750)
Net loss on foreign currency translation differences	16	(1,455,933)	(1,504,135)
Net fair value (loss)/gain on revaluation of investment properties	11	(3,480)	78,439
Rental income		41,132	35,906
Other operating income		20,493	12,905
Operating expenses	17	(74,963)	(74,192)
Total operating (loss)/profit		(4,945,055)	1,493,819
Share of after-tax results of joint ventures	12	(295,614)	66,780
(Loss)/Profit before income tax expense		(5,240,669)	1,560,599
Income tax	19	625	(4,396)
Net (loss)/profit for the year		(5,240,044)	1,556,203
Other comprehensive loss:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
<i>Translation of financial information of foreign operations to presentation currency</i>		(126,003)	(322,120)
Other comprehensive loss for the year		(126,003)	(322,120)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(5,366,047)	1,234,083
(Loss)/income is attributable to:			
- The Owner		(5,240,070)	1,556,392
- Non-controlling interest		26	(189)
(Loss)/income for the year		(5,240,044)	1,556,203
Total comprehensive (loss)/income is attributable to:			
- The Owner		(5,367,302)	1,231,994
- Non-controlling interest		1,307	2,089
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(5,366,047)	1,234,083

In thousands of Azerbaijani Manats	Attributable to the Owner						Total Equity
	Note	Contributed capital	Currency translation reserve	Retained earnings	Total	Non-controlling interest	
Balance at 1 January 2021		32,507,771	976,768	40,268,812	73,753,351	7,608	73,760,959
Profit for the year		-	-	1,556,392	1,556,392	(189)	1,556,203
Other comprehensive loss		-	(324,398)	-	(324,398)	2,278	(322,120)
Total comprehensive income/(loss) for 2021		-	(324,398)	1,556,392	1,231,994	2,089	1,234,083
Contributions received	13	12,698,218	-	-	12,698,218	-	12,698,218
Exchange translation differences		-	-	-	-	(618)	(618)
Transfers to the State Budget	18	(11,350,000)	-	-	(11,350,000)	-	(11,350,000)
Financing of the State Program on Increasing the International Competitiveness of the Higher Education System in the Republic of Azerbaijan	18	(10,209)	-	-	(10,209)	-	(10,209)
Balance at 31 December 2021		33,845,780	652,370	41,825,204	76,323,354	9,079	76,332,433
Loss for the year		-	-	(5,240,070)	(5,240,070)	26	(5,240,044)
Other comprehensive loss		-	(127,284)	-	(127,284)	1,281	(126,003)
Total comprehensive income/(loss) for 2022		-	(127,284)	(5,240,070)	(5,367,354)	1,307	(5,366,047)
Contributions received		20,480,385	-	-	20,480,385	-	20,480,385
Exchange translation differences	13	-	-	-	-	(4,650)	(4,650)
Transfers to the State Budget	18	(7,923,000)	-	-	(7,923,000)	-	(7,923,000)
Financing of the State Program on Increasing the International Competitiveness of the Higher Education System in the Republic of Azerbaijan	18	(37,440)	-	-	(37,440)	-	(37,440)
Balance at 31 December 2022		46,365,725	525,086	36,585,134	83,475,945	5,736	83,481,681

	Notes	2022	2021
In thousands of Azerbaijani Manats			
Cash flows from operating activities:			
(Loss)/profit before income tax expense		(5,240,669)	1,560,599
Adjustments to reconcile result to net cash used in operating activities			
Depreciation of property and equipment		3,117	2,997
Amortization of intangible assets		90	43
Unrealized loss/(gain) on change in fair value of financial assets at fair value through profit or loss	15	4,877,163	(1,874,999)
Net unrealized loss/(gain) on foreign currency translation differences		1,468,083	1,540,602
Net loss/(gain) on revaluation of gold bullion	10	(87,912)	472,750
Fair value loss/(gain) on revaluation of investment properties	11	3,480	(78,439)
Share of after-tax results of joint venture	12	295,614	(66,780)
Interest income		(939,321)	(668,147)
Dividend income		(396,029)	(513,091)
<i>Changes in operating assets and liabilities:</i>			
Increase in financial assets at fair value through profit or loss		(12,722,084)	(3,788,050)
Increase in term deposits		(1,926,013)	(9,308)
Increase in investment properties	11	(12,207)	(54,706)
(Increase)/decrease in other assets		(12,125)	3,518
Increase/(decrease) in current liabilities		142,947	(9,472)
(Decrease)/increase in non-current liabilities		(1,683)	3,592
Net cash used in operating activities		2,487,950	2,487,950
Cash flows from investing activities:			
Interest received		1,014,384	1,271,694
Dividend received		396,029	513,091
Purchase of property and equipment		(889)	(142)
Net cash from investing activities		1,409,524	1,784,643
Cash flows from financing activities:			
Contributions received	13	20,480,385	12,698,218
Transfers to the State Budget	18	(7,923,000)	(11,350,000)
Financing of the State Program on Increasing the International Competitiveness of the Higher Education System in the Republic of Azerbaijan	18	(37,440)	(10,209)
Repayment of borrowings		(35,441)	-
Net cash from financing activities		12,484,504	1,338,009
Effect of exchange rate changes on cash and cash equivalents		78,259	(56,434)
Net decrease in cash and cash equivalents		(575,262)	(412,672)
Cash and cash equivalents, beginning of the year	7	3,647,015	4,059,687
Cash and cash equivalents, end of the year	7	3,071,753	3,647,015

1. THE STATE OIL FUND OF THE REPUBLIC OF AZERBAIJAN AND ITS OPERATIONS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) for the year ended 31 December 2022 for the State Oil Fund of the Republic of Azerbaijan (“SOFAZ”) and its subsidiaries (together - the “Fund”).

SOFAZ was incorporated and is domiciled in the Republic of Azerbaijan.

Principal Activity. The State Oil Fund of the Republic of Azerbaijan was established by Decree #240 of the President of the Republic of Azerbaijan on the “Establishment of The State Oil Fund of the Republic of Azerbaijan” dated 29 December 1999 (the “Decree”).

The purpose of SOFAZ is to ensure the accumulation, effective management, and use of income and other inflows generated from agreements related to oil and gas exploration and development, as well as, from SOFAZ’s own activities, for the benefit of citizens and future generations of the Republic of Azerbaijan. In accordance with the Decree and the Regulations (discussed below), SOFAZ is an extra-budget state organization, formed as a separate legal entity, which is accountable and responsible to the President of the Republic of Azerbaijan.

The consolidated financial statements include the financial statements of SOFAZ and its direct and indirect subsidiaries (which are in industry of investment ownership and management control) listed in the following table and the after-tax results of its joint ventures:

Subsidiary	% interest		Country	Date of establishment	Date of acquisition
	2022	2021			
SOFAZ RE Limited	100	100	Jersey	22-May-12	-
SOFAZ RE UK L.P.	100	100	Jersey	6-Aug-12	-
SOFAZ RE Min Limited	100	100	Jersey	13-Aug-12	-
78, St James’s Street Unit Trust	100	100	Jersey	2-Oct-12	-
JSC Tverskaya 16	100	100	Russian Federation	29-Jun-93	21-Dec-12
SOFAZ RE Europe Holding S. à.r.l.	100	100	Luxembourg	31-Oct-12	-
SOFAZ RE Europe S. à.r.l.	100	100	Luxembourg	31-Oct-12	-
SCI 8 Place Vendome	100	100	France	14-Nov-12	-
Godo Kaisha GK001	98	98	Japan	21-Aug-15	26-Aug-15
SOFAZ RE Fund S. à.r.l.	100	100	Luxembourg	27-May-15	-
SOFAZ PE Fund S. à.r.l.	100	100	Luxembourg	28-Sep-15	-
SOFAZ Europe S.C.S.	100	100	Luxembourg	06-Dec-17	-
SOFAZ Fund Limited	100	100	Jersey	28-Dec-18	-

Contributions into SOFAZ are made in accordance with the Regulation of the State Oil Fund of the Republic of Azerbaijan (“Regulation”) approved by the Presidential Decree #434 dated 29 December 2000 and Article 2.3 of the “Regulations on Development and Implementation of the Annual Program of Income and Expenses (“Budget”) of the State Oil Fund of the Republic of Azerbaijan” approved by the Presidential Decree #579 dated 12 September 2001. The contributions are received from the following sources:

- a Agreements on exploration, development and production sharing for oil and gas fields in the territory of the Republic of Azerbaijan including the Azerbaijan Sector of the Caspian Sea, as well as other agreements on oil and gas exploration, development and transportation entered into between the State Oil Company of the Azerbaijan Republic (SOCAR), company involved in exploring oil and gas fields, producing, processing, and transporting oil, gas, and gas condensate, marketing petroleum and

petrochemical products in domestic and international markets, and supplying natural gas to industry and the public in Azerbaijan or other authorized state bodies and investors, including:

- I Contributions from the sale of hydrocarbons related to the share of the Republic of Azerbaijan in oil and gas agreements (net of expenditures incurred for hydrocarbons transportation, customs clearance and bank costs, marketing, insurance, and independent surveyor fees) excluding portion related to the participating interest or investment of SOCAR in a project in which SOCAR is an investor, participant or a contracting party;
- II Bonus payments - the fees payable by foreign oil companies to SOCAR or other relevant authorities of the Republic of Azerbaijan due to signing of an oil and gas contracts and its implementation;

- III Acreage payments due to SOCAR and/or an authorized state body of the Republic of Azerbaijan from investors for the use of the contract area in connection with oil and gas exploration and development;
- IV Contributions generated from oil and gas transported over the territory of the Republic of Azerbaijan by means of the Baku-Supsa, Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum export pipelines (excluding shareholder revenues of SOCAR from its investments in the projects where it is an investor, participant or a contracting party);
- V Dividends and profit participation revenues falling on the share of the Republic of Azerbaijan in connection with oil and gas agreements implementation (excluding portion related to the participating interest or investment of SOCAR in a project in which SOCAR is an investor, participant or a contracting party);
- VI Contributions generated from the transfer of assets from investors to an authorized state body within the framework of oil and gas agreements.
 - B Revenues generated from investment, management, sale and other disposal of the SOFAZ's assets (including financial assets and assets contributed by investors within oil and gas agreements), other non-sale income or revaluation surplus of the SOFAZ's assets in its reporting currency (Azerbaijani manats), etc.;
 - C Grants and other free aids;
 - D Other revenues and receipts in accordance with the legislation of the Republic of Azerbaijan.

In 2022 and 2021, the main custodian of SOFAZ remained the Bank of New York Mellon (BNYM). Management of some portion of the financial assets of SOFAZ is granted to financial institutions namely DWS International GmbH, the International Bank for Reconstruction and Development (IBRD – World Bank Group), State Street Global Advisors Limited (SSGA), UBS Asset Management (UK) LTD, Sumitomo Mitsui Trust International LTD, Blackrock Investment Management (UK) LTD and Mellon Capital Management Corporation. Under the custody agreement all the securities purchased by the financial institutions on behalf of SOFAZ should be held in custody of BNYM, whereas in accordance with the investment management agreements the financial institutions manage the SOFAZ's investments within the mandate based on general investment policies established by SOFAZ.

SOFAZ's registered and actual office address is 165, Heydar Aliyev Avenue, Baku, Azerbaijan, AZ1029.

These consolidated financial statements as of and for the year ended 31 December 2022 are authorized for issue by the Fund's Management on 31 May 2023.

Presentation currency. These consolidated financial statements are presented in thousands of Azerbaijani Manats ("AZN"), unless otherwise stated.

2. OPERATING ENVIRONMENT OF THE FUND

In 2022, Azerbaijani economy continued its post-COVID recovery and growth was achieved across the

sectors. Government's actions in supporting the most vulnerable categories of population, fiscal and monetary policies, as well as continuous steps to diversify the economy contributed to the positive trends in macroeconomic environment. The upward trajectory in oil and gas prices observed throughout 2022 has resulted in currency inflows above the budgeted levels, thereby guaranteeing a stable fiscal balance. The average sale price per barrel of oil equalled to USD 101 (budgeted price was USD 70) in 2022.

In accordance with the newly adopted National Development Priorities and the primary objectives of the fiscal rule, the plan is to decrease the reliance on oil contributions in the state budget and reduce dependence on the distributions of the SOFAZ in the upcoming years. Reducing dependence on oil, creating a favorable environment for the development of the non-oil sector and stimulating the economic activity of the private sector is now considered an important targets for the government

Sticky inflation across the major economies coupled with the risks of prolonged recession loom negatively over the prospects of global economy. Financial actors anticipate continued volatility in the capital markets and depressed returns for major asset classes for upcoming year. Geopolitical risks have been another primary concern. Russia-Ukraine conflict has had a ripple effect on global energy and commodity prices, creating significant risks for the growth of the global economy. Although rising energy prices contributed to substantial inflows to the Fund, on the flip side, the conflict had crippling effect to some of the international trade routes across the region.

Conventional portfolios have faced significant turbulence in the current environment, primarily due to high levels of inflation leading to sell-offs in both bonds and stocks throughout the year. Economic activity was decelerating as increased prices and rising borrowing costs weighed on consumer spending and residential investment. Despite the moderation in growth, inflation remained too high necessitating the continuation of tightening measures. Over the course of the year, the Federal Reserve, Bank of England, and ECB implemented changes to their policy rates. The Federal Reserve raised its policy rate from zero to 4.25%, while the Bank of England increased its rate from 0.25% to 3.5%. As for the ECB, it raised its policy rate from -0.5% to 2%. The bond market had one of its weakest years on record. In terms of equity market performance, the main indices demonstrated negative returns. The Dow Jones index experienced an 8.8% decline, while the S&P 500 index saw a significant drop of 19.4%. European markets also faced challenges, with the Euro Stoxx 50 index declining by 11.7% and the DAX index experiencing a decline of 12.3%.

Efforts at the global level to combat climate change, reduce air pollution, and promote the transition to renewable energy over the long term may have several implications. Climate change can have detrimental effects on various sectors that contribute to economic growth and this can, in turn, lead to lower income for the state budget and potentially weaken the overall balance of the budget. Furthermore, these measures can result in a decrease in the demand for oil and gas, leading to price volatility and reduced income for SOFAZ.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation. These consolidated financial statements have been prepared in accordance with IFRS under the historical cost convention, as modified by the initial recognition of financial instruments at fair value, and by the revaluation of premises and equipment, investment properties, gold bullions, and instruments categorised at fair value through profit or loss (“FVTPL”). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below and in the respective Notes. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the SOFAZ’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The Fund presents its consolidated statement of financial position separating current and non-current assets and liabilities. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented.

Consolidated financial statements.

Subsidiaries are those investees, including structured entities, that SOFAZ controls because SOFAZ (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor’s returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Fund has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Fund measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction-by-transaction basis, either at: (a) fair value, or (b) the non-controlling interest’s proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-

controlling interest in the acquiree and the fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all the liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

SOFAZ and all of its subsidiaries use uniform accounting policies consistent with the Fund’s policies. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Fund’s accounting policies.

Purchases and sales of non-controlling interests.

The Fund applies the economic entity model to account for transactions with owners of non-controlling interest in transactions that do not result in a loss of control. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Fund recognises the difference between sales consideration and the carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Financial instruments – key measurement terms.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market’s normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm’s length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 20.

Amortised cost (“AC”) is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses (“ECL”). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective

interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Financial instruments – initial recognition.

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at fair value through other comprehensive income (“FVOCI”), resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date on which the Fund commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories.

The Fund classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Fund’s business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model.

The business model reflects how the Fund manages the assets in order to generate cash flows – whether the Fund’s objective is: (i) solely to collect the contractual cash flows from the assets (“hold to collect contractual cash flows”), or (ii) to collect both the

contractual cash flows and the cash flows arising from the sale of assets (“hold to collect contractual cash flows and sell”) or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of “other” business model and measured at FVTPL.

Financial assets – classification and subsequent measurement – cash flow characteristics.

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Fund assesses whether the cash flows represent solely payments of principal and interest (“SPPI”). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Fund considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Financial assets – reclassification.

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

Financial assets impairment – credit loss allowance for ECL.

The Fund assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI. The Fund measures ECL and recognises net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC and contract assets are presented in the consolidated statement of financial position net of the allowance for ECL. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

Financial assets – write-off.

Financial assets are written-off, in whole or in part, when the Fund exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Fund may write-off financial assets that are still subject to enforcement activity when the Fund seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets - derecognition.

The Fund derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Fund has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial assets – modification.

The Fund sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Fund assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (e.g. profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset.

Offsetting financial instruments.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Trade and other receivables.

Trade and other receivables are recognised initially at fair value and are subsequently carried at AC using the effective interest method.

Trade and other payables.

Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at AC using the effective interest method.

Investments in equity securities.

Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Fund. Investments in equity securities are measured at FVTPL, except where the Fund elects at initial recognition to irrevocably designate an equity investments at FVOCI. The Fund didn't elect at initial recognition to irrevocably designate an equity investments at FVOCI.

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortised cost using the effective interest method.

Changes in presentation. During the year, the Fund has changed its classification of fair value gain/loss within the consolidated statement of profit or loss and other comprehensive. The Fund believes that the change provides reliable and more relevant information. In accordance with IAS 8, the change has been made retrospectively and comparatives have been restated accordingly.

The effect of reclassifications for presentation purposes was as follows on amounts at 31 December 2022:

In thousands of Azerbaijani Manats	As originally presented	Reclassification	As reclassified at 31 December 2022
Assets			
Income/expense from:			
Bonds:	-	(1,928,619)	(1,928,619)
Equity investments:	-	(1,703,042)	(1,703,042)
Interest income from financial assets at fair value	867,876	(867,876)	-
Dividend Income	396,029	(396,029)	-
Net gain/(loss) on financial assets at fair value through profit or loss	(4,895,565)	4,895,566	-
Net expense:	(3,631,661)	-	(3,631,661)

The effect of reclassifications for presentation purposes was as follows on amounts at 31 December 2021:

In thousands of Azerbaijani Manats	As originally presented	Reclassification	As reclassified at 31 December 2021
Assets			
Income/expense from:			
Bonds:	-	77,188	77,188
Equity investments:	-	3,336,129	3,336,129
Interest income from financial assets at fair value	663,818	(663,818)	-
Dividend Income	513,091	(513,091)	-
Net gain/(loss) on financial assets at fair value through profit or loss	2,236,408	(2,236,408)	-
Net expense:	3,413,317	-	3,413,317

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 acquisitions date fair values of the assets transferred by the Fund, liabilities incurred by the Fund to the former owners of the acquiree and the equity interests issued by the Fund in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Premises and equipment. The Fund's premises and equipment are tangible assets held for administrative purposes with an expected useful life of more than one accounting period. Premises and equipment are initially measured at cost and are stated at cost less accumulated depreciation and provision for impairment, where required.

Intangible assets. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Accounting for leases by the Fund as a lessee. The Fund leases freehold property. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Fund. Each lease payment is allocated between principal amount and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognised at cost and depreciated over the shorter of the right-of-use asset's useful life and the lease term on a straight-line basis.

Accounting for operating leases by the Fund as a lessor. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

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

Contingencies. Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Equity reserves. The reserves recorded in equity (other comprehensive income) on the Fund's consolidated statement of financial position include:

- 'Foreign currency translation reserve' which is used to record exchange differences arising from the translation of the net investment in foreign operations;
- 'Retained earnings'

As discussed in Note 18, in accordance with the Decrees and the Regulations, the Fund is an extra-budget state organization. All decisions regarding contributions to and transfers from the Fund are made and approved by the Decrees of the President of the Republic of Azerbaijan.

Contributions/transfers received/made by the Fund represent contributions/withdrawals and, accordingly, are recognized through net equity at the fair value of the consideration received/paid.

Transfers to the State Budget, as well as state institutions, state-owned entities and companies are recognized on the date of payment. All transfers are made within the approved budget of the Fund and transferred to the State Treasury of the Republic of Azerbaijan for payments to eligible budgetary beneficiaries (state institutions, state-owned entities and companies) based on their requests for payments.

Interest income and expense recognition. Interest income and expense are recorded for financial assets at AC and FVOCI on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Interest income on debt instruments at FVTPL calculated at nominal interest rate is presented within the part of income and expenses from bonds.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Dividend income from financial assets at fair value

through profit or loss is recognized in the statement of profit or loss when the Fund's right to receive payment is established.

Other operating income including rental income is recognized on accruals basis, i.e. when these are earned.

Expenses are recognized on accrual basis, i.e. when they are incurred.

Accounting for Cash Inflows and Outflows.

As described in Note 1, the Fund receives cash inflows from revenues generated from various oil and gas activities carried out in the Republic of Azerbaijan. These cash inflows are made according to certain decrees of the President of the Republic of Azerbaijan. Cash outflows for major projects and contributions to the State budget are also made according to decrees of the President of the Republic of Azerbaijan. SOFAZ believes these inflows and outflows of funds represent contributed capital and withdrawals of capital, respectively. Accordingly, SOFAZ recognises them as movements in equity in the consolidated statement of changes in equity.

Valuation of financial instruments.

Financial instruments that are classified at fair value through profit or loss are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty.

Where market-based valuation parameters are absent, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument.

The Fund considers that the accounting estimates related to valuation of financial instruments where quoted markets prices are not available are a key source of estimating uncertainty because: (i) they are highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported in the statement of financial position as well as its profit/(loss) could be material.

Management uses different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments where quoted market prices are not available using their own

knowledge and capabilities, as well as, data obtained from its custodians (mainly Bank of New York Mellon) and Bloomberg (refer to Note 20).

Staff costs and related contributions.

Wages, salaries, contributions to the Azerbaijan State Social Insurance Fund, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Fund. The Fund has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Fund makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Structured entities.

Structured entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Judgement is also required to determine whether the substance of the relationship between the Fund and a structured entity indicates that the structured entity is controlled by the Fund.

The Fund does not consolidate structured entities that it does not control. As it can sometimes be difficult to determine whether the Fund does control a structured entity, management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the structured entity in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over a structured entity, but when considered together make it difficult to reach a clear conclusion. In cases where more arguments are in place towards existence of control, the structured entity is consolidated.

Were the Fund not to consolidate the assets, liabilities and the results of these consolidated structured entities, the net effect on the statement of financial position would be a decrease in net assets of AZN 334,183 thousand as at 31 December 2022 (31 December 2021: decrease in net assets of AZN 384,741 thousand) and decrease in profit by AZN 3,898 thousand for the year of 2022 (2021: increase of AZN 12,407 thousand). Refer to Note 24 for further information about the structured entity.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following amended standards became effective from 1 January 2022, but did not have a material impact on the Fund:

- MUBS 16, MUBS 37 və MHBS 3 ilə bağlı məhdud məzmunlu dəyişikliklər – “Təyinatlı istifadədən əvvəl əldə edilən gəlirlər”, “Yüklü müqavilələr - müqavilənin icrası ilə bağlı xərclər”, “Konseptual Əsaslara İstinad” və MHBS 1, MHBS 9, MHBS 16 və MUBS 41-ə dəyişikliklər – 2018-2020-ci illər üzrə MHBS-lərin illik Təkmilləşdirilməsi (14 may 2020-ci ildə dərc olunub və 1 yanvar 2022-ci il və ya bu tarixdən sonra başlayan illik dövrlər üçün qüvvəyə minir).

6. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2023 or later, and which the Fund has not early adopted.

- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).
- Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024).
- Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).
- IFRS 17 “Insurance Contracts” (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).
- Transition option for insurers applying IFRS 17 – Amendments to IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024).

The Fund is currently assessing the impact of the above mentioned amendments on its consolidated financial statements. Unless the amendments to IAS 1, the new standards and interpretations are not expected to affect significantly the Fund's consolidated financial statements.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents.

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

Money market funds.

Money market funds offer investors the opportunity to own a share in a fund that can be redeemed upon request, and they are known for their high level of liquidity. These funds primarily invest in short-term debt and debt-related instruments, which may include

commercial paper, certificates of deposit, bonds with floating interest rates, US Treasury bonds, Eurobonds, and asset-backed securities. Any interest and dividends earned by the fund are automatically reinvested.

All investments made by the Fund in money market funds are held in BlackRock ICS-Institutional Liquidity Funds plc, which has been assigned a credit rating of AAA.

Investments in Money market funds are included in Cash and cash equivalents and measured at fair value. They are short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity they present insignificant risk of changes in value because of changes in interest rates.

Cash and cash equivalents comprise:

In thousands of Azerbaijani Manats	2022	2021
Bank accounts	1,876,372	2,806,721
Money market funds	1,195,381	837,574
Short-term deposits	-	2,720
Total cash and cash equivalents	3,071,753	3,647,015

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of cash and cash equivalents.

Bank accounts

Bank accounts were denominated in the following currencies:

In thousands of Azerbaijani Manats	2022	2021
USD	1,168,307	2,338,769
EUR	651,939	352,256
JPY	28,885	63,764
GBP	15,682	11,206
TRY	22	64
AUD	1,358	29,093
CNY	229	3,528
AZN	1,443	867
CHF	3,737	1,087
CAD	2,305	1,548
SEK	463	2,658
RUB	11	118
SGD	334	304
HKD	543	359
DKK	440	392
ILS	217	257
NZD	172	328
NOK	285	123
Total bank accounts	1,876,372	2,806,721

As at 31 December 2022, the Fund had AZN 892 thousand and AZN 511,368 thousand (2021: AZN 7,232 thousand and AZN 1,530,759 thousand) held at bank accounts in the International Bank of Azerbaijan and the Central Bank of the Republic of Azerbaijan, respectively.

The credit quality of cash and cash equivalents balances may be summarised (based on Standard and Poor's/Fitch/Moody's ratings) as follows at 31 December 2022:

In thousands of Azerbaijani Manats	Bank Account	Short term Deposit	Money Market Funds	Total
<i>Neither past due nor impaired</i>				
AAA	-	-	1,195,381	1,195,381
AA	10,641	-	-	10,641
A	1,125,933	-	-	1,125,933
BBB	218,079	-	-	218,079
BB	892	-	-	892
B	22	-	-	22
WR*	9,434	-	-	9,434
Total cash and cash equivalents**	1,365,001	-	1,195,381	2,560,382

*AZN 9,434 thousand of this amount denotes the cash balances held by the Fund's subsidiary, where the Fund is not directly involved in cash allocations.

**Central Bank of the Republic of Azerbaijan does not have credit rating and its balance is excluded from the table above.

For the purpose of ECL measurement cash and cash equivalents balances which are measured at amortised cost are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Fund did not recognise any credit loss allowance for cash and cash equivalents.

The credit quality of cash and cash equivalents balances may be summarised (based on Standard and Poor's/Fitch/Moody's ratings) as follows at 31 December 2021:

In thousands of Azerbaijani Manats	Bank Account	Short term Deposit	Money Market Funds	Total
<i>Neither past due nor impaired</i>				
AAA	-	-	837,574	837,574
AA	8,113	-	-	8,113
A	863,594	2,720	-	866,314
BBB	396,925	-	-	396,925
B	7,330	-	-	7,330
Total cash and cash equivalents*	1,275,962	2,720	837,574	2,116,256

*AZN 1,530,759 thousand cash balance held by the Fund in the Central Bank of the Republic of Azerbaijan is excluded from the table. Central Bank of the Republic of Azerbaijan does not have credit rating.

Interest rate analysis of cash and cash equivalents is disclosed in Note 21. Information on related party balances is disclosed in Note 23.

8. TERM DEPOSITS

The major part of the Term Deposit for 31 December 2022 consisted of the deposit on the Turkiye Central Bank which is 1,813,719 thousand AZN. 2,319 thousand AZN of this deposit amount is the accrued interest on the deposit.

For the purpose of ECL measurement term deposit balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Fund did not recognise any credit loss allowance for term deposits.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss include investment in debt and equity securities. The Fund earns interest income from debt securities that are recognized through profit or loss. Dividends are included in profit or loss when the Fund's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as a part of income/expense from the bonds or equity securities.

Financial assets at fair value through profit or loss comprise of followings:

In thousands of Azerbaijani Manats	2022	2021
Sovereign bonds	24,441,655	17,906,250
Agency/Supranational bonds	13,346,964	13,318,364
Equity securities	13,352,362	10,964,117
Corporate bonds	8,797,389	12,377,249
Real estate funds	3,780,431	3,338,101
Private equity funds	2,462,334	2,228,726
Money Market	414,291	84,836
Total financial assets at fair value through profit or loss	66,595,426	60,217,643

As at 31 December 2022 the Fund held AZN 13,872,408 thousand (2021: AZN 11,252,653 thousand) under asset management agreements with financial institutions ("external managers") including cash and cash equivalents. The management fees in 2022 to the external managers were AZN 3,775 thousand (2021: AZN 3,552 thousand).

Sovereign bonds. Sovereign bonds are represented by investments in debt securities issued by various European, Asian, Australian and American institutions. As at 31 December 2022 these securities bear fixed interest ranging from 0.0% p.a. to 1.0% p.a. in the amount of AZN 7,448,905 thousand, 1.0% p.a to 2.0% in the amount of AZN 6,405,113 thousand, 2.0% p.a to 3.0% in the amount of AZN 5,837,261 thousand, 3.0% p.a to 10.0% in the amount of AZN 4,563,422 thousand and 10.0% p.a to 20.9% in the amount of AZN 186,954 thousand (2021: 0.0% p.a. to 20.1% p.a) and mature during the period from January 2023 to February 2036 (2021: January 2022 to February 2036). These securities were held in the portfolio managed both directly by the Fund as well as the Fund's external managers, DWS International GmbH and IBRD – World Bank Group.

Agency/Supranational bonds. These bonds are represented by investments in debt securities issued by international organizations of Europe, Asia and America. As at 31 December 2022 these securities bear fixed interest ranging from 0.0% p.a. to 1.0% p.a. in the amount of AZN 6,521,661 thousand, 1.0% p.a to 2.0% in the amount of AZN 2,067,225 thousand, 2.0% p.a to 3.0% in the amount of AZN 1,357,175 thousand, 3.0% p.a to 10.0% in the amount of AZN 1,315,398 thousand and 10.0% p.a to 40.0% in the amount of AZN 55,661 thousand and USD LIBOR, GBP LIBOR, Australian Bank Bill Short Term Rate, 1 Year Loan Prime Rate, SOFR with the spread ranging from -1.00% p.a. to +1.45% p.a. in the amount of AZN 2,029,844 thousand (2021: 0.0% p.a. 5.25% p.a. and USD LIBOR, GBP LIBOR, Australian Bank Bill Short Term Rate, 1 Year Loan Prime Rate, SOFR, SONIA with the spread ranging from -1.00% p.a. to +1.45% p.a.) and mature during the period from January 2023 to July 2032 (2021: January 2022 to September 2031). These securities were held in the portfolio managed both directly by the Fund as well as the Fund's external managers, DWS International GmbH and IBRD – World Bank Group.

Corporate bonds. Corporate bonds are represented by investments in debt securities issued by corporations of Europe, Asia, Australia and America. As at 31 December 2022 these securities bear fixed interest ranging from 2.875% p.a. to 7.39% p.a. and USD LIBOR and EURIBOR with the spread ranging from +0.3% p.a. to +4.0% p.a. (2021: 0.1% p.a. to 7.39% p.a. and USD LIBOR, GBP LIBOR, EURIBOR, SONIA and Australian Bank Bill Short Term Rate with the spread ranging from +0.2735% p.a. to +4.0% p.a.) and mature during the period from January 2023 to December 2030 (2021: January 2022 to January 2031). These securities were held in the portfolio managed both directly by the Fund and the

Fund's external manager DWS International GmbH.

Effect of IBOR reform. Reform and replacement of various inter-bank offered rates ('IBORs') has become a priority for regulators. Most IBOR rates stopped being published by 31 December 2021, while certain USD LIBOR rates would stop being published by 30 June 2023.

The following table presents the value of bonds on variable rates which the Fund holds at 31 December 2022 which have not yet transitioned to alternative interest rate benchmark:

In thousands of Azerbaijani Manats			
Currency	Current interest rate benchmark	Alternative interest rate benchmark	Total value
AUD	Australian Bank Bill Short Term Rate (BBSW)	RBA Cash Rate	9,294
EUR	Euribor	€STR	870,145
GBP	GBP Libor	SONIA	430,683
USD	USD Libor	SOFR	5,480,141
CNY	1 YR Loan Prime Rate	No change in reference rate is expected	7,351
Total			6,797,614

As of 01 May 2023, bonds worth AZN 849,095 thousand will already be matured. Remaining portion will be transitioned to alternative interest rate benchmarks in their respective currencies in June (the LIBOR expiry) with fallback adjustments made for the difference between the proposed rate and the rate previously in use (LIBOR).

The following table presents the value of bonds on variable rates which the Fund holds at 31 December 2021 which have not yet transitioned to alternative interest rate benchmark:

In thousands of Azerbaijani Manats			
Currency	Current interest rate benchmark	Alternative interest rate benchmark	Total value
AUD	Australian Bank Bill Short Term Rate (BBSW)	RBA Cash Rate	20,904
EUR	Euribor	€STR	2,321,648
GBP	GBP Libor	SONIA	615,882
USD	USD Libor	SOFR	7,497,570
CNY	1 YR Loan Prime Rate	No change in reference rate is expected	8,040
Total			10,464,043

In thousands of Azerbaijani Manats		Private Equity Funds			Fair Value	
Fund	Description	Commitment	Unfunded commitment	2022	2021	
IFC Global Infrastructure Fund	Infrastructure fund making equity and equity-related infrastructure investments in companies focused on power, transportation, water, telecom, oil&gas midstream and downstream.	340,000	134,058	37,214	87,095	
IFC Catalyst Fund	Fund investing in a portfolio of limited partnerships or equivalent interests of investment funds and direct co-investments primarily focused on resource efficiency and developing low-emission products and services in emerging markets.	85,000	8,334	53,475	57,369	
IFC African, Latin American and Caribbean Fund	Fund making equity and equity-related investments in companies across Sub-Saharan Africa, Latin America and the Caribbean.	170,000	7,723	18,927	45,784	
Apollo Fund IX	Buyout fund founded by Apollo specializing in acquisitions predominantly in North America.	144,500	45,729	124,060	83,065	
Apollo Fund X	Buyout fund founded by Apollo specializing in acquisitions predominantly in North America.	68,000	68,000	-	-	
Carlyle Partners VII	Buyout fund focused in large-to-mega cap deals in North America.	85,000	3,282	95,543	88,065	
Warburg Pincus Global Growth	Warburg Pincus Global Growth is the firm's thirteenth flagship fund dedicated to making a variety of venture, growth, buyout and special situation investments across a diverse range of sectors and geographies.	85,000	10,232	99,312	87,734	
Thoma Bravo Fund XIII	Focused on investing in software companies and is known for its "buy-and-build" investment strategy.	42,500	3,678	59,707	60,593	
Dyal Capital Partners IV	Fund managed by Dyal Capital Partners which aims to primarily acquire minority equity interests in investment companies.	42,500	27,825	30,444	31,385	
Green Equity Investors VIII	Focused on traditional buyouts, going-private transactions, recapitalizations, growth capital, carve-outs, PIPEs, and selective public equity and debt positions.	85,000	9,241	78,884	68,258	
Green Equity Investors IX	Focused on traditional buyouts, going-private transactions, recapitalizations, growth capital, carve-outs, PIPEs, and selective public equity and debt positions.	68,000	68,000	-	-	
Brookfield Infrastructure Fund IV	Fund invests in core assets in transportation, renewable power, utilities, energy and data sectors across all regions.	85,000	18,636	72,218	57,362	
Brookfield Infrastructure Fund V	Fund invests in core assets in transportation, renewable power, utilities, energy and data sectors across all regions.	68,000	68,000	-	-	
Vitruvian Investment Partners IV	Buyout fund that invests in diversified sectors in Europe.	72,456	28,843	49,810	11,970	

Private Equity Funds		Fair Value			
Fund	Description	Commitment	Unfunded commitment		
			2022		
			2021		
CVC Capital Partners VIII	Fund managed by CVC Capital Partners, focuses on large buyout investments and targets well established, cash generating companies.	72,456	30,615	45,331	14,667
Ares Corporate Opportunities Fund VI	Fund managed by Ares Management, a publicly traded, leading global alternative asset manager and invests into growth buyout and rescue capital opportunities.	68,000	27,173	45,938	23,317
Dyal Capital Partners V	Fund managed by Dyal Capital Partners, aims to primarily acquire minority equity interests in investment companies.	68,000	56,255	14,324	23,521
Francisco Partners VII	Leading global investment firm that specializes in investing technology and technology-enabled businesses.	51,000	51,000	-	-
Blackstone Capital Partners Asia II	Mid-to-large cap buyout fund managed by Blackstone Group, focuses on investing in the Asia-Pacific region with diversified sector exposure.	68,000	62,914	3,628	-
NB Caspian Partners ^f	Separately managed private equity mandate formed with the purpose of investing predominantly in buy-out funds and co-investments in the developed markets.	947,920	332,231	634,526	614,704
EBRD EPF	Formed by EBRD with the purpose of providing investors with the exposure to EBRD's equity investments in Central and Eastern Europe, Mediterranean, Central Asia.	181,140	38,078	97,666	105,316
BC European Capital X	Buyout fund focused on acquiring large businesses exhibiting defensive growth characteristics mainly in Europe	101,982	10,468	126,742	161,143
FSI Mid-Market Growth Equity Fund I	Invests into Italian mid-market companies in diversified sectors with a focus on healthcare and fintech.	36,228	6,598	16,281	21,510
FSI Mid-Market Growth Equity Fund II	Invests into Italian mid-market companies in diversified sectors with a focus on healthcare and fintech.	72,456	72,456	-	-
Blackstone Core Equity Partners L.P.	Specializes in buyout investments mainly in North America.	85,000	19,472	124,445	133,095
Carlyle Europe Partners V	Buyout fund focused in investments in Europe.	90,570	44,646	53,693	38,264
Carlyle Europe Technology Partners V	Primarily expects to invest in a portfolio of small and mid-cap buyout and growth, technology-focused investments in Europe and selectively in the United States.	63,399	63,399	-	-

In thousands of Azerbaijani Manats		Private Equity Funds				Fair Value	
Fund	Description	Commitment	Unfunded commitment	2022	2021		
Vista Equity Partners VII	Fund focused on mid-to-large cap companies that develop and market software, software as a service, and technology-enabled businesses and information services.	68,000	14,931	68,175	69,227		
Vista Equity Partners VIII	Fund focused on mid-to-large cap companies that develop and market software, software as a service, and technology-enabled businesses and information services.	68,000	67,932	-	-		
PAG Asia Capital Fund III	Buyout fund of PAG with regional focus in Asia and makes buyout investments across different industries	51,000	8,963	45,820	35,059		
Baring Private Equity Asia VII	Buyout fund managed by Baring with regional focus in Asia	85,000	32,131	87,059	91,781		
Baring Private Equity Asia VIII	Buyout fund managed by Baring with regional focus in Asia	68,000	67,932	-	-		
Cinven Fund VII	Buyout fund managed by Cinven, which aims to invest in companies with operations in European countries.	86,947	36,766	63,512	42,594		
Cinven Fund VIII	Buyout fund managed by Cinven, which aims to invest in companies with operations in European countries.	72,456	72,456	-	-		
Thoma Bravo Explore Fund	Focused on investing in software companies and is known for its "buy and build" investment strategy and process.	51,000	3,678	48,546	31,855		
BC Partners (BCP XI)	Large-cap buyout fund with diversified sector focus in Europe and North America.	72,456	44,096	29,798	25,701		
KKR Asian Fund IV	Focuses on sourcing investments that have strong potential for growth and operational improvement through effective portfolio management	68,000	44,659	25,706	12,338		
KKR North America XIII	Flagship private equity fund focused on North American investments	54,400	39,031	14,997	-		
Clayton, Dubilier & Rice XII	Investing in 4 core industry verticals: consumer/retail, healthcare, industrials, and services across North America and Western Europe	68,000	68,000	-	-		
Thoma Bravo Fund XV-A	Focused on investing in software companies and is known for its "buy-and-build" investment strategy	68,000	34,390	31,732	-		
Total		4,228,366	1,851,851	2,297,513	2,122,772		

The Fund has committed AZN 142,561 thousand (unfunded commitment: AZN 16,983 thousand) to co-investments alongside its General Partners. As 31 December 2022, the fair value of the Fund's co-investments was 164,821 thousand (2021: AZN 105,954 thousand).

Real Estate Funds						
Fund	Description	Commitment	Unfunded commitment	Fair Value		
				2022	2021	
Ares US Real Estate Fund IX	Closed-end fund targeting value-add real estate investments in diversified property types, with a primary focus on the United States market.	170,000	14,450	84,447	158,539	
Ares US Real Estate Fund X		170,000	118,196	55,362	-	
GreenOak US III		170,000	51,237	115,803	106,182	
Walton Street Real Estate Fund VIII		170,000	73,077	84,817	99,917	
Walton Street Real Estate Fund IX		170,000	111,730	71,995	-	
Angelo Gordon Realty Value Fund X		Global closed-end fund pursuing opportunistic real estate investments in diversified property types.	170,000	47,379	128,578	118,565
Starwood Global Opportunity Fund XI			340,000	68,000	286,439	229,250
Starwood Global Opportunity Fund XII			340,000	272,000	78,371	-
Brookfield Strategic Partners IV			340,000	270,665	69,335	-
Gaw Capital Gateway Real Estate Fund VI		Closed-end fund targeting opportunistic real estate investments in diversified property types, concentrating on the Asia-Pacific region market.	85,000	26,064	62,490	55,046
Gaw Capital Gateway Real Estate Fund VII	170,000		132,259	37,795	-	
Blackstone Property Partners U.S.	Open-ended fund focusing on core-plus real estate investments in diversified property types across the North American market.	340,000	-	411,902	361,327	
Charter Hall Direct Industrial Fund No.4	Open-ended fund specializing in core and core-plus logistics real estate in Australia.	115,180	-	119,550	-	
AXA Pan European Value Added Venture	Closed-end fund specializing in value-add real estate investments across various property types, with a primary emphasis on the European market.	181,140	28,475	40,291	78,388	
Blackrock Europe Property Fund IV Feeder		181,140	30,666	31,570	37,320	
BlackRock Europe Property Fund VI A Feeder		362,280	362,280	-	-	
PGIM European Value Partners		181,140	18,088	15,545	32,824	
PGIM European Value Partners II		181,140	118,905	66,594	49,685	

Fund		Description	Real Estate Funds			Fair Value	
			Commitment	Unfunded commitment	2022	2021	
Blackstone Real Estate Partners Europe V	Blackstone Real Estate Partners Europe VI	Closed-end fund specializing in opportunistic real estate investments across various property types, with a primary emphasis on the European market.	181,140	30,978	116,168	209,558	
PAG Real Estate Partners	PAG Real Estate Partners II	Closed-end fund targeting core-plus real estate investments in diversified property types, concentrating on the Asia-Pacific region market.	170,000	6,255	12,539	20,651	
PAG Real Estate Partners III			170,000	33,016	149,783	138,966	
PGIM Asia Property Fund III		Closed-end fund specializing in value-add real estate investments across various property types, with a primary emphasis on the Asia-Pacific region market.	170,000	123,834	42,013	-	
Gaw Capital Gateway Real Estate Fund V		Closed-end fund targeting opportunistic real estate investments in diversified property types, concentrating on the Asia-Pacific region market.	181,140	31,040	36,095	37,326	
Redwood Japan Logistics Fund II		Closed-end fund specializing in opportunistic logistics investments in Japan.	57,970	7,987	47,095	51,882	
GAW Capital US Fund III		Closed-end fund specializing in opportunistic logistics investments in the United States.	170,000	18,922	50,236	121,259	
AG Commercial Real Estate Debt Opportunities		Closed-end fund targeting value-add real estate investments in diversified property types, with a primary focus on the United States market.	107,950	33,476	59,493	73,146	
Fonciere LFP Europe		Closed-end fund focused on commercial real estate debt strategies, with a primary focus on the United States market.	85,000	-	40,700	58,668	
PRISA LP		Open-end fund focusing on core-plus real estate investments in diversified property types, with a primary focus on the European market.	181,140	-	202,616	215,508	
Prologis US Targeted Logistics Fund		Open-end fund focusing on core real estate investments in diversified property types, with a primary focus on the United States market.	340,000	-	411,981	401,108	
		Open-end fund specializing in core logistics real estate investments, with a primary focus on the United States market.	340,000	340,000	-	-	

In thousands of Azerbaijani Manats

In thousands of Azerbaijani Manats						
Co-investments						
Fund	Co-investments	Commitment	Unfunded commitment	2022	2021	Fair Value
PGIM Asia Property Fund III (GK Winchester Kyoto Hotel Project)	Opportunistic hotel development project in Kyoto, Japan.	27,343	-	-	521	
Walton Street 401 North Michigan Avenue	Core-plus commercial mixed use property in Chicago, US.	42,500	19,269	19,763	23,961	
GAW US Fund III (project H&H)	Value-add mixed use asset on the northeast corner of Hollywood Boulevard and Highland Avenue, US.	85,000	12,662	71,529	65,246	
GAW US Fund III (project Rainbow)	Value-add condo hotel in Hanolulu, Hawaii.	23,800	-	25,047	20,445	
PGIM European Value Partners (Junghof)	Opportunistic commercial mixed use asset in Frankfurt, Germany.	73,601	-	7,796	9,655	
GAW Capital GREF V (Sophia)	Value-add commercial mixed use property in Singapore.	34,000	-	37,609	31,461	
GAW Capital GREF V (Centurion II)	Opportunistic modern logistics JV platform in China.	102,000	3,554	107,953	102,038	
GAW Capital GREF V (Doris)	Value-add retail properties in Hong Kong.	85,000	1,214	126,183	117,257	
Blackstone BioMed Life Science Real Estate	Closed-end fund specializing in core-plus life sciences real estate, with a primary focus on the European and United States markets.	170,000	35,561	178,063	145,907	
Blackstone Mileway Logistics L.P.	Closed-end fund specializing in core-plus logistics real estate with a primary emphasis on the European market.	160,309	14,574	151,532	-	
Total		7,066,623	2,619,717	3,780,431	3,338,101	

Equity securities. The carrying value of equity securities consists of investments in the following sectors at 31 December 2022 and 2021:

In thousands of Azerbaijani Manats	2022	2021
Telecommunication and information technologies	3,140,050	2,877,879
Consumer	2,543,901	2,178,184
Finance	2,486,548	2,182,391
Healthcare	1,714,843	1,204,630
Industrial	1,378,737	1,094,983
Energy	758,471	350,771
Materials	743,215	628,944
Utilities	586,597	446,335
Total equity securities	13,352,362	10,964,117

These securities were held in the portfolio managed both directly by the Fund as well as the Fund's external managers, SSGA, UBS Asset Management (UK) LTD, Blackrock Investment Management, Mellon Capital Management Corporation and Sumitomo Mitsui Trust International LTD.

Analysis by credit quality of debt trading securities is as follows at 31 December 2022:

In thousands of Azerbaijani Manats	Agency/ Supranational Bonds	Corporate Bonds	Sovereign Bonds	Money Market	Total
<i>Neither past due nor impaired (at fair value)</i>					
AAA	8,023,679	-	17,354,099	247,151	25,624,929
AA	3,990,698	5,354	4,362,986	82,355	8,441,393
A	1,248,781	535,457	672,860	84,785	2,541,883
BBB	83,806	377,584	1,829,105	-	2,290,495
BB	-	7,878,994	-	-	7,878,994
B	-	-	222,605	-	222,605
Total neither past due nor impaired	13,346,964	8,797,389	24,441,655	414,291	47,000,299
Total debt trading securities	13,346,964	8,797,389	24,441,655	414,291	47,000,299

Analysis by credit quality of debt trading securities is as follows at 31 December 2021:

In thousands of Azerbaijani Manats	Agency/ Supranational Bonds	Corporate Bonds	Sovereign Bonds	Money Market	Total
<i>Neither past due nor impaired (at fair value)</i>					
AAA	8,299,305	307,703	11,595,869	-	20,202,877
AA	3,755,449	15,268	1,595,069	-	5,365,786
A	1,163,486	2,372,379	1,015,437	84,836	4,636,138
BBB	100,124	926,988	3,379,823	-	4,406,935
BB	-	8,331,745	53,310	-	8,385,055
B	-	422,852	266,742	-	689,594
D	-	314	-	-	314
Total neither past due nor impaired	13,318,364	12,377,249	17,906,250	84,836	43,686,699
Total debt trading securities	13,318,364	12,377,249	17,906,250	84,836	43,686,699

The credit ratings are based on Standard & Poor's ratings where available, or Moody's or Fitch rating converted to the nearest equivalent on the Standard & Poor's rating scale. The debt securities are not collateralised.

10. GOLD BULLION

Gold bullion. The Fund is involved in purchase of gold bullion for investment purposes with the intention of diversification of the investment portfolio with the ability to sell the gold in the future. The gold bullion is initially recognized and subsequently measured at fair value with gains or losses recognised in profit or loss.

In accordance with the "Rules on Holding, Placement and Management of Foreign Assets of The State Oil Fund of the Republic of Azerbaijan" approved by Decree #511 of the President of the Republic of Azerbaijan dated 19 June 2001 as amended by Decrees #607 dated 21 December 2001, #202 dated 1 March 2005, #216 dated 10 February 2010 and #519 dated 27 October 2011, gold bars conforming to the requirements of the London Bullion Market Association may be included in the Investment Portfolio of the Fund.

Movements of gold bullion:

In thousands of Azerbaijani Manats	2022	2021
Opening balance at 1 January	10,017,529	10,490,279
Net fair value (loss)/gain on gold bullions	87,912	(472,750)
Closing balance at 31 December	10,105,441	10,017,529

11. INVESTMENT PROPERTIES

Investment property. Investment property is property held by the Fund to earn rental income or for capital appreciation, or both and which is not occupied by the Fund. Investment property includes assets under construction for future use as investment property.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition.

If a valuation obtained for a property is net of all payments expected to be made, any related lease liability recognised separately in the statement of financial position is added back to arrive at the carrying value of the investment property for accounting purposes.

Measurement of fair value of investment properties.

Fair value of investment properties is determined by independent professionally qualified appraisers. Fair value is determined using the combination of internal capitalization method (also known as discounted future cash flow method), sales comparison method and also based on the highest and best use method.

Movement of investment properties:

In thousands of Azerbaijani Manats	2022	2021
Investment properties at fair value at 1 January	1,784,341	1,784,534
Additions	12,207	54,706
Right-of-use asset	(28,236)	-
Fair value gains/(losses)	(3,480)	78,439
Effect of translation to presentation currency	(184,959)	(133,338)
Investment properties at fair value at 31 December	1,579,873	1,784,341

Investment properties consist of "Gallery Actor", a mixed-use office and retail complex located in Moscow Central Administrative District at 16 Tverskaya Street, "78 St James's Street" an office complex located in London, "8 Place Vendome" a mixed-use office, retail and residential building located in Paris and "Kirarito Ginza" retail complex located in Tokyo. All properties are leased out on a commercial basis.

As at 31 December 2022 investment properties are stated at fair value, which has been determined based on valuations performed by professional valuation companies (accredited independent appraisers). Appraisers are recognized industry professionals that specialize in valuing these types of investment properties. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of the properties have been primarily derived using prices for comparable properties, market information, discounted cash flow method (income approach) and the expert opinion of independent accredited valuers who have advised on current market levels.

At 31 December 2022, investment property carried at AZN 734,789 thousand (2021: AZN 845,401 thousand) have been pledged to third parties as collateral with respect to borrowings. Refer to Note 13.

Where the Fund is the lessor, the future minimum lease payments receivable under non-cancellable operating leases are as follows:

In thousands of Azerbaijani Manats	2022	2021
Not later than 1 year	31,735	32,697
Later than 1 year and not later than 5 years	70,933	74,095
Later than 5 years	32,275	35,078
Total operating lease payments receivable at 31 December	134,943	141,870

The table below summarises detailed disclosure of fair value change of investment properties. Sensitivity analysis of fair value of investment properties was disclosed in Note 20.

Investment property	Fair value 2022	Change in fair value	Effect of translation to presentation currency	Additions	Disposals	Right-of-use asset	Fair value 2021
In thousands of Azerbaijani Manats							
"78 St James Street", London	425,175	25,247	(50,303)	8,683	-	(28,236)	469,784
"Gallery Actor", Moscow	61,663	(13,390)	1,474	1,226	-	-	72,353
"SCI 8 Place Vendome", Paris	358,246	(15,595)	(23,896)	936	-	-	396,801
"Kirarito Ginza", Tokyo	734,789	258	(112,234)	1,362	-	-	845,403
	1,579,873	(3,480)	(184,959)	12,207	-	(28,236)	1,784,341

Investment property	Fair value 2021	Change in fair value	Effect of translation to presentation currency	Additions	Disposals	Right-of-use asset	Fair value 2020
In thousands of Azerbaijani Manats							
"78 St James Street", London	469,785	42,381	(3,924)	52,727	-	-	378,601
"Gallery Actor", Moscow	72,353	3,225	(630)	615	-	-	69,143
"SCI 8 Place Vendome", Paris	396,802	50,858	(31,437)	781	-	-	376,600
"Kirarito Ginza", Tokyo	845,401	(18,025)	(97,347)	583	-	-	960,190
	1,784,341	78,439	(133,338)	54,706	-	-	1,784,534

Establishment of 78 St James's Street Unit Trust (the "Unit Trust").

The Unit Trust was established by the Fund on 22 November 2012 under the provision of the Trust Instrument. SOFAZ RE Limited in its capacity as general partner of the SOFAZ RE UK L.P. has a 99% holding of the Unit Trust. SOFAZ RE Min Limited has a 1% holding of the Unit Trust. SOFAZ RE Limited, SOFAZ RE UK L.P. and SOFAZ RE Min Limited are ultimately owned by the State Oil Fund of Azerbaijan. The Unit Trust invests in real estate located in the United Kingdom and owns the office complex "78 St James's Street". The Unit Trust is established, resident and domiciled in Jersey, Channel Islands. During 2022, the Unit Trust contributed AZN 5,896 thousand of rental income (2021: nul) and contributed AZN 21,403 thousand profit (2021: AZN 37,088 thousand profit) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value increase of AZN 25,597 thousand (2021: AZN 42,381 thousand increase)).

Acquisition of JSC Tverskaya 16.

SOFAZ owns 100% of voting shares of JSC Tverskaya 16. Its main activity is management of business and retail centre called "Gallery Actor" located in the Central Administrative District of Moscow, Russia. During 2022, JSC Tverskaya 16 contributed AZN 10,192 thousand (2021: AZN 7,728 thousand) of rental income and AZN 9,918 thousand loss (2021: AZN 6,289 thousand profit) to the net profit/(loss) before tax of the Fund (Net loss figure includes fair value decrease of AZN 13,390 thousand (2021: increase AZN 3,225 thousand)).

Establishment of SCI 8 Place Vendome.

SCI 8 Place Vendome is an indirect subsidiary of the Fund incorporated in France as a civil partnership having its registered office in Paris, 6 place de Madeleine. SCI 8 Place Vendome is held by the Fund via two Luxembourg holding companies (the Luxcos): SOFAZ RE Fund S.a.r.l. - a private limited company with a

share capital of EUR 12,500 having its registered office in Luxembourg which is 100% held by SOFAZ RE Europe Holding S.a.r.l. and holds 0.1% of SCI 8 Place Vendome and SOFAZ RE Europe S.a.r.l. - a private limited company with a share capital of EUR 12,500 having its registered office in Luxembourg which is 100% held by SOFAZ RE Europe Holding S.a.r.l. and holding 99.9% of SCI 8 Place Vendome.

During 2022, SCI 8 Place Vendome has contributed AZN 10,044 thousand (2021: AZN 11,061 thousand) of rental income and AZN 9,861 thousand loss (2021: 55,463 thousand profit) to the net profit/(loss) before tax of the Fund (Net loss figure includes fair value decrease of AZN 15,595 thousand (2021: AZN 50,858 thousand increase)).

Establishment of Kirarito Ginza.

SOFAZ made an investment in the amount of 51,989 million JPY (AZN 455,736 thousand) to an operator entity ("OE") under a Tokumei Kumiai ("TK") agreement. This investment formed 98% of the capital of the OE. 2% is held by the Asset Managers ("AM"), PGIM Real Estate (Japan). SOFAZ is free to sell this investment (right to cashflows) in the OE at any time. The OE invested proceeds from investors in an investment property, a retail complex in Ginza, Tokyo, for 52,434 million JPY (AZN 459,633 thousand), including investment-related acquisition costs. For detailed information, refer to the Note 24.

During the year ended 2022, "Kirarito Ginza" has contributed AZN 15,000 thousand (2021: AZN 17,117 thousand) of rental income and AZN 3,960 thousand profit (2021: AZN 12,682 thousand loss) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value increase of AZN 258 thousand (2021: AZN 18,024 thousand decrease)).

12. INVESTMENTS IN JOINT VENTURES

Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Fund has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Fund's share of the post-acquisition profits or losses and movements in other comprehensive income.

When the Fund's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Fund's net investment in the joint ventures), the Fund does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Fund and its joint ventures are eliminated to the extent of the Fund's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Fund.

The table below summarises the movements in the carrying amount of the Fund's investments in joint ventures.

In thousands of Azerbaijani Manats	2022	2021
Carrying amount at 1 January	1,103,590	1,053,977
Share of after tax results of joint venture	(295,614)	66,780
Gain/(loss) from FX translation recognised in OCI	(16,488)	(17,167)
Carrying amount at 31 December	791,488	1,103,590

On 21 June 2013, Caspian Drilling Company (90% share) and SOCAR (10% share) jointly established "SOCAR Rig Assets" LLC with the share capital of AZN 1000 (100 shares, nominal value of AZN 10 for each share).

The main activity of the entity is financing the construction of a new sixth generation semi-submersible drilling rig for operations in the Caspian Sea through funding from the founders' proportion of their respective shares. On 5 July 2013, SOFAZ acquired all of the shares of "SOCAR Rig Assets" LLC from Caspian Drilling Company for their nominal value. "SOCAR Rig Assets" LLC did not have any operations prior to acquisition by the Fund. After acquisition "SOCAR Rig Assets" LLC was renamed "Azerbaijan Rigs" LLC. No additional paid-in capital was contributed during 2022 (2021: nil). All strategic financial and operating decisions relating to the activity of the acquiree require the unanimous consent by both founders. The results of this joint venture are incorporated in these consolidated financial statements using the equity method of accounting.

Capitals Property S.a.r.l was established by Capitals Holding S.a.r.l on 29 January 2018 as a private limited liability company governed by the laws of the Grand Duchy of Luxembourg. When it was established, SOFAZ R.E Fund S.a.r.l and Capitals Holding S.a.r.l each held 50% of the share capital of the Capitals Property S.a.r.l in the amount of EUR 12,000 (12,000 shares with the nominal value of EUR 1 for each). On 21 September 2018 Capitals Holding S.a.r.l transferred 2,400 shares and SOFAZ R.E Fund S.a.r.l transferred 1,200 shares to Mainz International Holdings S.a.r.l. As a result the shareholder holdings are as follows: SOFAZ RE Fund S.a.r.l 40% ownership (4,800 shares), Capitals Holding S.a.r.l 30% ownership (3,600 shares), Mainz International Holdings S.a.r.l 30% ownership (3,600 shares). The main activity of the entity is real estate business through funding from the shareholders' proportion of their respective shares and bank loan. No additional paid-in capital was contributed during 2022 (2021: nil).

All strategic financial and operating decisions relating to the activity of the acquiree require the unanimous consent of all shareholding parties. The results of this joint venture are incorporated in these consolidated financial statements using the equity method of accounting.

At 31 December 2022, the Fund's interests in its joint ventures and its summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

In thousands of Azerbaijani Manats										
Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Other income	Expenses	Profit / (Loss)	% interest held	Country of incorporation
"Azerbaijan Rigs" LLC	187,947	589,121	(72,620)	(22,673)	9,394	556	(337,121)	(327,171)	90%	Azerbaijan
"Capitals Property" S.a.r.l	20,423	1,027,607	(310)	(602,996)	37,490	4,476	(44,866)	(2,901)	40%	Luxembourg

At 31 December 2021, the Fund's interests in its joint venture and its summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

In thousands of Azerbaijani Manats										
Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Other income	Expenses	Profit/(Loss)	% interest held	Country of incorporation
"Azerbaijan Rigs" MMC	159,558	880,167	(10,201)	(20,578)	31,605	39,450	(51,955)	19,100	90%	Azerbaijan
"Capitals Property" S. à.r.l.	23,298	1,132,011	(29,365)	(649,837)	41,042	119,009	(36,077)	123,974	40%	Luxembourg

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint ventures is as follows:

In thousands of Azerbaijani Manats	"Azerbaijan Rigs" LLC		"Capitals Property" S.a.r.l.	
	2022	2021	2022	2021
Opening net assets	1,008,946	989,847	488,844	407,787
Profit/(loss) for the period	(327,171)	19,100	(2,901)	123,974
Dividends paid	-	-	-	-
Decrease in charter capital	-	-	-	-
Translation to presentation currency	-	-	(41,219)	(42,917)
Closing net assets	681,775	1,008,947	444,724	488,844
The Fund's share in %	90%	90%	40%	40%
The Fund's share in amount	613,598	908,052	177,890	195,538
Carrying amount of investment	613,598	908,052	177,890	195,538

13. CAPITAL CONTRIBUTIONS

The movements in capital contributions to the Fund were as follows:

In thousands of Azerbaijani Manats	2022	2021
Contributions received from sales of oil and gas	19,698,891	11,894,607
Bonuses	768,703	776,945
Pipeline transit tariffs	7,213	21,382
Acreage fees	5,578	5,284
Total capital contributions	20,480,385	12,698,218

14. NON-CURRENT LIABILITIES

Financial liabilities – measurement categories.

Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

In thousands of Azerbaijani Manats	2022	2021
Term loan Godo Kaisha (GK001 - Tokyo, Japan)	402,506	463,382
Tenancy deposits	15,661	17,342
Deferred tax liabilities	10,421	12,519
Lease liabilities	43,111	78,552
Total non-current liabilities	471,699	571,795

Tenancy deposits comprise of prepayments made by tenants for Kirarito Ginza, the investment property in Tokyo with the amount of AZN 12,922 thousand (2021: AZN 15,356 thousand) and SCI 8 Place Vendome, the investment property in Paris with the amount of AZN 2,739 thousand (2021: AZN 1,986 thousand).

The term loan comprises of borrowing by Godo Kaisha GK001 (Kirarito Ginza), denominated in Japanese Yen. Bank borrowing mature by 09 September 2024 and bear coupon of fixed rate of 0.81% annually (2021: 0.81%). An investment property is pledged as collateral for the borrowing (refer to Note 11).

The Fund does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

The fair value of current borrowing approximates their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the fixed borrowing rate of 0.81% (2021: 0.81%). The fair values are within level 2 of the fair value hierarchy.

Reconciliation of liabilities arising from financing activities.

The table below sets out an analysis of liabilities from financing activities and the movements in the Fund's liabilities from financing activities for each of the periods presented.

The items of these liabilities are those that are reported as financing in the statement of cash flows: qeydə alınır:

In thousands of Azerbaijani Manats	Borrowings
Liabilities from financing activities at 1 January 2021	515,327
Foreign exchange adjustments	(51,989)
Other non-cash movements	44
Liabilities from financing activities at 31 December 2021	463,382
Foreign exchange adjustments	(61,507)
Other non-cash movements	631
Liabilities from financing activities at 31 December 2022	402,506

15. SPECIFICATION OF INCOME/EXPENSE FROM BONDS AND EQUITY INVESTMENTS

Income/expense from bonds:

In thousands of Azerbaijani Manats	2022	2021
Interest	867,876	663,818
Net fair value gain/ (loss)	(2,796,495)	(586,630)
(Expense)/income from bonds before foreign exchange gain/loss	(1,928,619)	77,188

Income/expense from equity investments:

In thousands of Azerbaijani Manats	2022	2021
Dividends	396,029	513,091
Net fair value gain/ (loss)	(2,099,071)	2,823,038
(Expense)/income from equity investments before foreign exchange gain/ loss	(1,703,042)	3,336,129

Interest Income from bonds:

In thousands of Azerbaijani Manats	2022	2021
Government securities	385,978	342,847
Agency securities	164,491	93,321
Corporate securities	317,407	227,650
Total interest income	867,876	663,818

Net Fair Value Gain on Financial Assets at Fair Value Through Profit or Loss.

Net gain on financial assets at fair value through profit or loss comprises:

In thousands of Azerbaijani Manats	2022	2021
Unrealized gain on change in fair value adjustment	(4,877,163)	1,874,999
Realized gain on trading operations	(18,403)	361,409
Net gain on financial assets at fair value through profit or loss	(4,895,566)	2,236,408

16. FOREIGN CURRENCY TRANSLATION DIFFERENCES

The functional currency of each of the Fund's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of SOFAZ and the Fund's presentation currency, is the national currency of the Republic of Azerbaijan, Azerbaijani Manat ("AZN"). The consolidated financial statements are presented in Azerbaijani Manat ("AZN"), which is the Fund's presentation currency.

Transactions and balances. Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Republic of Azerbaijan ("CBAR") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBAR are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Group companies. Loans between group entities and related foreign exchange gains or losses are eliminated upon consolidation. However, where the loan is between group entities that have different functional currencies, the foreign exchange gain or loss cannot be eliminated in full and is recognized in the consolidated profit or loss, unless the loan is not expected to be settled in the foreseeable future and thus forms part of the net investment in foreign operation. In such a case, the foreign exchange gain or loss is recognized in other comprehensive income.

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

- I assets and liabilities for each statement of financial position are translated at the closing rate at the end of the respective reporting period;
- II income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- III components of equity are translated at the historic rate; and
- IV all resulting exchange differences are recognised in other comprehensive income. əks etdirilir.

When control over a foreign operation or a subsidiary with a functional currency other than the functional or presentation currency of the Fund is lost, the exchange differences recognised previously in other comprehensive income are reclassified to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

17. OPERATING EXPENSES

Operating expenses are comprised of:

In thousands of Azerbaijani Manats	2022	2021
Operating expenses of subsidiaries	45,604	48,849
Wages, salaries and employee benefits	9,040	7,235
Depreciation and amortization	3,207	3,040
Short-term license fee	4,865	4,188
Asset management fee	3,775	3,552
Bank services	2,290	2,387
SSPF contributions	1,939	1,543
Communication expenses	90	40
Other operating expenses	4,153	3,358
Total operating expenses	74,963	74,192

18. TRANSFERS BY THE FUND

During 2022 transfers to the State Budget, as well as to the state institutions, state-owned entities and companies were made in accordance with:

- The Decree #1527 of the President of the Republic of Azerbaijan dated 23 December 2021 on the Approval of the Budget of the State Oil Fund of the Republic of Azerbaijan for 2022.

During 2021 transfers to the State Budget, as well as to the state institutions, state-owned entities and companies were made in accordance with:

- The Decree #1237 of the President of the Republic of Azerbaijan dated 30 December 2020 on the Approval of the Budget of the State Oil Fund of the Republic of Azerbaijan for 2021.

19. INCOME TAXES

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

The Fund provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of Russian Federation, Luxembourg, Japan and France.

According to the Presidential decree №- 509-IVQD dated 21 December 2012, and law of State Parliament regarding changes to the Tax Code of Azerbaijan Republic dated 29 December 2012 starting from 1 January 2013 SOFAZ is exempted from corporate income tax. All the Jersey companies are zero corporate income tax rated by virtue of being International Service Entities. As a result there are no temporary differences in respect of SOFAZ's Azerbaijani and UK operations. According to double taxation treaty with Japan, gains from Tokumei Kumiai investments is exempt from taxation in this country. South Korea subsidiary is also exempt from

taxes for the income generated from operations of its assets. It is only obliged for tax withholding when distributing earnings to unitholders.

Standard corporate income tax rates for companies operating in the Russian Federation comprised 20% for 2022 and 2021. Whereas Luxembourg and French subsidiaries are subject to income tax at a rate of 17% (2021: 17%) and 30% (2021: 33.33%), respectively. Japan subsidiary is subject to income tax of 34.59% (2021: 34.59%).

Deferred 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 tax purposes. Temporary differences relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

20. FAIR VALUE DISCLOSURES

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2022			31 December 2021				
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
In thousands of Azerbaijani Manats								
Assets at fair value								
Financial Assets								
Financial assets at fair value through profit or loss	52,875,512	7,477,149	6,242,765	66,595,426	46,319,071	8,331,745	5,566,827	60,217,643
- Agency/Supranational bonds	13,346,964	-	-	13,346,964	13,318,364	-	-	13,318,364
- Corporate bonds	1,320,240	7,477,149	-	8,797,389	4,045,504	8,331,745	-	12,377,249
- Sovereign bonds	24,441,655	-	-	24,441,655	17,906,250	-	-	17,906,250
- Private Equity Funds	-	-	2,462,334	2,462,334	-	-	2,228,726	2,228,726
- Real Estate Funds	-	-	3,780,431	3,780,431	-	-	3,338,101	3,338,101
- Equity securities	13,352,362	-	-	13,352,362	10,964,117	-	-	10,964,117
- Money Market	414,291	-	-	414,291	84,836	-	-	84,836
Non-financial Assets	10,105,441	-	1,579,873	11,685,314	10,017,529	-	1,784,341	11,801,870
- Investment properties	-	-	1,579,873	1,579,873	-	-	1,784,341	1,784,341
- Gold bullions	10,105,441	-	-	10,105,441	10,017,529	-	-	10,017,529
Total assets recurring fair value measurements	62,980,953	7,477,149	7,822,638	78,280,740	56,336,600	8,331,745	7,351,168	72,019,513

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2022 and 31 December 2021:

	31 December 2022		31 December 2021	
	Fair value	Valuation technique	Inputs used	
In thousands of Azerbaijani Manats				
2022				
- Corporate bonds	7,447,149	DCF	Government bonds yield curve+spread	
2021				
- Corporate bonds	8,331,745	DCF	Government bonds yield curve+spread	

Yields used are yield of Azerbaijani government bond + spread (difference between active USD Azerbaijan energy sector corporate bonds and Azerbaijani government bond).

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2022:

In thousands of Azerbaijani Manats						
Assets at fair value Non-financial assets <i>Investment properties</i>	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change	Sensitivity of fair value measurement
"78 St James Street", London	425,174	Discounted cash flows	Net rental value	17,305 min AZN	+/- 5%	13,821/ (12,798)
"Gallery Actor", Moscow	61,663	Discounted cash flows	Target rate of return	14%	+/- 1%	(2,267)/ 2,413
"SCI 8 Place Vendome", Paris	358,247	Income capitalisation method	Market yield	3.5 - 4.5%	+/- 0.5%	(30,794)/ 38,039
"Kirarito Ginza", Tokyo	734,789	Income capitalisation method	Market yield	2.4%	+/- 0.1%	(26,907)/ 29,470
Total recurring fair value measurements at level 3	1,579,873					

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2021:

In thousands of Azerbaijani Manats						
Assets at fair value Non-financial assets <i>Investment properties</i>	Fair value	Valuation technique	Inputs used	Range of inputs (weighted average)	Reasonable change	Sensitivity of fair value measurement
"78 St James Street", London	469,785	Residual appraisal approach	Net rental value	26,576 min AZN	+/- 5%	27,854/ (25,218)
"Gallery Actor", Moscow	72,353	Discounted cash flows	Target rate of return	12%	+/- 1%	(2,668) / 2,796
"SCI 8 Place Vendome", Paris	396,802	Income capitalisation method, Discounted cash flows, Direct comparison method	Market yield	3.5 - 4.5%	+/- 0.5%	(78,870)/ 54,967
"Kirarito Ginza", Tokyo	845,401	Cost method, income capitalisation method	Market yield	2.4%	+/- 0.1%	(32,503)/ 33,980
Total recurring fair value measurements at level 3	1,784,341					

For investments in private equity and real estate funds, increases in the EBITDA multiple would each lead to an increase in estimated value. However, an increase in the discount for lack of marketability would lead to a decrease in value. No interrelationships between unobservable inputs used in the Fund's valuation of its Level 3 fund investments have been identified.

A reconciliation of movements in Level 3 of the fair value hierarchy for the year ended 31 December 2022 is as follows:

In thousands of Azerbaijani Manats	Investments in private equity and real estate funds
Fair value at 1 January 2022	5,566,827
Capital call	1,393,107
Capital returns	(839,102)
Gain recognised in profit or loss for the year	327,599
Loss recognised in other comprehensive income	(205,666)
Fair value at 31 December 2022	6,242,765

A reconciliation of movements in Level 3 of the fair value hierarchy for the year ended 31 December 2021 is as follows:

In thousands of Azerbaijani Manats	Investments in private equity and real estate funds
Fair value at 1 January 2021	4,587,616
Capital call	1,023,696
Capital returns	(824,614)
Gain recognised in profit or loss for the year	1,045,056
Loss recognised in other comprehensive income	(264,927)
Fair value at 31 December 2021	5,566,827

b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

In thousands of Azerbaijani Manats	31 December 2022				31 December 2021			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
Assets								
<i>Other financial assets</i>								
- Other receivables	-	16,491	-	16,491	-	7,187	-	7,187
- Term deposits	-	1,820,089	-	1,820,089	-	11,660	-	11,660
Total Assets	-	1,836,580	-	1,836,580	-	18,847	-	18,847
Liabilities								
<i>Other borrowed funds</i>								
- Term loan	-	402,506	-	402,506	-	463,382	-	463,382
<i>Other financial liabilities</i>								
- Other liabilities	-	152,170	-	152,170	-	9,633	-	9,633
Total Liabilities	-	554,676	-	554,676	-	473,015	-	473,015

The fair values in level 2 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The

fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

21. FINANCIAL RISK MANAGEMENT

The SOFAZ's investment guidelines and Investment policy constitute the framework for risk management. SOFAZ's risk management and monitoring procedures involve examining various types of risks. These include market risk, credit risk, liquidity risk, and other relevant indicators, which are reported to both internal and external audiences.

Effectively managing risk is a crucial component of the Fund's activities. The following is a brief overview of the Fund's risk management strategies pertaining to these risks.

Credit risk. The Fund is exposed to credit risk which is the risk of loss that may occur from a borrower's failure to repay a loan or meet contractual obligations. The Fund is subject to credit risk from its portfolio of cash and cash equivalents, term deposits and its investments. The Fund manages its credit risk in accordance with the "Rules on Holding, Placement and Management of Foreign Currency Assets of The State Oil Fund of the Republic of

Azerbaijan" approved by Decree #511 of the President of the Republic of Azerbaijan dated 19 June 2001 as amended by Decree #607 dated 21 December 2001, Decree #202 dated 1 March 2005, Decree #216 dated 10 February 2010, Decree #519 dated 27 October 2011 (hereinafter collectively referred to as the "Rules").

Credit risk is managed and controlled through proper selection of investment assets, credit quality of investment assets and setting limits on the amount invested in each asset.

The Fund's financial instruments are rated by globally recognized agencies such as Standard & Poor's, Fitch, and Moody's to determine their creditworthiness. If these agencies have assigned different ratings to an asset, the lowest rating is used. The table below provides details of the credit ratings for the Fund's financial instruments.

2022	AAA	AA	A	BBB	BB	B	WD	Total
In thousands of Azerbaijani Manats								
Cash and cash equivalents*	1,195,381	10,641	1,125,933	218,079	892	22	9,434	2,560,382
Financial assets at fair value through profit or loss**	25,624,929	8,441,393	2,541,883	2,290,495	7,878,994	222,605	-	47,000,299

*AZN 511,368 thousand (2021: AZN 1,530,759 thousand) cash balance held by the Fund in the Central Bank of the Republic of Azerbaijan is excluded from the table as central banks do not have credit ratings.

**Equity securities in the amount of AZN 13,352,362 thousand (2021: AZN 10,964,117 thousand) and investments in Real Estate and Private Equity Funds in the amount of AZN 6,242,765 thousand (2021: AZN 5,566,827 thousand) are excluded from this table. The Fund has developed investment strategies that focus on Real Estate and Private Equity funds. The Fund performs comprehensive review process where assesses the investment experience of the funds, opinions of shareholders in the previous investments of General Partner, knowledge and experience of staff, financial facilities used in fund's organization and cash flow management and evaluates them by 10 points scale. As of 31 December 2022, the scores awarded for

Real Estate and Private Equity funds are in the range of 6-10. According to the risk management manual for alternative investments, the risk management process includes complex due diligence of proposed investments in terms of market, financial, operational and fund-specific risks. Moreover, SOFAZ conducts quarterly monitoring of the risk limits outlined in the strategy, which is updated annually. Those limits have been set to maintain the diversification of alternative investments portfolios (both Real Estate and Private Equity) in terms of regions, sectors, strategies, investment types, vintage year as well as single fund and general partner exposures.

Considering the illiquid nature of alternative investments, SOFAZ forecasts the possible portfolio allocations based on the estimated cash flows to ensure that there is no breach of any risk limit in the future.

2021	AAA	AA	A	BBB	BB	B	WD	Cami
In thousands of Azerbaijani Manats								
Cash and cash equivalents*	837,574	8,113	866,314	396,925	-	7,330	-	2,116,256
Financial assets at fair value through profit or loss**	20,202,877	5,365,786	4,636,138	4,406,935	8,385,055	689,594	314	43,686,699

Market risk is the risk that the value of an investment will decline due to changes in market factors such as interest rates, currency exchange rates, stock market prices, private market prices.

The Fund's market risk is influenced by factors such as changes in interest rates, credit risk premiums, share prices, exchange rates, gold prices and private assets' values. A range of measures and analyses, including but not limited to duration, Value at Risk, concentration analysis, scenario analysis and stress testing, are employed to gain a comprehensive understanding of the market risk associated with the Fund. To monitor the risk of divergence of SOFAZ's sub-portfolio returns from their passively tracked benchmarks, tracking errors are continually observed.

Interest Rate Risk. As the majority of the investment portfolio of the Fund consists of fixed income securities, it is exposed to fluctuations in the prevailing levels of market interest rates, which can impact its financial position and cash flows. While such changes may lead to an increase in interest margins, they could also result in losses due to unexpected movements. SOFAZ determines the duration of the debt obligations and money market instruments sub-portfolio based on the current state

of the global financial markets, ensuring that it does not exceed the weighted average duration of the corresponding benchmark.

Interest rate sensitivity. At 31 December 2022 and 2021 the Fund held interest-bearing deposits and debt securities that were susceptible to interest rate risk. To manage this risk, the Fund adjusts the duration of assets in its investment portfolio in accordance with market conditions. The Risk Management Department monitors and manages this risk on a daily basis within predetermined limits.

The table below illustrates the net impact of changes in fair value of securities when the market interest rate fluctuates by 1%. The Fund conducted a sensitivity analysis of the interest rate risk based on "reasonably possible changes in the risk variable," with the degree of change being determined by management and included in risk reports for key personnel.

Impact on profit/(loss) before tax:

Assets:	31 December 2022		31 December 2021	
	Interest rate 1%	Interest rate -1%	Interest rate 1%	Interest rate -1%
In thousands of Azerbaijani Manats				
Cash and cash equivalents	33	(33)	23	(23)
Term deposits	50	(50)	-	-
Financial assets at fair value through profit or loss	(1,407,969)	1,407,969	(933,137)	933,137
Net impact on profit/(loss) before tax	(1,407,886)	1,407,886	(933,114)	933,114
Impact on equity	(1,407,886)	1,407,886	(933,114)	933,114

Currency risk. Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

To manage currency risk, the Fund adheres to the currency allocation specified in its Investment Policy, which sets specific weights for various currencies. Additionally, the Fund is authorized to use currency derivatives for hedging purposes, as per its investment guidelines. Currency rebalancing is performed quarterly in accordance with internal procedures, and currency allocation

The table below summarizes the Fund's exposure to foreign currency exchange rate risk for the year ended 31 December 2022:

2022	AZN	USD	EUR	GBP	TRY	AUD	RUB	JPY	Other	Total
In thousands of Azerbaijani Manats										
Financial assets										
Cash and cash equivalents	1,443	2,078,439	651,939	300,933	22	1,358	11	28,885	8,723	3,071,753
Term Deposits	-	-	1,813,719	-	-	-	6,370	-	-	1,820,089
Financial Assets at Fair Value Through Profit or Loss	-	44,576,369	13,946,393	3,630,035	293,121	536,644	143,926	747,602	2,721,336	66,595,426
Other financial assets	-	-	5,153	10,490	-	-	468	380	-	16,491
Total financial assets	1,443	46,654,808	16,417,204	3,941,458	293,143	538,002	150,775	776,867	2,730,05	71,503,759
Financial liabilities										
Borrowings	-	-	-	-	-	-	-	(402,506)	-	(402,506)
Other financial liabilities	(140,755)	-	(3,490)	(4,012)	-	-	(914)	(2,999)	-	(152,170)
Lease liabilities	-	-	-	(37,380)	-	-	-	(5,731)	-	(43,111)
Total financial liabilities	(140,755)	-	(3,490)	(41,392)	-	-	(914)	(411,236)	-	(597,787)
Open position	(139,312)	46,654,808	16,413,714	3,900,066	293,143	538,002	149,861	365,631	2,730,059	70,905,972

The table below summarizes the Fund's exposure to foreign currency exchange rate risk for the year ended 31 December 2021:

2021	AZN	USD	EUR	GBP	TRY	AUD	RUB	JPY	Other	Total
In thousands of Azerbaijani Manats										
Financial assets										
Cash and cash equivalents	867	3,126,633	352,256	63,636	64	29,093	118	63,764	10,584	3,647,015
Financial Assets at Fair Value Through Profit or Loss	-	38,353,245	14,065,673	3,408,965	320,051	428,762	421,548	628,954	2,590,445	60,217,643
Other financial assets	-	-	6,054	407	-	-	412	314	-	7,187
Cemi maliyyə aktivləri	867	41,479,878	14,423,983	3,473,008	320,115	457,855	422,078	693,032	2,601,029	63,871,845
Financial liabilities										
Borrowings	-	-	-	-	-	-	-	(463,382)	-	(463,382)
Other financial liabilities	(1,132)	-	(3,270)	(671)	-	-	(499)	(4,061)	-	(9,633)
Lease liabilities	-	-	-	(72,313)	-	-	-	(6,239)	-	(78,552)
Total financial liabilities	(1,132)	-	(3,270)	(72,984)	-	-	(499)	(473,682)	-	(551,567)
Open position	(265)	41,479,878	14,420,713	3,400,024	320,115	457,855	421,579	219,350	2,601,029	63,320,278

Currency risk sensitivity. The following tables display the currencies to which the Fund held significant exposure on its monetary assets and forecasted cash flows as of 31 December 2022 and 2021. The analysis in the tables measures the

potential impact on the statement of profit or loss and other comprehensive income resulting from a reasonably possible fluctuation of the currency rate against the AZN, assuming that all other variables remain constant.

	Impact on profit/(loss) for the year		Impact on equity		Impact on profit/(loss) for the year		Impact on equity	
In thousands of Azerbaijani Manats								
	31 December 2022				31 December 2021			
AZN/USD	+ 10%	4,665,481	4,665,481	4,665,481	+ 10%	4,147,988	4,147,988	4,147,988
	- 10%	(4,665,481)	(4,665,481)	(4,665,481)	- 10%	(4,147,988)	(4,147,988)	(4,147,988)
AZN/EUR	+ 10%	1,641,371	1,644,977	1,644,977	+ 10%	1,442,071	1,815,307	1,815,307
	- 10%	(1,641,371)	(1,644,977)	(1,644,977)	- 10%	(1,442,071)	(1,815,307)	(1,815,307)
AZN/GBP	+ 10%	390,007	394,467	394,467	+ 10%	340,002	371,671	371,671
	- 10%	(390,007)	(394,467)	(394,467)	- 10%	(340,002)	(371,671)	(371,671)
AZN/TRY	+ 10%	29,314	29,314	29,314	+ 10%	32,012	32,012	32,012
	- 10%	(29,314)	(29,314)	(29,314)	- 10%	(32,012)	(32,012)	(32,012)
AZN/AUD	+ 10%	53,800	53,800	53,800	+ 10%	45,786	45,786	45,786
	- 10%	(53,800)	(53,800)	(53,800)	- 10%	(45,786)	(45,786)	(45,786)
AZN/RUB	+ 10%	14,986	15,093	15,093	+ 10%	42,158	48,871	48,871
	- 10%	(14,986)	15,093	15,093	- 10%	(42,158)	48,871	48,871

Commodity price risk. The Fund is affected by the volatility of gold prices. The following table shows the effect of price changes in gold:

	31 December 2022		31 December 2021	
AZN/XAU	10%	10%	10%	10%
In thousands of Azerbaijani Manats				
Impact on profit/(loss) for the year	1,001,753	(1,001,753)	1,001,753	(1,001,753)
Impact on equity	1,001,753	(1,001,753)	1,001,753	(1,001,753)

Price risk. Price risk refers to the potential for the value of a financial instrument to fluctuate due to changes in market prices, whether caused by factors unique to the security or its issuer, or

factors impacting all securities in the market. The Fund is susceptible to price risk with respect to its products, which are subject to both general market fluctuations and specific variations.

	31 December 2022		31 December 2021	
	1% increase in securities price	1% decrease in securities price	1% increase in securities price	1% decrease in securities price
In thousands of Azerbaijani Manats				
Impact on profit/(loss) before tax	665,954	(665,954)	602,176	(602,176)
Impact on net assets/equity	665,954	(665,954)	602,176	(602,176)

Concentration analysis is used to provide additional insight into risk assessment by examining the concentration of either a single exposure or a group of exposures.

Concentration risk is the risk associated with having a high proportion of investment or assets concentrated in a single entity, sector, or geographical area.

It can arise from various factors such as overreliance on a single investment, a narrow investment strategy, or regional economic conditions. To manage concentration risk, SOFAZ diversify its investment portfolio across a range of assets, sectors and regions to reduce the impact of a potential downturn in any area. SOFAZ implements a diversification approach in managing its assets by setting limits per manager as well.

Geographical concentration. The geographical concentration of the Fund's financial assets and liabilities at 31 December 2022 is set out below:

2022	Azerbaijan	Europe	America	Asia	Australia and Oceania	International organizations	Total
In thousands of Azerbaijani Manats							
Financial assets							
Cash and cash equivalents	512,261	2,069,101	464,864	25,527	-	-	3,071,753
Term deposits	-	1,820,089	-	-	-	-	1,820,089
Financial Assets at Fair Value Through Profit or Loss	7,878,994	21,026,492	26,022,422	3,841,740	624,091	7,201,687	66,595,426
Other financial assets	-	16,111	-	380	-	-	16,491
Total financial assets	8,391,255	24,931,793	26,487,286	3,867,647	624,091	7,201,687	71,503,759
Financial liabilities							
Borrowings	-	-	-	(402,506)	-	-	(402,506)
Other financial liabilities	(140,755)	(8,416)	-	(2,999)	-	-	(152,170)
Lease liabilities	-	(37,380)	-	(5,731)	-	-	(43,111)
Total financial liabilities	(140,755)	(45,796)	-	(411,236)	-	-	(597,787)
Net position	8,250,500	24,885,997	26,487,286	3,456,411	624,091	7,201,687	70,905,972

The geographical concentration of the Fund's financial assets and liabilities at 31 December 2021 is set out below:

2021	Azerbaijan	Europe	America	Asia	Australia and Oceania	International organizations	Total
In thousands of Azerbaijani Manats							
Financial assets							
Cash and cash equivalents	1,537,973	1,315,727	757,160	33,435	2,720	-	3,647,015
Financial Assets at Fair Value Through Profit or Loss	8,754,598	20,313,212	20,543,197	4,504,208	717,406	5,385,022	60,217,643
Other financial assets	-	6,873	-	314	-	-	7,187
Total financial assets	10,292,571	21,635,812	21,300,357	4,537,957	720,126	5,385,022	63,871,845
Financial liabilities							
Borrowings	-	-	-	(463,382)	-	-	(463,382)
Other financial liabilities	(1,132)	(4,440)	-	(4,061)	-	-	(9,633)
Lease liabilities	-	(72,313)	-	(6,239)	-	-	(78,552)
Total financial liabilities	(1,132)	(76,753)	-	(473,682)	-	-	(551,567)
Net position	10,291,439	21,559,059	21,300,357	4,064,275	720,126	5,385,022	63,320,278

Other risk concentrations. Management monitors and discloses concentrations of credit risk by comparing reports from portfolios with investment policy of the Fund approved by the President of the Azerbaijan Republic. The Fund did not have any such significant risk concentrations at 31 December 2022 and 2021.

Liquidity risk. The goal of liquidity risk management for SOFAZ is to ensure that the Fund has sufficient liquid assets to meet its financial obligations and operational needs, even during times of market stress or economic downturns. To achieve this, the Fund has established internal cash management frameworks that maintain sufficient liquidity levels and comply with the constraints outlined in the Investment policy.

The Fund aims to maintain conservative levels of liquidity to ensure that the Fund is capable of meeting its obligations under all circumstances. Liquidity risk is mitigated by holding at least 100 million USD in cash and cash equivalents, which is monitored on a daily basis. In addition, the Fund's asset class allocation addresses liquidity concerns by investing at least 50% of its portfolio in highly liquid Debt obligations and money market sub-portfolio. Continuous cash flow forecasting is conducted to accurately predict upcoming inflows and outflows. This proactive approach enables effective planning and ensures the availability of adequate liquidity when required.

SOFAZ also focuses on managing the timing of various cash flows, including coupon payments, debt obligations, and money market instrument maturities, among others. Effective communication channels are established among relevant departments to promote coordination and timely decision-making.

The table below shows liabilities at 31 December 2022 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

An analysis of the liquidity risk of financial position items is presented in the following tables:

2022	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	over 5 years	Maturity undefined	Total
In thousands of Azerbaijani Manats							
Financial assets							
Cash and cash equivalents	3,071,753	-	-	-	-	-	3,071,753
Financial assets at fair value through profit or loss	232,881	1,227,040	5,139,443	25,571,678	14,829,256	19,595,128	66,595,426
Other financial assets	16,491	-	-	-	-	-	16,491
Total financial assets	3,321,125	1,227,040	5,139,443	25,571,678	14,829,256	19,595,128	69,683,670
Financial liabilities							
Borrowings	(274)	(548)	(2,465)	(405,852)	-	-	(409,139)
Lease liabilities	(256)	(512)	(2,304)	(11,581)	(266,287)	-	(280,940)
Other financial liabilities	(152,170)	-	-	-	-	-	(152,170)
Total financial liabilities	(152,700)	(1,060)	(4,769)	(417,433)	(266,287)	-	(842,249)
Liquidity gap	3,168,425	1,225,980	5,134,674	25,154,245	14,562,969	19,595,128	68,841,421

2021	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	over 5 years	Maturity undefined	Total
In thousands of Azerbaijani Manats							
Financial assets							
Cash and cash equivalents	3,647,015	-	-	-	-	-	3,647,015
Financial assets at fair value through profit or loss	543,260	2,317,132	6,622,181	22,547,858	11,656,268	16,530,944	60,217,643
Other financial assets	7,187	-	-	-	-	-	7,187
Total financial assets	4,197,462	2,317,132	6,622,181	22,547,858	11,656,268	16,530,944	63,871,845
Financial liabilities							
Borrowings	(314)	(628)	(2,827)	(471,664)	-	-	(475,433)
Lease liabilities	(251)	(502)	(2,263)	(12,066)	(287,652)	-	(302,734)
Other financial liabilities	(9,633)	-	-	-	-	-	(9,633)
Total financial liabilities	(10,198)	(1,130)	(5,090)	(483,730)	(287,652)	-	(787,800)
Liquidity gap	4,187,264	2,316,002	6,617,091	22,064,128	11,368,616	16,530,944	63,084,045

The investment period for fund investments is mostly defined as 4 years and the commitment amount is invested during this period. Amid market conditions, this period may be shorter or longer, whenever there are not enough investment opportunities, some portion of the commitment amount may be left undeployed. The investment period for co-investments is mostly 1 year.

The Fund also reports on such market risk metrics as Standard deviation, Value at Risk (VaR), tracking error, Beta in its internal reports.

Operational risk. Operational risk encompasses the possibility of experiencing losses due to a variety of factors, including system failures, human error, fraud, or external incidents. Inadequate controls can result in negative consequences, such as reputational damage, legal or regulatory penalties, or financial losses. Although it may not be possible to eliminate operational risks completely, implementing a control framework and continuously monitoring and addressing potential risks can help manage them. Effective control measures may include segregating duties, establishing access and authorization procedures, performing reconciliations, providing staff training, and evaluating processes, which may involve utilizing internal audit.

External managers. In accordance with the "Rules", if an external manager is engaged in management of the Fund's currency assets, they or their primary founder must possess investment credit ratings of no less than Baa3 (Moody's) or BBB- (Standard & Poor's, Fitch), or have a minimum of five years of successful asset management experience, or have a track record of managing assets worth at least one billion USD.

The allocation to a single external manager should not exceed 5% of the investment portfolio's total value.

22. COMMITMENTS AND CONTINGENCIES

Off-balance sheet transactions. On 11 August 2006 the Fund signed an Asset Management Agreement on "Granting free budget (balance) Funds to trust management" with the Ministry of Finance of the Republic of Azerbaijan. According to this agreement free

budget Funds of the Ministry of Finance of the Republic of Azerbaijan are to be transferred to and managed by the Fund within the asset management rules set in the agreement with the Ministry of Finance of the Republic of Azerbaijan. The Fund manages these assets free of charge, on behalf of the Ministry of Finance and in favor, at the expense and at the risks of the Ministry of Finance of the Republic of Azerbaijan. At 31 December 2022 the total value of the assets were AZN 711 million (31 December 2021: AZN 1,884 million) including accrued interest.

23. TRANSACTIONS WITH RELATED PARTIES

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions between the Fund and its subsidiaries, which are related parties of the Fund, have been eliminated on consolidation and are not disclosed in this note. All government entities and their subsidiaries are considered to be entities under common control with the Fund. Transactions with such entities are disclosed below as related party transactions:

All the below listed entities are government organizations with whom the Fund have transactions except "Azerbaijan Rigs" LLC and "Capitals Property" S.a.r.l that are Joint Ventures.

	Year	Contributions received from related parties	Carrying value of investment in joint venture	Transfers to related parties	Carrying value of bonds acquired from related parties	Interest income on bonds acquired from related parties	Bank accounts with related parties	Off-balance sheet transactions
In thousands of Azerbaijani Manats								
SOCAR	2022	16,810,971						
	2021	10,381,677						
Azerbaijan Gas Supply Company	2022	2,453,000						
	2021	1,407,025						
Operating and Contractor Companies	2022	1,216,414						
	2021	909,515						
The State Budget	2022			7,923,000				
	2021			11,350,000				
Ministry of Finance of the Republic of Azerbaijan	2022							1,275,593
	2021							1,884,274
Central Bank of the Republic of Azerbaijan	2022						511,368	
	2021						1,530,759	
Ministry of Education of the Republic of Azerbaijan	2022			37,440				
	2021			10,209				
International Bank of Azerbaijan	2022				401,845	14,346	892	
	2021				422,852	27,212	7,215	
Southern Gas Corridor CJSC	2022				115,043	4,656		
	2021				174,357	2,905		
Mercury Investments and Holdings Ltd.	2022				1,952,991	82,674		
	2021				2,510,763	58,198		
Azerbaijan (ACG) Ltd	2022				4,235,915	118,152		
	2021				4,252,529	57,087		
SOCAR (Absheron)	2022				784,786	49,429		
	2021				923,807	35,777		
SOCAR (Karabakh)	2022				388,415	20,871		
	2021				470,290	20,274		
"Azerbaijan Rigs" LLC	2022		613,598					
	2021		908,052					
"Capitals Property" S.a.r.l	2022		177,890					
	2021		195,538					

The Fund receives cash inflows from interest income on bonds from the following related parties: SOCAR Absheron, SOCAR Karabakh, International Bank of Azerbaijan, JSC Cenub Qaz Dehlizi (Southern Gas Corridor), Mercury Investments and Holdings Ltd., Azerbaijan (ACG) Ltd (AzACG Ltd).

Interest rates on bonds are calculated based on fixed and floater rates. Range for fixed interest rates are from 3.2% to 4.6%, for floater rates are 6 month US Libor plus interest rates from 1% to 4%.

Key management personnel. The senior management group consists of the Fund's Executive Director, Deputy Executive Director and Director of Finance and

Operations. The aggregate remuneration of members of the senior management group and the number of managers determined on a full-time equivalent basis receiving remuneration within this category are:

In thousands of Azerbaijani Manats	2022	2021
<i>Short-term benefits:</i>		
-Salary expense	409	314
-State Social Protection Fund expense	77	76
Number of persons	2	3

24. INTERESTS IN STRUCTURED ENTITIES

Consolidated structured entities. A Tokumei Kumiai (“TK”) agreement is a contractual arrangement under which one or more silent investors (the “TK investor”) makes a contribution to a Japanese operating company (the “TK operator”) in return for a share in the profit/loss of a specified business conducted by the TK operator (the “TK business”). To support the tax status of the TK, a Japanese resident company should have independent stake in the TK business. To comply with TK-GK rules, SOFAZ and Mitsubishi UFJ Trust and Banking (“MUTB”) entered into TK arrangement to acquire Kirarito Ginza where MUTB is a Japanese resident and contributed 2% of the investment amount JPY 1,100 million (AZN 9,643 thousand) required for TK Business, i.e. for TK Operator to acquire the property. TK-GK tax structure was chosen to obtain 0% withholding tax on distribution of TK profits to SOFAZ under Japan-former Soviet Union tax treaty. According to the agreement the total amount of SOFAZ’s investment constituted JPY 51,989 million (AZN 455,736 thousand). In return both SOFAZ and MUTB were entitled to a proportional share of profit or loss of TK Business. In 2016 MUTB was replaced by PGIM Foreign Investment Inc, who acquired MUTB’s interests in the structure and took over the asset management role. The Asset Managers of PGIM Foreign Investment Inc is PGIM Real Estate (Japan).

The TK operator invested proceeds from investors in a retail complex in Ginza, Tokyo, for JPY 52,300 million (AZN 458,462 thousand). The building met the definition of an investment property under IAS 40. SOFAZ signed an Agreement with the TK operator that contains the Strategic Plan on the development and management of the investment property. The TK operator operates the business of the company according to the Agreement and the Strategic Plan.

TK agreement provides SOFAZ with limited rights with respect to the management and development of the investment property. This makes the TK operator similar to unconsolidated structured entities under IFRS 12, where a structured entity is an entity that has been designed so that voting or similar rights are

not dominant factors in its management and control. Under this arrangement, voting rights relate to the administrative tasks only and relevant activities of the company are directed by means of contractual arrangements.

Based on the specific characteristics of the TK Agreement, the management concluded that a principal/agent relationship exists between SOFAZ and the TK operator. According to IFRS 10, the investor should treat decision making powers delegated to the agent as held by the investor/principal himself. The management performed analysis based on paragraph B60 of IFRS 10 and given the limited 2% investment by the Asset Managers, concluded that the TK operator is an agent of SOFAZ and hence, SOFAZ should consolidate the investee.

25. EVENTS AFTER THE REPORTING PERIOD

The Fund prolonged a term deposit with a total value of EUR 1,000,000 thousand (AZN 1,811,400 thousand) with the Central Bank of the Republic of Turkey for six months. The transaction, which acts as a line of support for the country’s financial stability, is in line with the Fund’s investment strategy and Rules on management of foreign currency assets.

SOURCES

WWW.AZERTAG.AZ

WWW.NK.GOV.AZ

WWW.AZERBAIJAN.AZ

WWW.MINENERGY.GOV.AZ

WWW.OILFUND.AZ

WWW.SOCAR.AZ

WWW.STAT.GOV.AZ



STATE OIL FUND OF THE
REPUBLIC OF AZERBAIJAN