



# SUSTAINABILITY REPORT 2022 - 2023





**SUSTAINABILITY  
REPORT  
2022 - 2023**



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“The Fleet of Caspian Shipping is a large wealth of Azerbaijan. It is doing important works and will continue to do so. It is gratifying that the activities in this sphere are progressing in a positive direction.”

**Heydar Aliyev**

**National Leader of the Azerbaijani People**



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“Today, Azerbaijan Caspian Shipping Company makes valuable contribution to the development of our economy by providing maritime transportation services that meet international requirements.”

**Ilham Aliyev**

**President of the Republic of Azerbaijan**

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# INTRODUCTION





## FOREWORD BY THE CHAIRMAN OF THE SUPERVISORY BOARD

### Dear Reader!

Despite the risks posed by recent years complex global geopolitical processes, the Republic of Azerbaijan, under the leadership of President Ilham Aliyev has taken decisive steps to achieve its strategic national objectives. Historic mission has been accomplished in 2020 by liberating its territories from 3 decade long occupation with the glorious victory in the Patriotic War, and in 2023, restored its sovereignty over all its territories.

In the context of the new realities that have emerged in the region, and particularly based on initiatives to diversify transportation hubs, the Azerbaijani state is further expanding the country's transit and transportation capabilities for large-scale freight movements in the region. This is exemplified by its resolute determination towards the creation of the Zangezur Corridor, a new transportation route passing through the liberated territories.



With a rich history and longstanding maritime traditions, the Azerbaijan Caspian Shipping Company (ASCO) stands as the leading shipping company in the Caspian region. Serving as a crucial link in the chain of international transit-transport corridors passing through Azerbaijan, ASCO connects the Eastern and Western parts of the Caspian Sea. It actively contributes to the expansion of the country's transit potential, including the creation and diversification of new transport corridors, thereby making valuable contributions to the development of our economy.

The dynamic development of the Company is reflected in its latest commercial and financial indicators. Since its establishment in 2014, the capitalization of ASCO has increased by 160%, reaching 1.4 billion manats by the end of 2023. During the reporting period of 2022-2023, ASCO successfully concluded each year with a profit, earning 65 million manats in 2022 and 44 million manats in 2023 from its operations. In terms of cargo transportation, ASCO's vessels carried 7.5 million tons in 2022 and 9 million tons in 2023. Overall, there was a 65% increase in cargo volume in 2023 compared to the previous reporting period in 2021.

As a result of measures taken to ensure environmental protection, ASCO has achieved a 12% reduction in electricity consumption and a 7% reduction in natural gas consumption.

In 2023, several significant and crucial decisions were made regarding ASCO's strategic development. In close collaboration with the Azerbaijan Investment Holding, ASCO's Supervisory Board approved several key documents, including the updated Strategy up to 2030, the Fleet Renewal and Expansion Plan, the Investment and Financing plan.

In line with the strategy, for the purpose of the renewal of the fleet, ASCO has mobilized internal financial resources and credit facilities to purchase new vessels and place orders for construction at the Baku Shipyard (BSY). For the first time in the history of Azerbaijani shipping, the national shipping company, ASCO, has entered to large deadweight “Aframax” type tankers segment with a capacity of 115,000 tons, outside of the Caspian Sea. Additionally, to ensure the Company’s participation in large deadweight dry cargo vessel segment outside of the Caspian Sea, ASCO has targeted the acquisition of Handysize type vessels with a carrying capacity of up to 40,000 tons. To support this initiative, a loan from the European Bank for Reconstruction and Development (EBRD) was allocated.

In order to support the development of the local shipbuilding industry in Azerbaijan, ASCO prefers to place orders for the construction of new vessels required for its fleet at Baku Shipyard. During the period from 2014 to 2023, based on ASCO’s orders, 10 vessels were built at BSY and delivered to the Company, while an additional 11 vessels are currently under construction. At the same time, ASCO is engaged in negotiations to place further vessel construction orders at the BSY.

The year 2023 was also significant for ASCO due to the issuance of its first bonds in the local securities market. Additionally, in August 2023, by the decree of the President of the Republic of Azerbaijan, ASCO was included in the list of state-owned companies considered ready to attract private investments.

The achievements obtained during the 2022-2023 reporting period may be considered as the beginning of a new phase in the development of ASCO. This strategic phase involves ensuring ASCO’s robust financial position, establishing corporate governance and accountability systems in line with international standards, expanding operational geography, increasing cargo transportation volumes, as well as addressing other significant challenges.

Alongside the listed achievements, ASCO fully comprehends the strategic challenges it faces. The sharp decline in water levels in the Caspian Sea in recent years has led to decreased water depths at ports and channels, hindering the full utilization of vessels’ cargo transportation potential. Additionally, the global shift towards alternative fuels, an expected decrease in crude oil production in the Azerbaijani sector of the Caspian Sea, and the consequent contraction of the market for specialized vessels serving oil and gas exploration, drilling, and operations pose further challenges. The aging of ASCO’s vessels that necessitates fleet renewal, “Green energy” transition, as well as all other aforementioned factors, require more optimal mobilization of all the Company’s resources and undoubtedly, these elements must be integrated into ASCO’s long-term strategic plans to ensure sustainable growth and operational efficiency.

In the coming years, in line with its strategic development direction, ASCO is determined to strengthen and enhance its position as a competitive and agile shipping company. Building on renewed fleet, increasing efficiency of its traditional operations in the Caspian basin and expanding its activities beyond the Caspian Sea, ASCO seeks to further solidify its position and competitiveness in the global maritime transportation services industry.

**Samir Sharifov**  
**Chairman of the Supervisory Board of**  
**Azerbaijan Caspian Shipping CJSC**

## FOREWORD BY THE CHAIRMAN OF THE MANAGEMENT BOARD

**Dear ASCO partners and stakeholders! Dear Reader!**

In recent years, under the leadership of President Ilham Aliyev, significant reforms were implemented in Azerbaijan's transport sector, including in the field of shipping. These reforms have strengthened Azerbaijan's strategic position on international transport routes, transforming the country into a key transport and logistics hub in the region. In addition to economic and social accomplishments, there have been historically significant achievements in the political arena. Following the conclusion of the Second Karabakh War in 2020, during which Azerbaijan successfully ended the occupation of its historical territories, our territorial integrity was fully reinstated in April 2023 with the establishment of a border crossing point at Lachin. Furthermore, in September 2023, under the decisive leadership of the Commander-in-Chief Ilham Aliyev, Azerbaijan within 24 hours enforced the surrender of terrorist groups illegally settled in its territory, thereby securing comprehensive state sovereignty.



During this reporting period, the Azerbaijan Caspian Shipping Company achieved several corporate successes. In 2022, ASCO's long-term Strategy was updated and was approved by the Company's Supervisory Board. During the reporting period, several new vessels were successfully constructed or acquired, and today the work continues in this direction in accordance with the approved strategy. In 2023, for the first time in its history, ASCO issued bonds, making them available to investors and the public in open market. We consider this historic milestone as an important step towards one of ASCO's long-term goals – achieving an initial public offering of the Company's shares. Additionally, in line with recommendations of the country's leadership, significant projects were undertaken to expand ASCO's operational footprint and enhance its cargo transportation capacity beyond the Caspian region. Notably, Aframax type tankers, which are approximately ten times larger than the biggest vessels previously operated in Azerbaijani seafaring history, were launched into operation in 2023 in collaboration with our strategic partner, SOCAR. These vessels, which operate in international waters under our national flag and are named after Azerbaijan's historical lands - "Karabakh", "Shusha" and "Zangazur" represent a major milestone, marking a new era for ASCO and the Azerbaijani shipping industry. In addition to the aforementioned achievements, the year 2023 has been particularly remarkable for Azerbaijani sailors. Declared the "Year of Heydar Aliyev," 2023 also coincides with the 165th anniversary of Azerbaijani shipping, which our Great Leader played a significant role in its development. Additionally, it marks the 10th anniversary of the reestablishment of the "Azerbaijan Caspian Shipping Company" Closed Joint Stock Company, through the merger of two shipping companies, following the relevant Decree of the President of the Republic of Azerbaijan, Mr. Ilham Aliyev. These significant and historic events were celebrated by the ASCO team and sailors with deep respect, great honour, and pride.

During the reporting period, ASCO has also undertaken several significant projects in areas such as social development, economic growth, environmental protection, occupational health and safety, human resources management, corporate governance, and structural optimization. We believe that these efforts have contributed to the positive financial and operational outcomes achieved during this period. Furthermore, ASCO continued to organize its activities in line with sustainability principles, working to reduce emissions from vessels in accordance with international conventions and implementing various decarbonization initiatives, as well as adopting modern and innovative systems in relevant areas.

I am pleased to present the fifth Sustainability Report of Azerbaijan Caspian Shipping CJSC for the years 2022-2023 and invite you to explore its relevant sections to find more about the topics of your interest.

**Rauf Valiyev**

**Chairman of the Management Board of Azerbaijan Caspian Shipping CJSC**

## EXECUTIVE SUMMARY

The Sustainability Report of Azerbaijan Caspian Shipping CJSC (“ASCO” or “the Company”) outlines the results of the Company’s performance across social, environmental, and economic dimensions. Detailed information regarding the mentioned topics is provided in the corresponding sections of the report. The infographic summary highlighting the key results in those areas can be found on page 20.

### Key Financial and Operational Results

As in previous years, during the reporting period ASCO successfully concluded its annual operations with a profit and positive financial results. As such, in 2022-2023, the Company registered profits of AZN 65 million and AZN 44 million, respectively, while the EBITDA was AZN 190 million and AZN 157 million, respectively. The capitalization of the Company has increased by 160% since its re-establishment and amounted to AZN 1.4 billion in 2023.

A positive trend was also observed in operational results. The total volume of cargo transported by ASCO’s vessels increased by 65% compared to 2021 and by 20% compared to 2022, reaching 9 million tons in 2023. Compared to the previous reporting period in 2021, there was a 158% increase in the volume of transportation by tankers and a 33% increase in the volume of transportation by ferries. In 2023, ASCO’s ferries transported 72,849 units of railway wagons and trucks, marking a 19% increase compared to 2021.

ASCO implemented discounted rates for the transportation of some cargoes to maintain existing cargo volumes and attract new cargoes to the Caspian route. Discounts applied in previous years within the Trans-Caspian International Transport Route (Middle Corridor) for the transportation of containers and various railway wagons by ferries in the direction of China-Europe, remained in force during the reporting period.



Important projects were implemented to expand cargo transportation activities in markets beyond the Caspian Sea. ASCO entered new cargo transportation segment, following the acquisition of Aframax-type vessels, facilitated by issuing bonds for the first time in the Company's history. Additionally, ASCO undertook efforts to enter the Handysize type dry cargo vessels market, establishing cooperation with the European Bank for Reconstruction and Development (EBRD) to finance the purchase of such vessels.

The offshore fleet of the Company provided 37,439 days of service to the oil and gas industry in 2022 and 37,111 days in 2023. A joint project carried out in 2023 with ASCO's main strategic partner, the State Oil Company of Azerbaijan Republic (SOCAR), and the internationally renowned company McKinsey, determined SOCAR's long-term demand for specialized vessels, identified the optimal fleet size, and specified new vessels required to meet this demand. During the reporting period, ASCO's specialized vessels were involved in various projects both within the Azerbaijani sector,

as well as other sectors of Caspian Sea. There was an increase in the number of repair services provided by both "Bibiheybat" Ship Repair Yard (BSRY) and "Zigh" Ship Repair and Construction Yard (ZSRCY). In 2023, BSRY saw a 46% increase in repair works, while ZSRCY saw a 52% increase compared to 2021. Additionally, the first vessel built at ZSRCY was commissioned in 2023.

As part of ASCO's fleet renewal, the "Zarifa Aliyeva" Ro-Pax/Ferry type vessel and "Akademik Khoshbakht Yusifzadeh" tanker, built at the Baku Shipyard (BSY) as per ASCO's order, were put into operation in 2022. Thus, the number of new vessels commissioned by ASCO since its reorganization has reached 28 vessels. During 2022-2023, additional orders were placed at BSY for the construction of 1 Ro-Pax/Ferry type vessel and 1 tanker with 8,000 deadweight ton. Currently, construction is ongoing for 1 Ro-Pax/Ferry vessel and 2 tankers at BSY, along with 4 small water displacement vessels at ASCO's Zigh Ship Repair and Construction Yard.



## Corporate Governance

One of the significant milestones in corporate governance during the reporting period was the renewal of the Company's Strategy until 2030, conceptually approved by ASCO's Supervisory Board. Furthermore, following audits conducted by the international classification society Lloyd's Register, ASCO was awarded a certificate for compliance with the international standard ISO 37001 - "Anti-bribery management system". Additionally, in 2022, ASCO's financials underwent analysis by FitchRatings, resulting in a positive credit rating being awarded to the company.

During the reporting period, ASCO initiated cooperation with EBRD to finance the acquisition of Handysize type dry cargo vessels. As part of this cooperation, ASCO underwent comprehensive due diligence in various areas conducted by reputable international consulting companies such as Drewry, DNV, Clifford Chance, and specialized experts from the EBRD. Throughout 2023, all due diligence projects were successfully completed, yielding positive feedback. Consequently, EBRD's Board of Directors approved a loan to ASCO for the acquisition of Handysize dry cargo vessels. The loan agreement was concluded on February 1, 2024.

Starting from 2023, a project to attract private investments to ASCO was initiated



as per the relevant Decree of the President of the Republic of Azerbaijan. As part of this initiative, the globally recognized consulting firm Boston Consulting Group (BCG) and Deloitte & Touche, as the legal advisor, were engaged to assess ASCO's readiness to attract private investments and to identify the most suitable mechanism for this purpose. The project is anticipated to conclude in 2024.

During the reporting period, efforts towards structural optimization also continued. As a result, certain non-core assets were handed over, while others were eliminated altogether. Additionally, the PM module (planned maintenance) of the SAP ERP system was successfully deployed, and the SAP servers were migrated to the "S4/HANA" system to enhance information exchange efficiency within the SAP system.



In 2022, ASCO launched the “My ASCO” mobile application, an electronic cabinet for ASCO employees designed to enhance convenience and efficiency by digitizing several services. The mobile application improves the accessibility of electronic services for seafarers employed at ASCO, allowing employees to access various information, documents, extracts, and references, as well as submit requests, complaints, and proposals. Additionally, the application features a corporate social network, facilitating efficient communication and information sharing among employees.

## Human Resources

At the end of the reporting period, ASCO had a workforce of 7,798 employees, including 4,266 offshore personnel and 3,532 onshore personnel. Out of the total personnel, 644 were women, accounting for

8% of the workforce.

ASCO continues to implement measures aimed at training professional local seafarers, ensuring the individual and professional development of personnel, as well as establishing gender equality and a healthy corporate working environment. In this regard, ASCO has appointed a dedicated position responsible for addressing gender issues and supporting special vulnerable groups. Additionally, ASCO developed and implemented its “Anti-Harassment, Anti-Bullying, and Non-Discrimination Policy” in 2023. No incidents of discrimination based on race, gender, religion, political opinion, age, or disability were recorded during the reporting period.

Employees are regularly engaged in training sessions conducted by local and international trainers across various fields



to enhance their knowledge, skills, and professional qualities. During the reporting period, ASCO organized training sessions on strategic agility, leadership, management, emotional intelligence, English language courses, anti-bribery management system based on the ISO 37001 standard, internal audit, and a range of other diverse topics.

### Social activities

Corporate social responsibility and social activities are of particular importance to ASCO. The Company consistently prioritizes members of society from vulnerable groups, including families of martyrs, low-income families, people with disabilities, and orphans, providing them with regular welfare assistance and support.

On May 10, 2023, marking the 100th anniversary of the Great Leader Heydar Aliyev, ASCO commissioned a residential complex consisting of five buildings for seafarers who had been awaiting housing for many years, thereby improving their living conditions.

For the purpose of promoting sports in the country, fostering interest in sports and a healthy lifestyle, and contributing to the development of various sports, the Company sponsors the "Sabail" Professional Football Club and the Public Association of the

Sailing Sports Federation of the Republic of Azerbaijan.

In 2023, ASCO celebrated the 100th anniversary of National Leader Heydar Aliyev and the 165th anniversary of foundation of shipping company in Azerbaijan. To mark these significant dates, a comprehensive action plan was



devised, and a series of events were conducted throughout the year. These activities included exhibitions on various topics, tree planting and cleaning campaigns, sports competitions, presentations such as the book "Great Leader Heydar Aliyev and National Shipping Policy," visits by ASCO employees who participated in the Patriotic War to the "Heydar Aliyev" summit, and an international scientific and technical meeting at the ASMA conference.

## Quality, Health, Safety and Environmental Protection

One of ASCO's top priorities is ensuring the safety and health of employees throughout the operations across all areas of activity, while also minimizing the environmental impact resulting from operations. As a result of the measures implemented in this area, there were no cases of workplace fatalities and no serious environmental incidents registered at ASCO during the reporting period. The frequency rate of incidents leading to lost working days (Lost Time Injury) was 0.35 in 2022 and improved to 0.28 in 2023, representing a positive outcome compared to international standards and practices.

Additionally, voluntary health insurance was provided for the personnel of the Company. This medical insurance allows all ASCO employees and their family members to access medical services at various

clinics and hospitals in the country free of charge or under preferential conditions.

To ensure environmental protection, continuous measures are taken to collect and dispose of various wastes generated during ASCO's activities, promote the efficient use of water, natural gas, and fuel, and minimize emissions. In line with this objective, ASCO established the position of "Director of Sustainability and Emissions Management" and formed a corresponding coordination group comprising relevant managerial personnel and employees from related departments to ensure coordination of actions and facilitate the preparation of comprehensive programs.

Thanks to these measures, ASCO achieved a 12% reduction in electricity consumption and a 7% reduction in natural gas consumption. At the same time, as a result of the activity of ASCO a 93% reduction was recorded in the use of fuel oil.



## OVERVIEW OF 2022-2023

### The key business lines of ASCO



### The composition of the Merchant marine transportation Fleet

51  
vessels

- 20 Tankers
- 14 Dry cargo vessels
- 17 Ferries, Ro-Ro and Ro-Pax vessels

### The composition of the Specialized Offshore Support Fleet

198  
vessels

- 21 Crane vessels
- 24 Supply tug vessels
- 3 Tugboats
- 8 Harbor tug vessels
- 23 Passenger vessels
- 5 Firefighting vessels
- 5 Engineering-geological vessels
- 2 Pipe-laying vessels
- 10 Diving vessels
- 4 Bunkering vessels
- 12 Vessels carrying liquid, fecal and oil-contaminated water
- 5 Dredgers
- 5 Barges
- 57 Small water displacement boats
- 8 Yachts
- 3 Floating workshops
- 3 Other type vessels

### ASCO holds the following certificates and meets the requirements of the relevant conventions

- **ISO 9001:2015** (Quality Management)
- **ISO 14001:2015** (Environmental Management)
- **ISO 50001:2011** (Energy efficiency management)
- **ISO 45001:2018** (Health and Safety Management System)
- **ISO 37001:2016** (Anti - bribery management system)
- **ISM code 2018** (International Security Management System)
- **ISPS code: 2003** (International Ship and Port Facility Security Code)
- **SOLAS** (International Convention on Safety of Life at Sea)
- **MARPOL** - (Marine Pollution Convention)
- **STCW** (International Convention on Standards of Training, Certification and Watchkeeping)

## Environmental management

Results in 2023, compared to 2021 :

- Natural gas consumption: **7% reduction**
- Electricity consumption: **12% reduction**
- Fuel oil consumption: **93% reduction**

## Human resources

- Number of personnel in 2022: **7,923**

- Number of personnel in 2023: **7,798**

## Health and Occupational Safety

- LTI Frequency Rate:

In 2021: **0.4**

In 2022: **0.35**

In 2023: **0.28**

- Death cases in the years 2021-2023: **0**

## Social sphere

Results in 2023, compared to 2021 :

- Volume of welfare assistance: **32% increase**



## Financial results

After tax profits:

AZN 52 million in 2021

AZN 65 million in 2022

AZN 44 million in 2023

Investment amount:

AZN 123 million in 2021

AZN 174 million in 2022

AZN 258 million in 2023

Increase in capitalization since the commencement of operation of ASCO:

**160 %**

## Operational results

Cargo transportation	2021	2022	2023
Transportation by tankers, tons	1,898,704	3,286,452	4,897,374
Dry cargo transportations, tons	1,042,105	972,739	749,478
Transportation by ferries, tons	2,527,233	3,259,509	3,363,538
<b>Total</b>	<b>5,468,042</b>	<b>7,518,700</b>	<b>9,010,390</b>

	2021	2022	2023
Transportations of freight cars, units	30,466	38,635	37,642
Transportation of TIRs, units	30,893	35,290	35,207

Days worked by the specialized offshore fleet:

37,802 days in 2021

37,439 days in 2022

37,111 days in 2023

Number of ship repair works carried out by the yards:

763 repair works in 2021

901 repair works in 2022

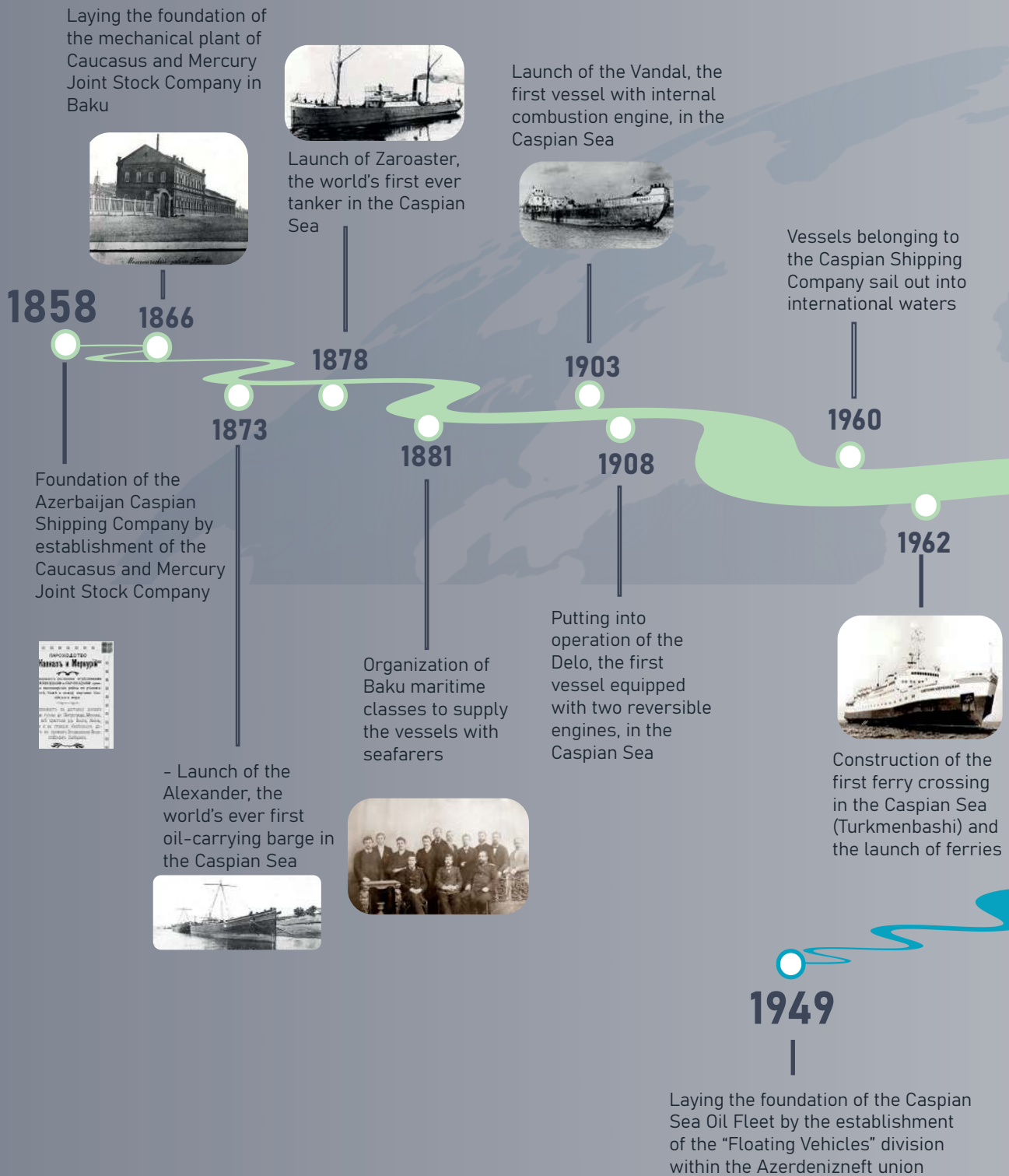
1,146 repair works in 2023

# ABOUT ASCO



## HISTORY OF ASCO

The legal foundation of Azerbaijan Caspian Shipping Company was laid by the incorporation of the Caucasus and Mercury Joint Stock Company. With its 160 years of rich experience and longstanding history in the shipping industry, ASCO boasts the largest permanent fleet in the Caspian Sea.







During the leadership of the Great Leader Heydar Aliyev in Azerbaijan, the period of construction of more than 400 vessels, at a rate of 20 - 30 vessels per year and the period of rapid development of the fleet



Putting into operation of the largest tanker in the Caspian Sea - the first tanker with a deadweight of 13,000 tons ("President Heydar Aliyev" tanker)



Launching of the first tanker built in Azerbaijan ("Lachin")



1969-1987



Tanker fleet renewal

2003-2011



Renewal of the ferry fleet

2004



Renewal of fleets (launching of 28 new vessels)

2014-2023

Resumption of activities outside the Caspian Sea

Issuance of ASCO bonds  
Commissioning of the first vessel ("ASCO-1") built at the Zigh Ship Repair and Construction Yard of ASCO

Commissioning of Aframax Type Tankers: "Karabagh", "Shusha" and "Zangezur"



1977-2010  
Delivery of the vessel, operating outside the Caspian Sea, to the Caspian Sea

1975-1985



Purchase and construction of new tankers, universal dry cargo vessels and ferries for the merchant fleet



2013

Establishment of the Azerbaijan Caspian Shipping Closed Joint Stock Company by merging the Azerbaijan State Caspian Shipping Company and the Caspian Oil Fleet of the State Oil Company of the Republic of Azerbaijan

2018

Re-branding of the "Azerbaijan Caspian Shipping" CJSC and continuation of its activities under ASCO brand

2019



Commissioning of the first Ro-Pax / Ferry ship ("Azerbaijan") built in Azerbaijan

2021

Commissioning of the first ship-museum in the Caspian Sea and the first tanker-museum in the world ("Surakhani")

2023





# **OUR VALUES, MISSION AND STRATEGIC GOALS**

**Slogan :**

**“Your shortest bridge  
between Europe and Asia”**



## Values :

- Quality service
- Reliable partner
- Safety and environment
- Sustainable development
- Transparency
- Fairness and professionalism



## Mission :

To meet the demand for shipping services in the transit of goods through Azerbaijan, support the country's strategic oil and gas projects, contribute to government policies in these areas, and aid in Azerbaijan's transformation into a regional transportation and logistics hub.



## Vision for the future:

The establishment of a modern shipping company that operates efficiently, ensures sustainable development, and guarantees the safety of its operations, while supporting state policy in the Caspian Sea and expanding international shipping activities beyond the Caspian.



## Strategic goals:

Goal 1: Renewal of the merchant fleet, contribution to the transit strategy of Azerbaijan.

Goal 2: Renewal of the specialized offshore support fleet and maintaining ASCO's leading position in the Azerbaijani sector of the Caspian Sea.

Goal 3: Expansion of operations beyond the Caspian basin.

Goal 4: Implementation of advanced ESG initiatives.

Goal 5: Digital transformation and optimal organizational structure.

Goal 6: Financial stability and creating value for shareholder.



KARABAKH

TUG

CCU



## KEY BUSINESS SEGMENTS

The key business lines of ASCO include the following areas:



**Cargo transportation**



**Provision of the specialized offshore services for the oil and gas industry**



**Ship repair and construction**



**Education and training in the field of shipping**

### Cargo transportation

ASCO provides various types of cargo transportation services both in the Caspian Sea and in non-Caspian basins - mainly in the Black and Mediterranean basins. The Merchant Fleet, which operates within the structure of ASCO, includes tankers, universal dry cargo vessels, ferries, as well as Ro-Ro and Ro-Pax vessels. The composition of ASCO's Merchant Fleet is presented in the table below.

#### Composition of the Merchant Fleet, units:

Vessel types	Number of vessels
Tankers	<b>20</b>
Universal dry cargo vessels	<b>14</b>
Ferries, Ro-Ro and Ro-Pax type vessels	<b>17</b>
<b>Total</b>	<b>51</b>

ASCO's tankers predominantly handle the transportation of crude oil and oil products within the Caspian Sea, traveling from



ports in Kazakhstan and Turkmenistan to ports located in Azerbaijan. Simultaneously, ASCO's tankers participate in liquid cargoes transportation in basins beyond the Caspian Sea, specifically in the Black and Mediterranean basins. Currently, ASCO operates 2 tankers outside the Caspian basin and 18 tankers within the Caspian Sea.

Universal dry cargo vessels of the Company carry grain, wheat, barley, corn, bran, cut timber and wood products, metal products, fertilizers, construction materials, containers, as well as other various types of dry cargo in the Caspian Sea and in the international waters outside the Caspian Sea. At present, ASCO operates 10 dry cargo vessels in the Caspian Sea and 4 dry cargo vessels outside the Caspian Sea.

Ferries, Ro-Ro and Ro-Pax type vessels provide linear voyages in the Caspian Sea, ensuring transportation of railway wagons, containers on railway platforms, trucks(TIRs), other vehicles, as well as passengers between the ports of Azerbaijan, Kazakhstan and Turkmenistan.

### **Provision of the specialized offshore services for the oil and gas industry:**

Caspian Sea Oil Fleet (hereinafter to be referred as "Specialized offshore support Fleet" or "OSV Fleet") within the structure of the Company, is involved in all aspects of oil and gas production. This includes tasks such as constructing sea platforms and jackets, conducting geographical and geological surveys, laying underwater oil and gas pipelines, and conducting repairs during operations. Additionally, the fleet provides comprehensive services such as fire protection for offshore oil facilities, transportation of oil workers to their workplaces, and the carriage of various types of cargo such as fuel-lubricants, drinking water, methanol, goods and materials, equipment, metal structures, and more. About 200 various type vessels that operate within the Specialized offshore support Fleet of ASCO are involved in many strategically important oil and gas projects in the Caspian Sea, especially in the Azerbaijani sector of the Caspian Sea, including the such projects as "Oil Rocks", "Nariman Narimanov", "28th of May",



“Absheron” , “Shah-Deniz”, “Bahar-Gum-Deniz”, “Azeri-Chirag-Guneshli”, “Umid-Babek” and “Karabakh”. At the same time, the OSV Fleet includes vessels that meet the internal needs of ASCO fleet and provide services such as port towing, bunkering, internal supply for the vessels of the Company while they call at or leave the ports. The composition of the specialized offshore support fleet is presented in the table below.

**Composition of the OSV fleet, units:**

Vessel types	Number of vessels
Crane vessels	21
Supply tug vessels	24
Tugboats	3
Port tugboats	8
Passenger vessels	23
Firefighting vessels	5
Engineering and geological vessels	5
Pipe-laying vessels	2
Diving vessels	10
Fuel bunkering vessels	4
Vessels carrying liquid, fecal and oil-contaminated water	12
Dredgers	5
Barges	5
Small water displacement boats	57
Yachts	8
Floating workshops	3
Other type vessels	3
<b>Total</b>	<b>198</b>

**Ship repair and construction**

“Bibiheybat Ship Repair Yard” and “Zigh Ship Repair and Construction Yard”, which operate within the corporate structure of ASCO, carry out high-quality repairs of all types of vessels belonging to ASCO fleet, as well as other shipping companies operating in the Caspian Sea. The following services are provided at the mentioned yards:

- Performance of major (overhaul), dock, current and navigation repairs between voyages;
- Construction of small service boats at Zigh yard
- Installation and commissioning of ship systems and equipment, electrical and radio navigation equipment, engines, devices.
- Performance underwater engineering and hydro-technical works within diving activities ;
- Inspection, cleaning and painting of underwater parts of hull, rudders and propellers of vessels upon their docking;
- Inspection and repair of inflating life rafts, hydro-static pressure devices and personal rescue equipment;
- Maintenance and repair of ASV (adaptive support ventilation) type insulating breathing apparatus;
- Manufacture of various types of spare parts, special paints and hardware.





### Repair docks within Ship Repair Yards included in the structure of ASCO

Name of Ship Repair Yard	Name of Repair	Lifting capacity of the dock (tons)
"Zigh" Ship Repair and Construction Yard	Neptune	8,000
	Floating dock No. 061	6,000
"Bibiheybat" Ship Repair Yard	Dock № 901	15,000
	Dock № 351	6,000
	Dock № 953	5,000
	Dock № 856	4,500

## Education and training in the field of shipping:

The following enterprises providing training for seafarers operate under the umbrella of ASCO:

- Azerbaijan State Marine Academy
- Training and Education Centre
- Azerbaijan Marine College

Being one of the structural units of ASCO, the Azerbaijan State Maritime Academy (hereinafter referred to as ASMA or the Academy) with more than 130 years of experience in providing maritime education, ensures the development of the seafaring profession in Azerbaijan and provides training of highly qualified local seafarers. The Academy's diploma,

acknowledged by more than 170 countries globally, solidifies its position as a member of the International Association of Maritime Higher Schools and the Teaching-Methodical Council of maritime higher schools within CIS countries. It actively participates in the Association of Higher Schools of the Caspian Littoral States and collaborates bilaterally with 18 universities across 11 countries globally. A high-quality education system meeting modern standards at all levels of education (bachelor, master, doctoral studies) has been established at the Academy. At present the education at ASMA is provided with a specialization in "Marine navigation engineering", "Ship power plants operation



engineering”, “Electrical and electronics engineering”, “Shipbuilding and ship repair engineering”. Along with Azerbaijani, the Academy offers education in Russian and English.

Under ASMA, there operates a Training Center (TC) dedicated to enhancing the professional skills of seafarers and maritime personnel, ensuring their certification aligns with international conventions and standards. These training courses, taught in Azerbaijani, English and Russian by TC, were accredited by the State Maritime and Port Agency and certified by organizations such as the American Bureau

of Shipping (ABS), the Nautical Institute and Bureau Veritas. The Training Center holds the certificate to conduct DP Induction and DP Simulator training on modern dynamic positioning (DP2) simulator and is one of the 95 centers authorized to conduct such training in the world and the only organization in the Caspian region.

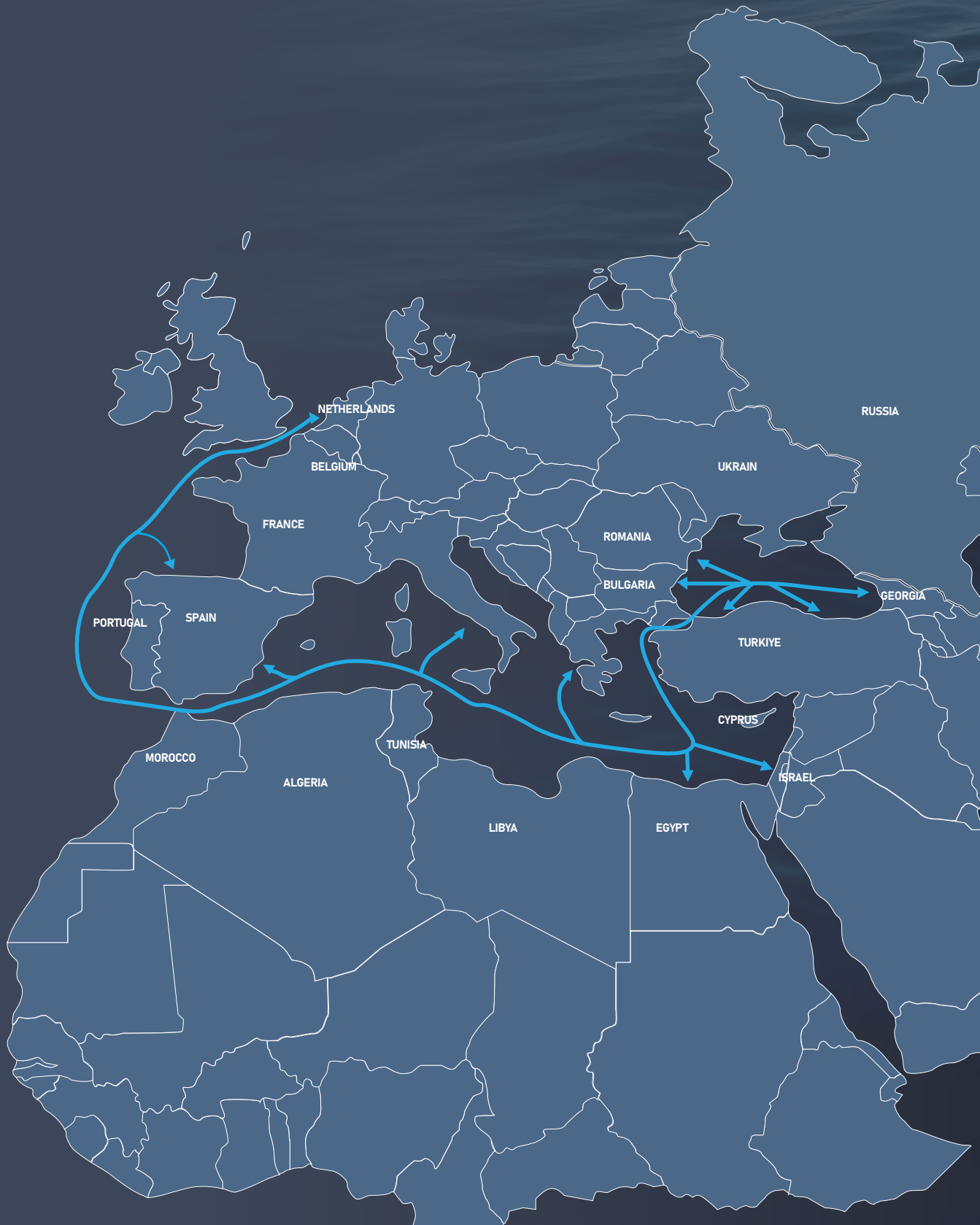
The Azerbaijan Marine College (AMC or the College) is an educational institution under the auspices of ASMA, providing secondary vocational education. The College trains specialists in maritime navigation, operation of ship power plants and power supply specialities.



## OPERATION ROUTES

ASCO's extensive 165-year experience leads to its provision of cargo transportation services in both the Caspian Sea and non-Caspian basins, as well as specialized offshore services in the oil and gas industry within the Caspian basin.

**Cargo transportation routes beyond the Caspian Sea  
(tankers and dry cargo vessels):**





**Transportation routes by tankers in the Caspian Sea:**



**Transportation routes by dry cargo vessels in the Caspian Sea:**



**Transportation routes by ferries, Ro-Ro and Ro-Pax vessels:**

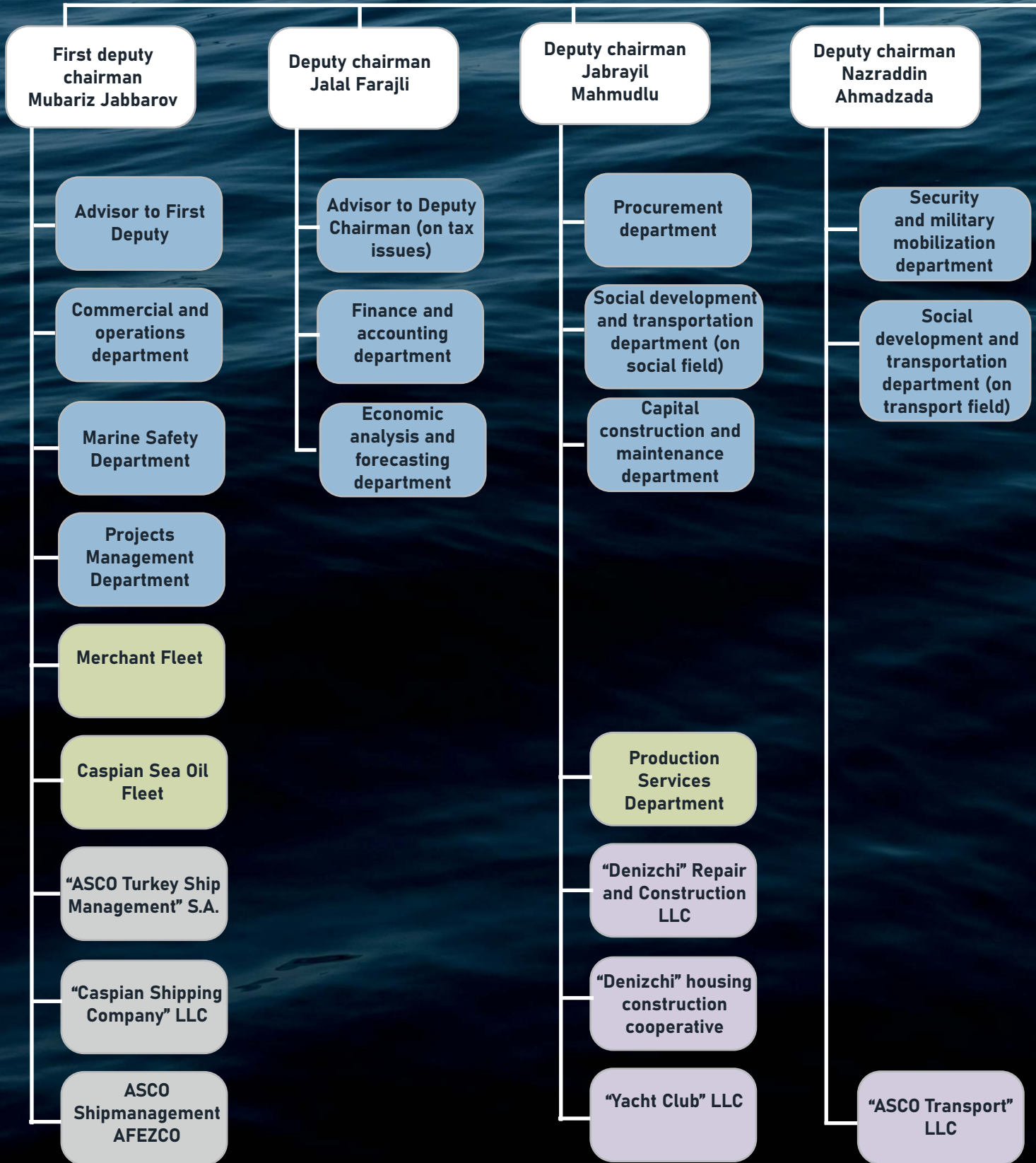


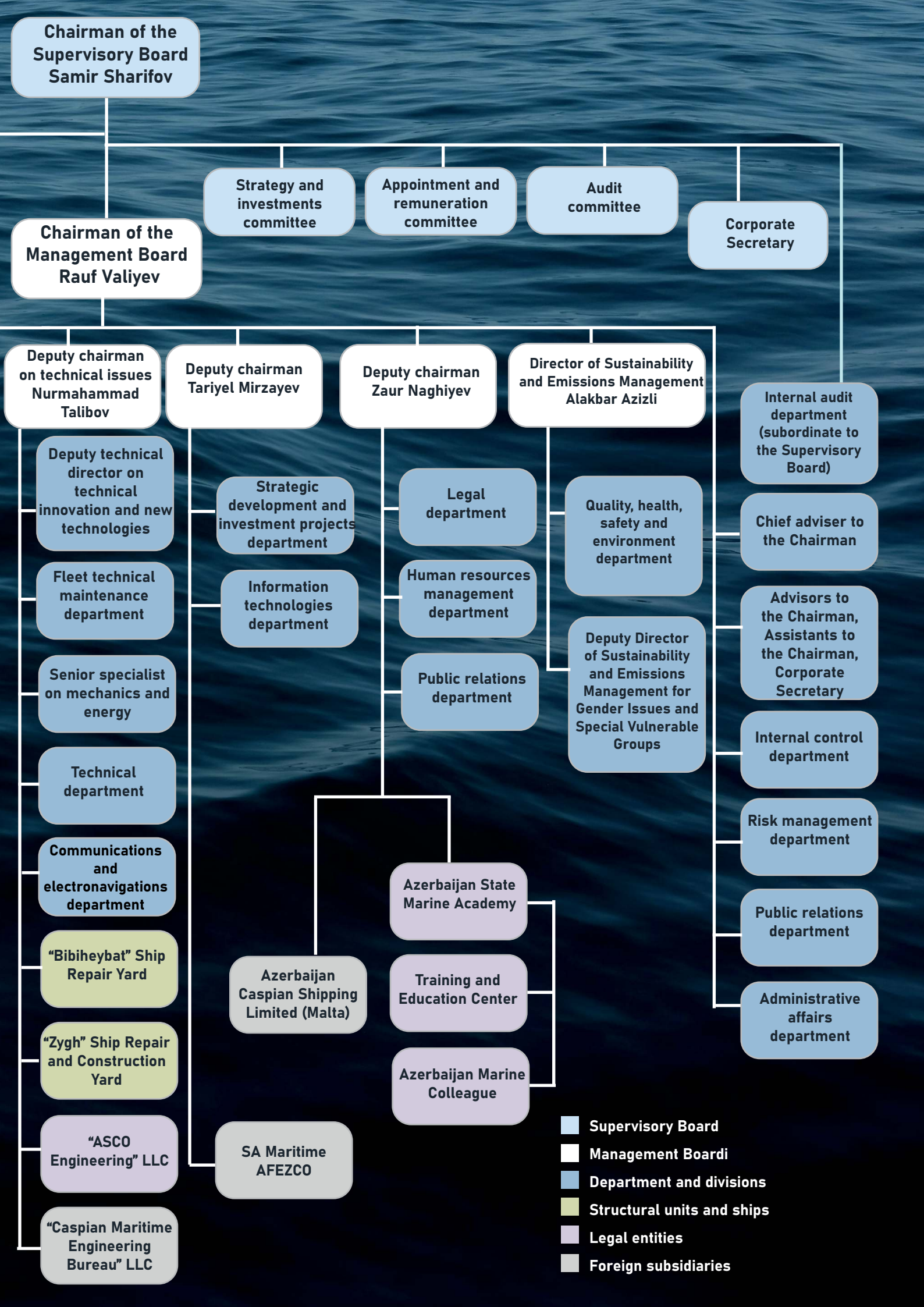
**The main operational area of the specialized offshore support fleet:**



# ORGANIZATIONAL STRUCTURE OF ASCO

Members of the Supervisory Board





## STRUCTURAL UNITS, SUBSIDIARIES AND JOINT VENTURES

Since its establishment, ASCO has consistently focused on creating and developing effective management structures that facilitate efficient operations and enable flexible decision-making processes. To achieve this goal, several measures have been implemented to remove non-core structural units from the Company's structure and transfer them to organizations more suited to their purposes. Consequently, since 2014, housing and communal services, the cultural activities centre of seafarers, "Denizchi" auxiliary agricultural enterprise, as well as lands used for agricultural purposes, the Central Seafarers Hospital, Seafarer Polyclinic, "Summer" kindergarten, boarding house located in Buzovna settlement, and the sewing station have been handed over to the

relevant authorities. Currently, the process of hand-over of other non-core areas is underway.

During the reporting period, ASCO also continued its work on structural optimization. Thus, following the decision of ASCO's Supervisory Board, the operations of certain subsidiaries were terminated by transferring of "ASCO Logistics" and "ASCO Security" to "ASCO Transport", and merger of "ASCO Tankers Gemi İşletmeciliği A.Ş." with "ASCO Turkey Gemi İşletmeciliği A.Ş.". Apart from that, the Caspian Sea Transport Project and Scientific Research Institute was transformed into a limited liability company named "ASCO Engineering" through reorganization in its form of business ownership.





Name of the institution included in the structure of ASCO	Field of activity / Brief profile	Form of business ownership
The Caspian Sea Oil Fleet	Provides offshore services to the oil and gas industry.	A department (organization) with a status of unincorporated entity
Merchant Fleet	Provides international cargo and passenger transportation, as well as port services.	A department (organization) with a status of unincorporated entity
Bibiheybat Ship Repair Yard	Provides repair services to various types of vessels.	A department (organization) with a status of unincorporated entity
Zikh Ship Repair and Construction Yard	Provides repair services to various types of vessels, as well as the construction of small boats.	A department (organization) with a status of unincorporated entity
The Production Services Department	Provides seafarers with production and social services.	A department (organization) with a status of unincorporated entity
Azerbaijan State Marine Academy	It is the only higher education institution in our country that offers education on shipping specialties.	Legal entity of public laws
ASMA Training Center	Organizes compulsory and additional training for seafarers in accordance with the requirements of international conventions.	A department (organization) with a status of unincorporated entity
ASMA Azerbaijan Marine College	It is the only secondary vocational education institution in our country that offers education on shipping specialties. Conducts training for ordinary staff.	Legal entity of public laws
ASCO Turkey Gemi İşletmeciliği A.Ş	This daughter company of ASCO was incorporated in Istanbul, Turkey in 2017 and serve to organize the efficient operation of ASCO's dry cargo and tanker vessels operating in the water basins beyond the Caspian Sea and to promptly resolve issues arising out of cargo transportation.	Joint Stock Company incorporated in the Republic of Turkey
Azerbaijan Caspian Shipping Limited	This company was established in the Republic of Malta in 2016 and supports the operation of the offshore vessels owned by ASCO in the territory of the European Union.	Limited Liability Company incorporated in the Republic of Malta
ASCO Engineering	The institute compiles design estimation documentation and conducts research and development works in the field of shipping for the construction and modernization of vessels.	Limited Liability Company
Denizchi Repair and Construction	Denizchi Repair and Construction LLC serves for meeting the demand for construction services of ASCO and is currently constructing a high-rise residential building to improve the housing conditions of employees who have been on the waiting list for housing for many years. Whereas Denizchi Housing Construction Cooperative (Denizchi HCC) ensures management of the process of providing these employees with housing.	Limited Liability Company
Denizchi Housing Construction Cooperative		Housing Construction Cooperative
ASCO Transport	Serves for the operation of vehicles, trucks and special equipment owned by ASCO from a single center.	Limited Liability Company
Yacht Club	Provides hotel and catering services to seafarers and ASCO guests, as well as anchoring of yachts and sail boats alongside the berth.	Limited Liability Company
SA Maritime AFEZCO	The joint venture was set up by ASCO and SOCAR with the aim of acquiring and operating Aframax type tankers.	Resident of Alat Free Economic Zone
ASCO Shipmanagement AFEZCO	Performs technical management of vessels operating in basins beyond the Caspian Sea	Resident of Alat Free Economic Zone
Caspian Shipping	It has commenced to operate in Astrakhan, Russia in 2015 and ensures operative access of ASCO owned vessels to the external water basins outside the Caspian Sea through the Volga-Don and Volga-Balt canals.	Limited Liability Company incorporated in the Russian Federation
Caspian Marine Engineering Bureau	Was incorporated in 2016 between ASCO and Odessa Marine Engineering Bureau, a company with high reputation for their project and designing works in the field of shipping. Serves for exchanging experience in ship design.	Limited Liability Company

# **SUSTAINABLE DEVELOPMENT**



## ABOUT THE REPORT

The Sustainability Report of the Azerbaijan Caspian Shipping Closed Joint Company covering the years 2022-2023 has been developed encompassing social, environmental and economic aspects in accordance with the Global Reporting Initiative - GRI reporting standards. The table of disclosures based on GRI standards is reflected on page 148 of the report. The report encapsulates the activities carried out by all structural divisions and subsidiaries of ASCO throughout 2022-2023. The indicators and tables mentioned in the report encompass the various aspects listed above, and data for 2021 was also included for comparison with the previous reporting period. If specific information pertaining to an indicator is provided for a particular structural unit, or if there emerges a need to adjust the indicators for 2021 following an audit, a corresponding information note is included alongside such indicators and tables in the report. Additionally, details about the planned activities for the upcoming reporting period were also outlined in various sections of the report.

ASCO's internal control measures, the process for adoption of the sustainability report, and inspections by independent external auditors assure the accuracy of data presented in the report. This report has been audited by the third party and Independent Assurance Statement is reflected on page 156 of the report.

## MATERIALITY ASSESSMENT

During the report's preparation, significant attention is given to reviewing feedback, suggestions, and opinions from ASCO's partners, customers, employees, suppliers, as well as public and media representatives regarding the company's activities, and incorporating them into the report. To achieve this, online survey was conducted to gather feedback and opinions. The online survey was published on ASCO's official website and social networks. To gather input from local and international stakeholders, the survey was prepared in Azerbaijani, Russian, and English languages. Furthermore, a detailed analysis of all pertinent indicators related to social, environmental, and economic aspects from 2021 to 2023 was carried out. Interviews were also conducted with ASCO employees responsible for these specific areas to gather insights. Based on the conducted online survey and interviews, certain crucial information relevant to concerned parties in the shipping industry was identified, leading to the creation of the "Materiality Table" presented below.

## The ASCO's Materiality Table:



Materials Topic	Severity	Likelihood	Human Rights	Scale	Likelihood
<b>Environmental and climate change</b>					
Emissions	●	●	●	●	●
Energy consumption	●	●	●	●	●
Water consumption	●	●	●	●	●
Biodiversity	●	●	●	●	●
Effluents and waste	●	●	●	●	●
Compliance with environmental laws and regulations	●	●	●	●	●
Supplier environmental assessment	●	●	●	●	●
<b>Social</b>					
Relations between employees and the management	●	●	●	●	●
Health measurements at work	●	●	●	●	●
Occupational health and safety	●	●	●	●	●
Training and education	●	●	●	●	●
Human rights practices	●	●	●	●	●
Diversity and equal opportunities	●	●	●	●	●
Child and forced labor	●	●	●	●	●
Supplier social assessment	●	●	●	●	●
Social responsibility	●	●	●	●	●
<b>Governance</b>					
ASCO's strategy	●	●	●	●	●
Compliance management	●	●	●	●	●
Risk management	●	●	●	●	●
Business ethics	●	●	●	●	●
Anti-corruption	●	●	●	●	●
Supply chain	●	●	●	●	●
Digitalization & informational security	●	●	●	●	●
<b>Economic</b>					
Operational performance	●	●	●	●	●
Economic results	●	●	●	●	●
Markets and regions of operations	●	●	●	●	●
Customer satisfaction	●	●	●	●	●

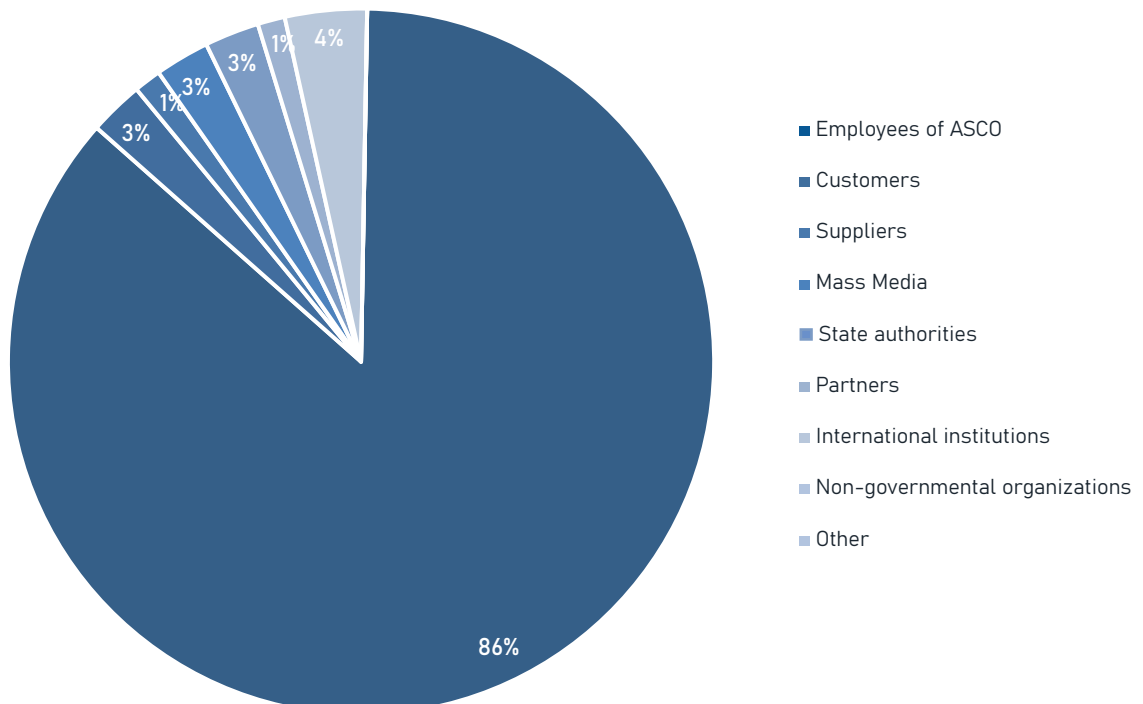
<b>Severity</b>	Extremely severe
	Severe
	Not severe

<b>Likelihood</b>	Extremely likely
	Likely
	Not likely

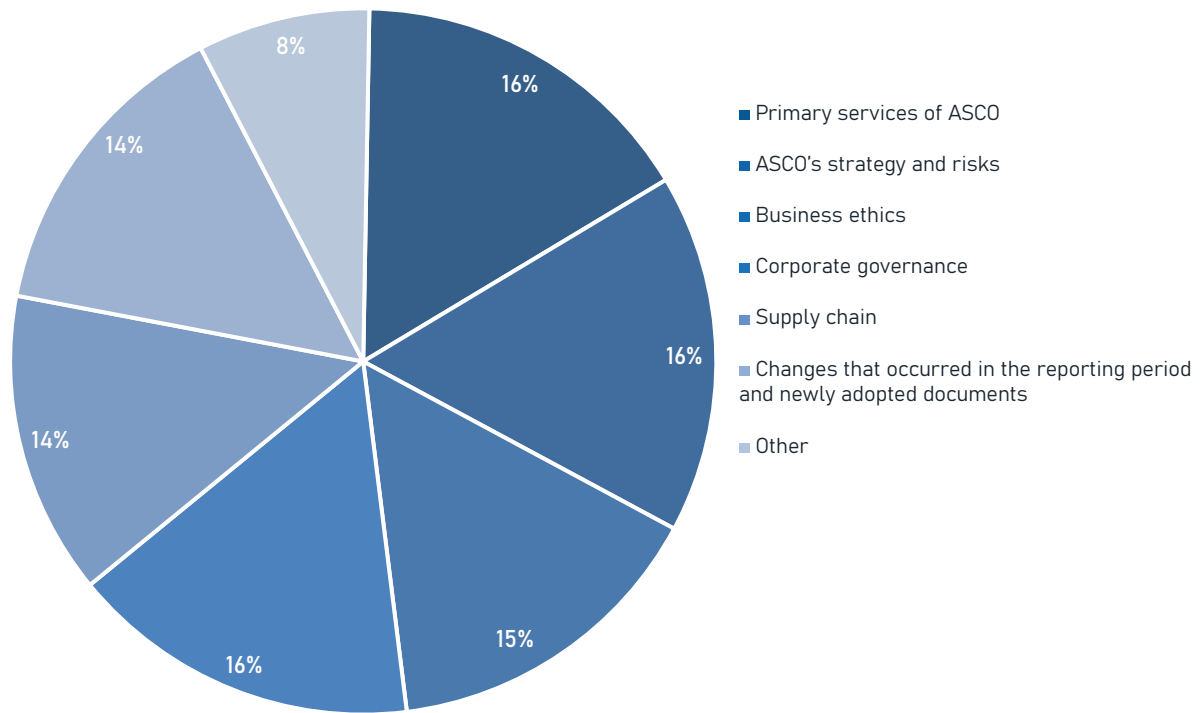
<b>Human Rights</b>	High
	Medium
	Low

<b>Scale</b>	Very significant
	Significant
	Not significant

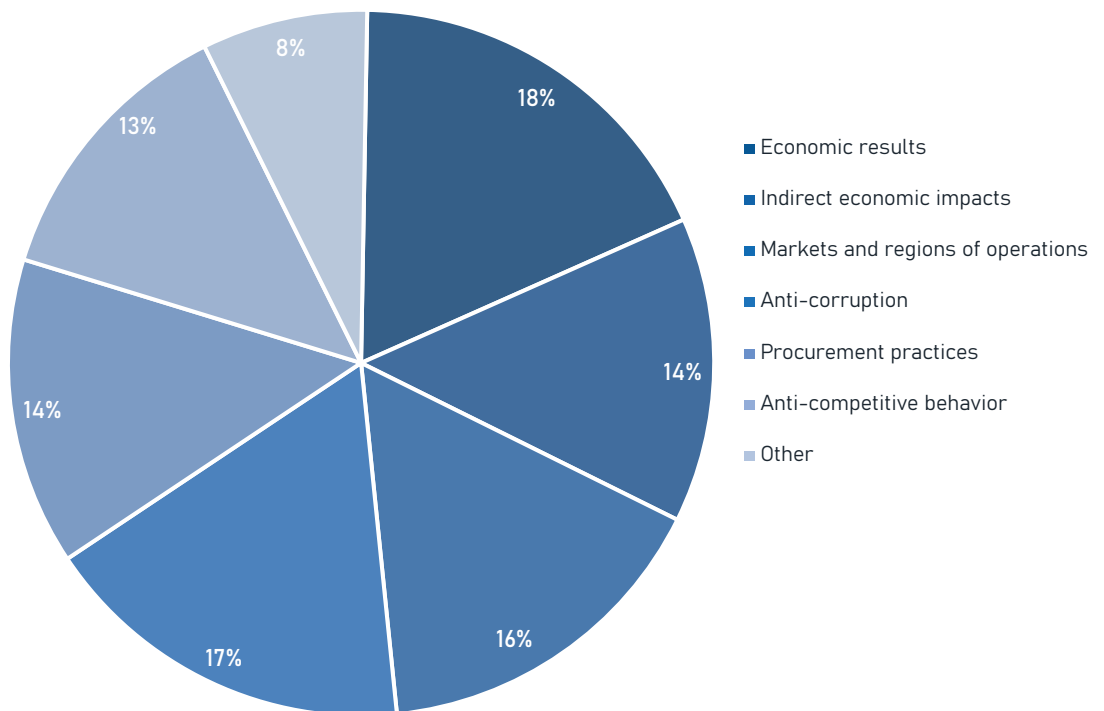
Please state which group of stakeholders you relate to.



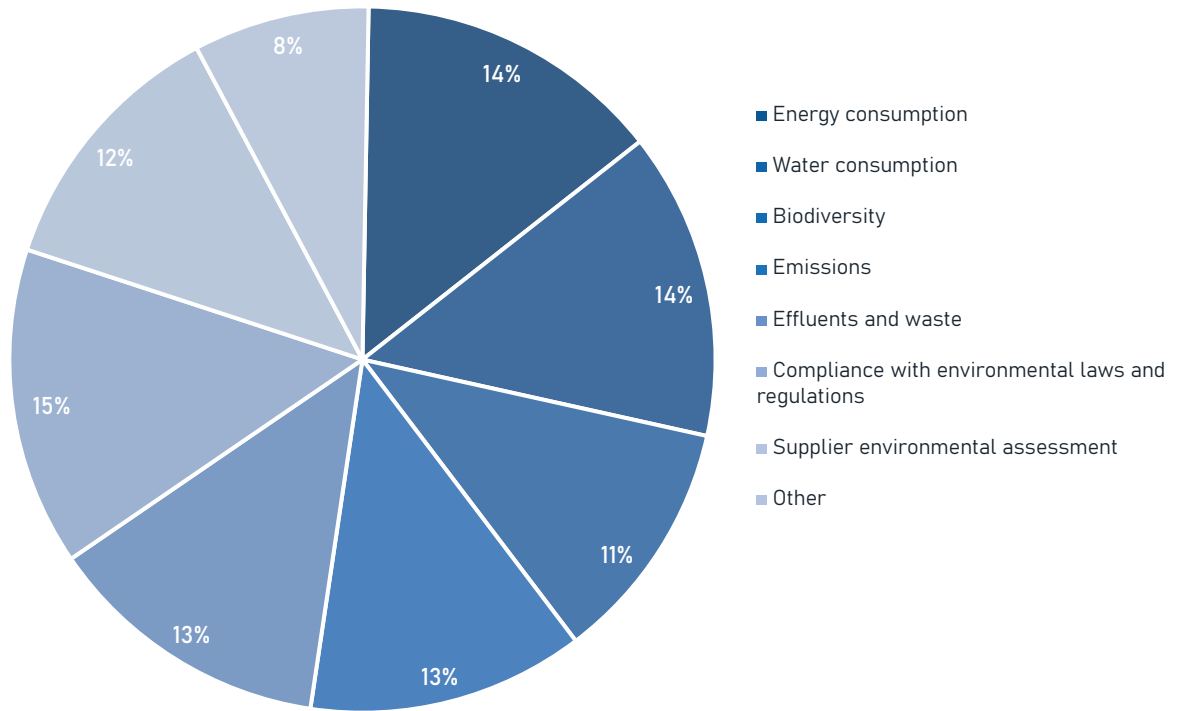
**Which aspects related to the overall performance of the company are important to you?**



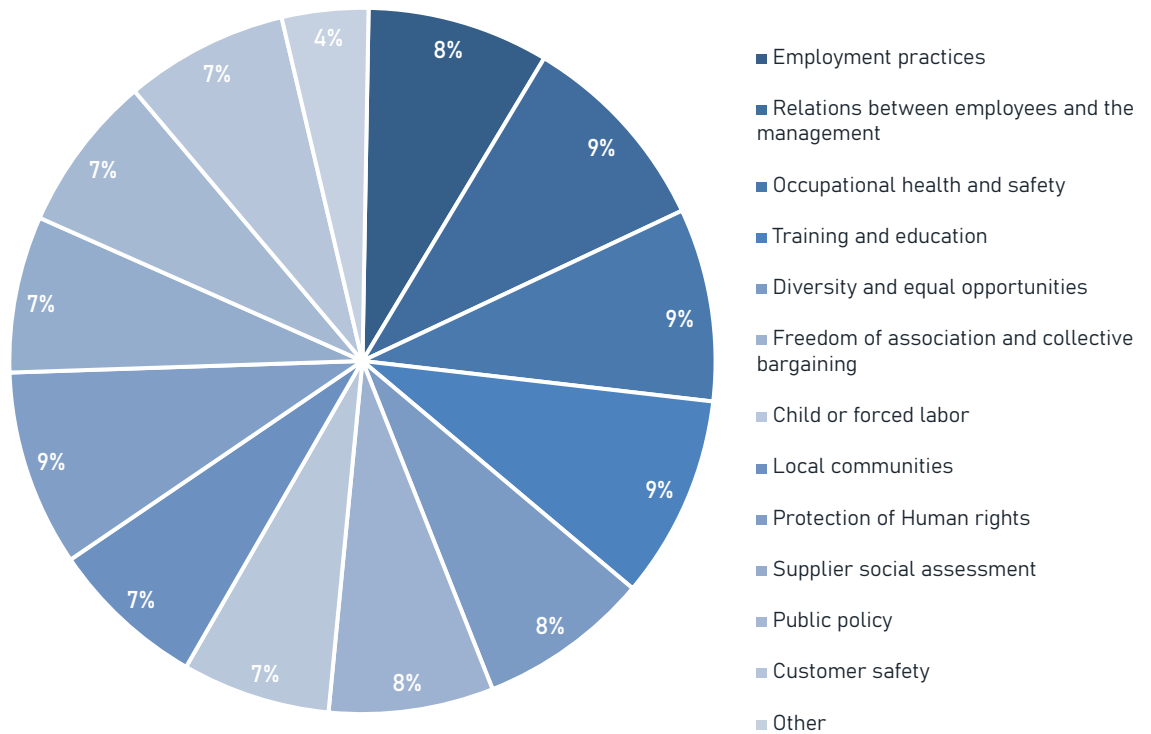
**Which aspects related to the economic performance of the company are important to you?**



**Which aspects related to the environmental performance of the company are important to you?**



**Which aspects related to the social performance of the company are important to you?**



## STAKEHOLDERS AND RELATIONSHIPS WITH THEM

The term “stakeholders” cited in the report encompasses various institutions (entities) and individuals with an interest in ASCO, its activities, and results, and they are categorized into two groups: internal and external.

ASCO is a state-owned joint stock company and its sole shareholder - the state of Azerbaijan is one of the main stakeholders of the Company. ASCO aligns its activities with the long-term vision and expectations of its shareholder, the state of Azerbaijan. The Supervisory Board of ASCO acts as a body performing general supervision on the operations of the Company. The Supervisory Board of the Company makes strategically important decisions regarding the operations of ASCO. At the same time,

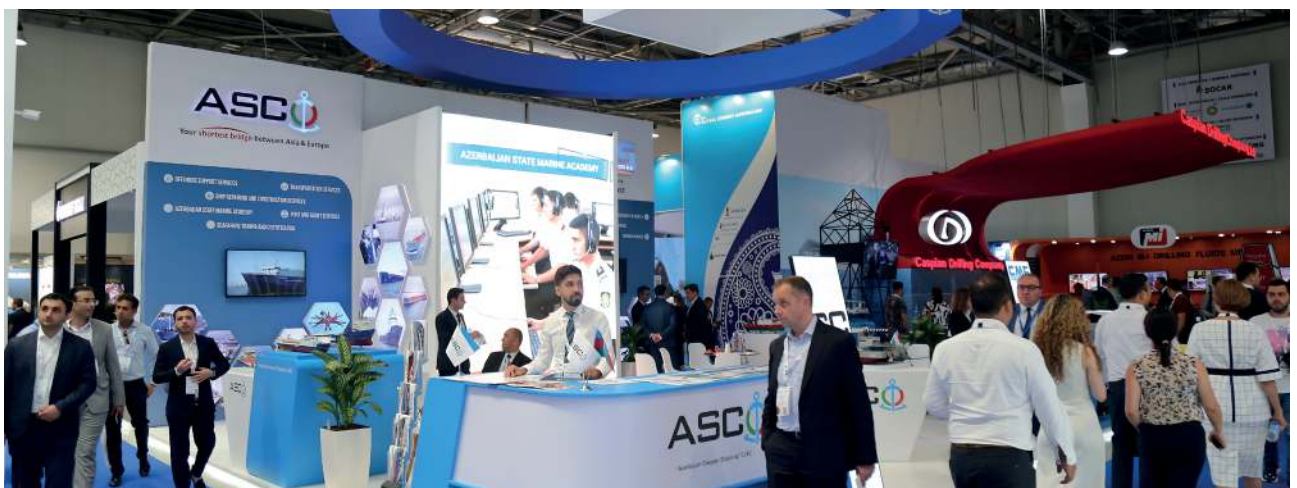
ASCO is one of the portfolio companies of Azerbaijan Investment Holding (AIH), and certain authorities of the General Meeting of ASCO are exercised by the Supervisory Board of AIH with the consent of the President of the Republic of Azerbaijan. In addition, there is close cooperation between ASCO and AIH in implementing relevant decisions of the Supervisory Board, aligning documents and submitting relevant reports. Detailed information on the Supervisory Board of ASCO and Azerbaijan Investment Holding is provided in the “Corporate Governance” section of this report. ASCO also cooperates with other state authorities, both bilaterally and within the framework of intergovernmental commissions and various working groups.

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### In general, stakeholders of the Company include the following groups:

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- |                                 |                            |                               |
|---------------------------------|----------------------------|-------------------------------|
| • Shareholder                   | • Customers                | • Suppliers                   |
| • Supervisory Board             | • Ports                    | • International organisations |
| • Azerbaijan Investment Holding | • Agents                   | • Regulatory authorities      |
| • State authorities             | • Brokers                  | • Financial institutions      |
| • Employees of ASCO             | • Logistics companies      | • Community                   |
| • Seafarer students             | • Other shipping companies | • Media                       |
|                                 | • Insurers                 | • Non-governmental            |





The current employees of the Company and the students of the Azerbaijan State Maritime Academy, who represent the future generation of sailors, are among the main stakeholders of ASCO. ASCO places special emphasis on fostering the more open and productive dialogue with its employees and students, incorporating their feedback into the company's operations, and regularly updating them on ASCO's business outcomes. In line with this goal, surveys are conducted on diverse topics, and ASCO organizes numerous corporate events, meetings with management, as well as open days and other gatherings at ASMA.

ASCO's key stakeholders also include customers, other shipping companies, ports, agents, brokers, and logistics companies. ASCO maintains close cooperation with these stakeholders not just in bilateral commercial activities but also within international organizations such as Trans-Caspian International Transport Route, TRACECA, and the "Black Sea - Caspian Sea" route. The communication channels used with these stakeholders

primarily include formal letters, email correspondence, telephone or online meetings, business gatherings, and conferences.

Suppliers, being one of the key stakeholders of ASCO, have a significant role in the operation of the Company. Detailed information regarding the Company's relations with suppliers is provided in the "Procurement System" section.

ASCO aligns its business activities with the requirements of local laws and international conventions. The Company collaborates with pertinent regulatory bodies in the shipping sector, such as the State Maritime and Port Agency, the International Maritime Organization (IMO), maritime classification societies, and other relevant institutions. These regulatory bodies conduct regular inspections in accordance with the relevant shipping industry requirements.

Besides that, ASCO places special emphasis on collaborating with both local and international financial institutions. For





this purpose, regular meetings are held, investment plans and potential cooperation opportunities are discussed in accordance with ASCO's strategy.

Establishing effective and transparent relations with the public is of crucial importance for the Company. Detailed information about available communication channels and efforts made in this sphere is provided in the "Transparency, Accountability, and Information Disclosure" section.

### **INTEGRATION OF SUSTAINABILITY INTO BUSINESS**

The implementation of sustainable development principles in the current

activity, stimulation thereof among partners, customers, suppliers and other stakeholders is a focus of attention at the Company and continuous actions are being taken in this direction.

The Sustainable Development Policy, providing a unified approach to sustainability at ASCO, was developed at ASCO in 2019 and approved by the Management Board of the Company. The Sustainable Development Policy is reflected in the Company Strategy aimed at a short, medium and long-term prospects, and it is implemented within the framework of a such strategy to ensure that sustainable development principles are integrated into current activities.

# SUSTAINABILITY POLICY

## SUSTAINABILITY POLICY

Ensuring the key business and commercial activities, including environmental protection, efficient use of limited resources, full integration of the principles of sustainable development into the overall value chain, implementation of corporate social responsibility, as well as, providing society and shareholders with long-term benefits in accordance with sustainability principles.

### Scope of the Policy

The Company's Sustainable Development Policy covers all structural units of Azerbaijan Caspian Shipping Closed Joint-Stock Company, all types of its commercial and non-commercial activities, as well

as relations with all direct and indirect stakeholders, both domestic and foreign.

### Our sustainable development goals

We have set a goal to follow the principles of sustainable development throughout our value chain. We understand the importance of the nature and human capital in our activities and minimizing any potential negative impact in this area is our continuous long-term goal.

### Our sustainable development principles

ASCO Sustainable Development Policy covers three aspects including environmental, social and economic.



#### Environmental-Economic

Energy efficiency, responsible usage of natural resources, investments, incentive mechanisms to motivate achieving savings in resources' consumption

#### Social-Environment

Compliance with the requirements of social and environmental legislation, Responsible use of local and global limited natural resources, fair management

#### Social-Economic

Business ethics, fair competition and trade, the rights and welfare of employees

**Our principles of sustainable development in environmental terms:**

- Environmental protection
- Prevention of accidents
- Effective management of waste and emissions
- Minimizing negative anthropogenic effects on ecosystems
- Preserving Biodiversity
- Effective use of clean and drinking water resources
- Saving energy resources
- Organizing activity in accordance with international standards
- Implementation of more environmentally friendly and advanced techniques and technologies by means of supporting innovations in the field of environmental protection.

**Our principles of sustainable development in social terms:**

- Effective management of human resources
- Ensuring health and occupational safety
- Ensuring transparency
- Generating equal opportunities
- Continuous improvement of personnel welfare
- Training and education
- Training personnel who stand ready for modern challenges
- Propagation of the seafaring profession in the country
- Ensuring freedom of speech, free expression of opinion and approach
- Forming an inclusive team
- Adoption of fair decisions
- Ensuring human rights and freedoms
- Business ethics
- Providing welfare assistance to orphans, low-income families, refugees and internally displaced persons, as well as people with disabilities
- Supporting youth
- Supporting various social projects in the country
- Strengthening personnel satisfaction and commitment to the Company

**Our principles of sustainable development in economic terms:**

- Creating a long-term economic value for the benefit of shareholders and society
- Establishing of a modern shipping company which can operate efficiently and ensure sustainable development
- Implementation of the international corporate governance system
- Continuous renewal of the fleet
- Providing high quality services
- Ensuring customer satisfaction
- Maintaining the reputation of a reliable partner
- Cost optimization and elimination of overhead costs
- Effective use of revenues
- Effective risk management
- Expansion and diversification of business activities
- Supporting local suppliers, local production and services

## ESG - ENVIRONMENTAL, SOCIAL, GOVERNANCE ASPECTS

The Environmental, Social, and Governance (ESG) factor is now considered a priority in evaluating companies' ratings and the scope of their activities in modern times. In this regard, many various companies have started integrating the ESG system into their operations. This reflects a trend where companies are taking more sensitive and practical steps, considering environmental and social factors. ASCO, as a shipping company, has intensified its focus on adopting a sustainable development policy that encompasses various aspects such as social welfare, health, labor protection, environmental conservation, sanitation, clean energy, innovation, education, and equality, including preparing implementation plans aligned with the

policy, monitoring activities, managing emissions, and developing complex programs for environmental protection, health, and technical safety within ASCO's operations. Additionally, ASCO has established the position of Director on Sustainability and Emissions Management to address these crucial issues effectively. To streamline coordination efforts for implementing these issues and to continually update the sustainable development policy in line with modern requirements, ASCO established a corresponding coordination group (ESG group), comprising the relevant manager and employees from various structural units.



The ESG group assesses all requirements and actual indicators on emissions and social factors, sets possible and realistic targets, develops proposals in this direction, and draws up and regularly updates the ESG action plan. The group holds regular meetings to discuss relevant topics, evaluate opinions and proposals, and make additions and amendments to the ESG Action Plan as needed. The Action Plan in question encompasses measures in the following main directions:

- Implementing structural changes and innovations on vessels with the aim of reducing emissions,
- Rewarding shipboard crew members who actively contribute to fuel efficiency aboard vessels,
- Gradually transitioning to environmentally friendly electric vehicles,
- Installation of charging stations to encourage personnel to switch to electric vehicles;
- Implementing a pilot project to utilize solar panels as an alternative energy source,
- Optimization of internal water

consumption within the Company,

- Enhancing social support for the company's employees,
- Development of a digital panel system for tracking emissions,
- Implementation of ISO 14060 and other standards related to inventory reconciliation of emissions, providing appropriate certification, etc.

Regular negotiations are conducted with external consulting companies regarding ESG, sustainability, and emissions management. Cooperation with several companies in this direction was established during the reporting period. In this regard, ASCO has established cooperation with the American Bureau of Shipping (ABS) for inventory reconciliation of greenhouse gases (GHGs) and obtaining the relevant ISO certificate. Additionally, ASCO has partnered with EY to provide consulting services on Environmental Social Management and organize trainings for employees on the concept of ESG. During the reporting period, new procedures and forms related to ESG were incorporated into the Management System of the Company.



# ASCO'S COMMITMENT AND CONTRIBUTION TO UN'S SUSTAINABLE DEVELOPMENT GOALS

The countries of the world jointly adopted 17 Sustainable Development Goals (SDGs) at the international summit on sustainable development of the United Nations held in September 2015. It was agreed that the aforementioned Sustainable Development Goals, which came into force in January 2016, should be implemented by 2030. The Republic of Azerbaijan is one of the countries that has joined to the approved

Sustainable Development Goals and accepted the corresponding obligations arising from the SDGs. As a shipping company wholly owned by the state of Azerbaijan and operating internationally both in the Caspian Sea and beyond, ASCO considers the implementation of the SDGs as part of its sustainable development policy and actively contributes to the Republic of Azerbaijan's goals in this area.

## Global Sustainable Development Goals:





GOAL 1 and 2:

ASCO's employees are paid a competitive salary that covers household and essential expenses and the salary is above the national minimum wage. Additionally, in accordance with the Regulations on the provision of welfare assistance by the Company, financial aid is provided to personnel members and other citizens in need of financial support due to unsatisfactory living conditions. (see page 112-113 for more details)



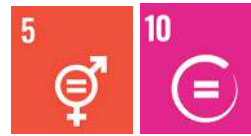
GOAL 3:

Ensuring employees have healthy and safe working conditions is one of the top priorities for the Company. All of ASCO's offshore and onshore personnel undergo regular medical examinations. What is more, health insurance is provided by ASCO to employees and their family members. (see p.124-125 for more details)



GOAL 4:

ASCO maintains a constant focus on the continuous involvement of employees in professional and personal development training. Furthermore, the Azerbaijan State Maritime Academy (ASMA) operates under ASCO, which serves to train professional, local seafaring personnel with high knowledge and skills in the field of shipping in the country. (see page 75-76 for more details.)



GOAL 5 and 10:

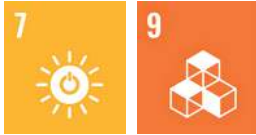
Each employee at ASCO is provided with equal opportunities for career development and professional activities, regardless of their gender, race, or religion. Female employees, alongside their male counterparts, hold positions in both operational and management roles at the Company. Salaries are determined based on factors such as position, rank, work experience, and performance, without any discrimination. Another important point is that ASCO fully meets the relevant requirements of the European Convention on Human Rights, in addition to complying with the requirements of the legislation of the Republic of Azerbaijan. (see page 92-105 for more details.)



GOAL 6:

The depletion of drinking water resources is a global environmental issue, and Azerbaijan also encounters limitations in its drinking water resources. The Company controls drinking water consumption and promotes its efficient use onboard vessels and in coastal facilities to protect water resources in our country. Moreover, ASCO implements several measures to prevent potential negative impacts on water bodies during shipping activities and to protect the environmental balance. (see page 138 for more details.)





GOAL 7 and 9:

Clean and renewable energy sources are in high demand in contemporary times, being widely employed across various industries, including the shipping sector. The Company is extensively exploring the potential use of such innovations and advancements, based on international best practices. This investigation is being conducted by the Scientific and Technical Council of ASCO, along with the Deputy Technical Director for technical innovations and new technologies, and the Innovations Laboratory established at the Azerbaijan State Maritime Academy. Furthermore, a priority is placed on vessel projects that feature modern equipment, exhibit optimal energy consumption, and incorporate advanced technologies for energy efficiency during the acquisition or construction of new vessels. (see page 145 for more details.)



GOAL 8:

ASCO continuously evaluates employees' working conditions and workplace safety, considering the requirements of the ISO 45001 standard in these matters. (see page 124 for more details.) From the start of its operations, ASCO has consistently concluded each reporting year with a profit and remains dedicated to ensuring the stability of the economic condition. (see page 66 for more details.)



GOAL 11:

While ASCO may not directly influence this SDG within its operational sphere, its indirect support through job creation and added value in the operational geography contributes to this SDG.



GOAL 12:

The Company places great importance on the effective and responsible utilization of material, natural, human, financial, and other resources during production and consumption stages of its activities. In this context, particular emphasis is placed on optimizing resource utilization, ensuring that it does not adversely affect the quality of consumption and production.



GOAL 13:

As part of its efforts to combat climate change, ASCO is actively working to maintain low levels of emissions. Thanks to the efforts undertaken during the reporting period, ASCO was able to maintain emissions at a minimum level. (see page 142 for more details.)



GOAL 14 and 15:

ASCO has implemented a management system designed to prevent negative technical and anthropogenic impacts on marine and soil ecosystems during its shipping activities. This system meets the requirements of international certificates and standards for protecting the sea surface from oil spills, managing liquid and solid waste on ships, treating ballast water, and organizing production activities on land. (see page 135, 138, 146 for more details.)



GOAL 16:

ASCO upholds the principle of fairness not only in its relationships with employees but also in its decision-making processes. The Company refuses to cooperate with all parties engaged in activities violating the principles of international sustainability and business ethics, including use of child or forced labor, corruption, human rights violations and other such negative circumstances. (see page 92, 94, 95 for more details.)



GOAL 17:

The full achievement of all Sustainable Development Goals requires collaborative cooperation and the exchange of experience and knowledge among various companies, organizations, and governments. Therefore, as part of its activities, ASCO establishes collaborations with both local and foreign partners and organizes conferences, seminars, round tables, and similar events to facilitate knowledge exchange and experience sharing with participants. In this report, you can also find information about ASCO relationships with various stakeholders.

## CLIMATE CORPORATE GOVERNANCE (CLIMATE CORPORATE GOVERNANCE - CCG)

There is a growing awareness of the impacts of climate change on the economy and businesses, highlighting the importance of considering climate change information when making financial and business decisions. Companies are advised to align their business operations with guidelines such as the Financial Stability Board's Task Force on Climate Financial Disclosures (TCFD) and the Network on Greening the Financial System (NGFS). This includes transitioning their operations towards low-carbon pathways (LCP) and climate-resilient pathways (CRP). Moreover, they should adhere to the rules and guidelines established by national regulatory and supervisory authorities in line with the EU Sustainable Financial Action Plan.

The shipping sector is one of the main sectors that is significantly impacted by climate change due to its sensitivity to climatic conditions, physical effects of climate change, and contribution to greenhouse gas emissions.

Therefore, ASCO is actively implementing business models and operational strategies that align with the low-carbon and climate-resilient objectives outlined in the 2015 Paris Agreement. Given ASCO's business operations in the Caspian Sea region, which is particularly vulnerable to the anticipated effects of climate change (such as significant revenue streams tied to the oil and gas sector), and these measures are among the company's priorities.

ASCO is focused on enhancing its internal corporate governance system, particularly in sustainable development. Consequently, the company is actively engaged in improving its corporate governance practices and conducting risk assessments related to its actions in the sphere of climate.

ASCO faces various climate-related risks, such as complying with increasingly stringent emissions standards set by the International Maritime Organization, navigating through complex conditions caused by the lowering Caspian Sea level, potential setbacks from unsuccessful investments in shipping technologies, reliance on the oil and gas sector as a primary revenue source, and an increase in days with challenging windy weather conditions. These risks are actively identified and assessed by the Company.

In 2024, ASCO plans to implement a climate-related corporate governance (CCG) project in collaboration with the European Bank for Reconstruction and Development (EBRD).



### CONTRIBUTION TO COP29

Azerbaijan became a member of the UN Framework Convention on Climate Change in 1995. Azerbaijan ratified the Kyoto Protocol on July 18, 2000, committing to

reduce greenhouse gases. Furthermore, on April 22, 2016, Azerbaijan participated in the signing ceremony of the Paris Agreement under the UN Framework Convention on Climate Change.

The National Priorities of Azerbaijan for socio-economic development until 2030, as approved by the Decree of the President of the Republic of Azerbaijan dated February 2, 2021, underscore the importance of addressing global climate change. This includes prioritizing the adoption of environmentally friendly technologies, utilizing clean energy sources, promoting waste recycling, and facilitating the remediation of contaminated sites. In pursuit of a high-quality ecological environment and the development of a 'green energy' sector in Azerbaijan, significant steps have been taken, particularly in the last three years following the restoration of our territorial integrity. These efforts aim to strike a balance between environmental preservation and economic

growth, as well as to increase the proportion of green areas across the country.

Climate change stands out as one of the pressing global concerns of our time. The global community is becoming increasingly concerned about climate change and its impacts on the natural world. Our country is not immune to the effects of global climate change, and as a dependable and responsible member of the international community, we actively contribute to combating the consequences of climate change.

One of Azerbaijan's five national priorities for socio-economic development until 2030 is defined as 'Country of clean environment and green growth. As part of this priority, efforts are underway to enhance the environment, promote reforestation and green spaces, and optimize the utilization of water resources alongside sustainable energy sources.



Azerbaijan has set ambitious targets to reduce greenhouse gas emissions by 35% by 2030 and by 40% by 2050 compared to the levels in the base year of 1990.

A key priority of Azerbaijan's energy policy is the development of green energy sources and the transportation of such energy to global markets. Azerbaijan's goal is to raise the proportion of renewable energy sources in the installed capacity of electricity production to 30% by 2030.

The Republic of Azerbaijan plays a role in combating climate change through its efforts in the shipping industry. Being that, Azerbaijan has become a party to the International Maritime Organization's International Convention for the Prevention of Pollution from Ships (MARPOL), which is a specialized agency under the United Nations. Since 2012, Annex VI of the Convention 'On the Prevention of Air Pollution from Ships' has enforced the Energy Efficiency Design Index (EEDI) for newly built ships and the 'Ship Energy Efficiency Management Plan' for all ships over 400 tons, focusing on fuel efficiency. Additionally, starting in 2018, ships over 5,000 tons are required to report fuel consumption data, with Part II detailing the data collection methodology added to the 'Ship Energy Efficiency Management Plan'.

In April 2018, the International Maritime Organization (IMO) established strategic targets to reduce greenhouse gas emissions from ships. These targets include specific measures aimed at decreasing

the annual waste released into the air due to international shipping activities by a minimum of 50% by 2050, compared to the levels in 2008. This initiative was formalized through the adoption of the 'Initial Strategy of the International Maritime Organization on Reducing Greenhouse Gas Emissions from Ships'. The Initial Strategy of the International Maritime Organization provides general principles for Member States to reduce greenhouse gas emissions from vessels and includes an action plan with short-term, medium-term, and long-term targets. Following the Initial Strategy, as of 2023, the Energy Efficiency Existing Ship Index (EEXI) requirements have been implemented for vessels with a gross capacity of 400 tons or more. Simultaneously, technical standards have been introduced to reduce carbon dioxide emissions intensity based on the Energy Efficiency Coefficient (EEXI) for vessels with a total capacity of 5000 tons or more. This includes the Carbon Dioxide Intensity Indicator (CII) derived from annual operations and its calculation methodology, as detailed in Part III of the 'Ship's Energy Efficiency Management Plan'. ASCO is actively contributing to the battle against climate change by consistently implementing the aforementioned requirements set by the International Maritime Organization to decrease greenhouse gas emissions.

The unanimous decision of the 29th session of the Conference of the Parties to the UN Framework Convention on Climate Change to select Azerbaijan as the host for an

esteemed event like COP29 signifies significant respect and trust from the international community. This decision reflects recognition of Azerbaijan's commitment to environmental protection and climate action at national, regional, and global levels, serving as a clear example of appreciation for its contributions to mitigating climate change.

Azerbaijan's water resources, energy, forests, agriculture, tourism, health sector, and coastal zones are all sensitive to the impacts of climate change. To enhance global awareness and foster international solidarity in combating this issue, President of the Republic of Azerbaijan, Mr. Ilham Aliyev signed a decree on December 25, 2023, declaring 2024 as the 'Year of Solidarity for the Green World'. This decree reaffirms Azerbaijan's status as one of the pioneering nations in joining global initiatives. Designating 2024 as 'Year of Solidarity for the Green World' by the head of our state reflects our commitment to expanding environmental activities throughout the year and significantly intensifying efforts in the direction of environmental protection. ASCO will host

significant environmental events and implement relevant projects in Azerbaijan in 2024 as part of the preparations for COP29. A commission has been established to examine ASCO's potential contributions to organize the COP29 event, enhance environmental protection efforts, ensure ASCO's unified approach, and provide proposals and recommendations on environmental protection, safety, and landscaping. The commission's goal is to determine internal measures within ASCO and achieve more efficient and planned management of related measures, particularly at the "Bibiheybat" Ship Repair Yard. Considering all aspects of the "Bibiheybat" Ship Repair Yard, including its activities, location, and impact on the city's image, a comprehensive plan of action has been developed addressing development, safety, and ecological concerns. The action plan encompasses safe implementation and risk assessment, protection of ecological balance, costs associated with the planned work, recycling of metal waste, removal of scrapped floating vehicles from the water area, necessary repair and construction works, and the demand for goods and materials.



# **FINANCIAL AND OPERATIONAL RESULTS**





## FINANCIAL RESULTS

ASCO places special emphasis on maintaining a financially sustainable development trajectory, enhancing cost control measures and efficient financial resource utilization, and exploring opportunities for revenue growth. The Company is taking continuous measures such as cost optimization, elimination of overhead costs, efficient distribution and use of revenues, attraction of new types of cargo flows and participating in new projects to maintain the financial condition with sustainable development dynamics. Thanks to these measures, ASCO successfully completed its activities with profits every year from 2014 to 2023.

Since its establishment, every year ASCO has consistently achieved profit from its

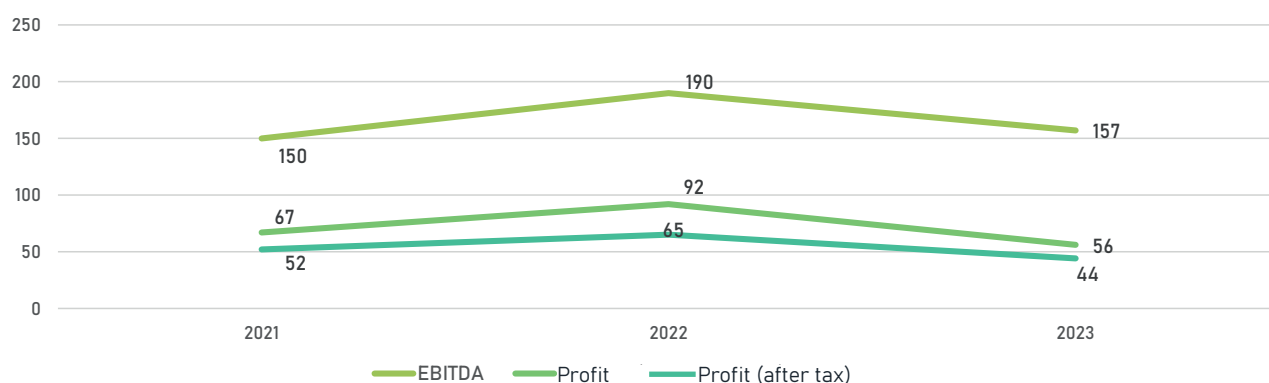
activities, with profits reaching 65 million AZN in 2022 and 44 million AZN in 2023. Moreover, EBITDA indicator was AZN 190 million in 2022, AZN 157 million in 2023, and the EBITDA margin was 33% and 30%, respectively. The level of indebtedness of the Company also remained very low compared to many companies operating internationally, including shipping companies, and debt to equity ratio between 2022 and 2023 was 1% and 12%, respectively. Apart from that, the capitalization of the Company has increased by 160% and amounted to 1.4 billion AZN since the reorganization of ASCO.

Key financial results extracted from the audited financial reports of ASCO have been presented in the table below.

### Financial results for 2021 - 2023 (according to IFRS), thousand manats:

Indicators	2021	2022	2023
Revenue	459,133	570,071	524,195
Cost of sales	(306,069)	(369,444)	(375,113)
Operating profit	68,290	93,295	59,222
Profit before income tax	66,555	92,073	56,362
Income tax expense	(14,763)	(26,632)	(12,677)
Profit for the year	51,792	65,441	43,685

### Profitability indicators of ASCO, mln AZN

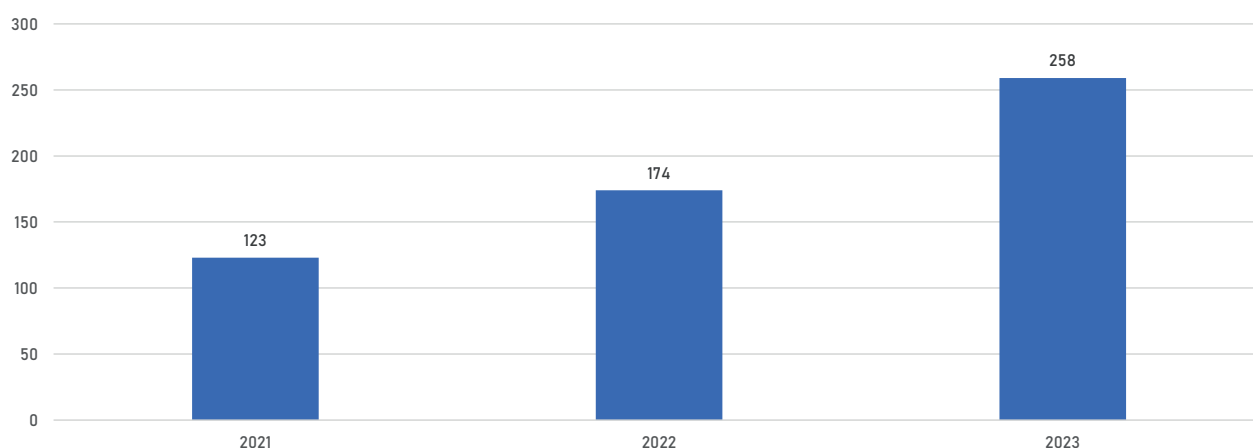


ASCO is making significant investments in the construction and acquisition of various types of new vessels to sustain its leading position in the Caspian Sea and expand cargo transportation into non-Caspian markets. The following table provides information on the investments made by ASCO during 2021 - 2023.

**Investments expenditures made by the Company during 2021 - 2023, thousand manats:**

Indicators	2021	2022	2023
Investment amount, thousand manats (th. AZN)	123,023	174,125	258,109
including investment in:			
Acquisition and overhaul of fixed assets	121,794	173,548	257,104
Acquisition of intangible assets	1,229	577	1,005

**Investment, mln AZN**



As the largest shipping company in the country, ASCO pays special attention to the timely fulfillment of tax obligations in accordance with the requirements of the legislation. At the same time, ASCO closely cooperates with the State Tax Service under the Ministry of Economy of the Republic of Azerbaijan on issues such as the requirements of tax legislation, implementation of amendments and changes to the applicable legislation, verification of submitted tax return reports, tax planning. The table below provides information on taxes paid by ASCO during 2021 - 2023.

**Tax payments by ASCO during 2021 - 2023, thousand manats:**

Indicators	2021	2022	2023
Profit tax	11,379	13,155	14,479
Property tax	5,446	6,877	8,704
Value-added tax	1,780	6,814	1,644
Withholding tax	1,654	18,875	21,540
Land tax	215	191	191
Other taxes and fees	552	1,455	804
<b>Total:</b>	<b>21,026</b>	<b>47,367</b>	<b>47,362</b>

In December 2023, pursuant to the Decree from the Cabinet of Ministers of the Republic of Azerbaijan, funds in the amount of AZN 226 million were allocated to increase the share capital of ASCO. This allocation aims to enable ASCO to acquire shares and bonds of Baku Shipyard owned by the Azerbaijan Investment Company.

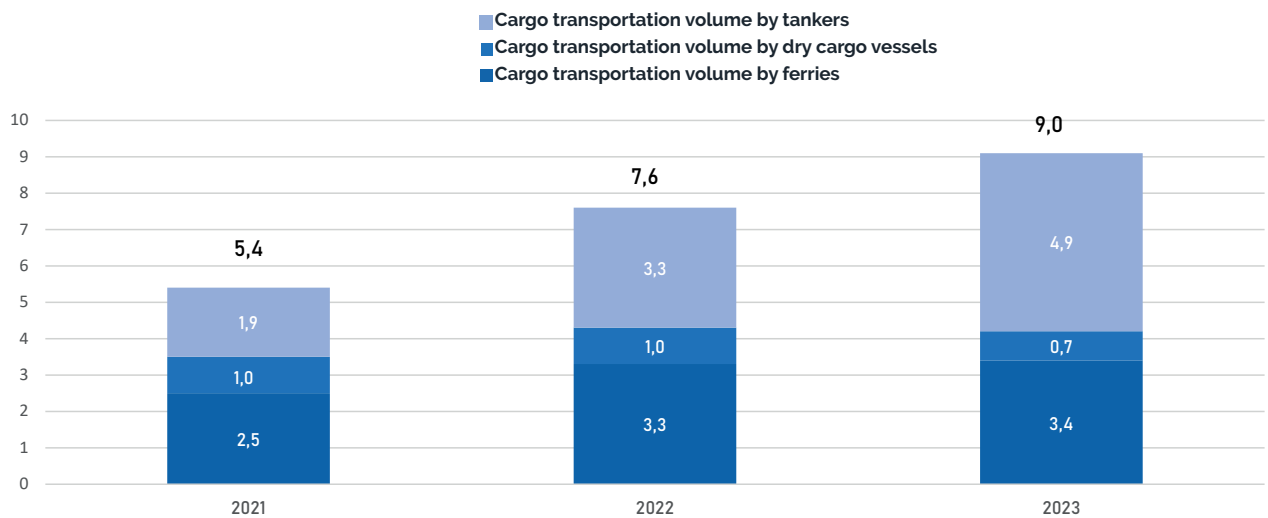
## OPERATIONAL RESULTS

### Cargo transportation

ASCO is constantly exploring freight markets, the competitiveness of freight routes passing through Azerbaijan compared to other routes, the possibility of involving additional cargo on routes passing through

the Caspian Sea and, accordingly, applies discounted tariffs to involve potential new cargo. To this end, discounts were applied to a number of goods transported to Kazakhstan and Turkmenistan, including vehicles, oil products, paraxylene, benzene, food products produced in Azerbaijan, engine room accompanying refrigerated cars and various other cargo during the reporting period. At the same time, the discounts applied by ASCO for the transportation of containers and various freight car cargo in the direction of China-Europe within the Trans-Caspian International Transport Route remained in force during the reporting period.

**Cargo transportation volume by types mln t**



**Carriage of railway cars and vehicles during 2021 - 2023, units:**

	2021	2022	2023
Number of railway cars transported	30,466	38,635	37,642
Number of vehicles (TIRs) transported	30,893	35,290	35,207



The current geopolitical situation in the region has also impacted the volume of cargo transportation across the Caspian Sea during the reporting period. Consequently, Kazakhstan is exploring the option of redirecting the export of crude oil and oil products through alternative routes. Starting from 2023, a portion of the crude oil volume exported from Kazakhstan to the west was redirected through Azerbaijan. The plan is to further increase these volumes in the coming years.

At present, ASCO operates 2 tankers and 4 dry cargo vessels outside the Caspian Sea. In line with plans to broaden operations beyond the Caspian Sea and bolster ASCO's cargo transportation capacity in these regions, alongside venturing into the transportation sector with larger deadweight vessels, SOCAR and ASCO jointly established a joint venture named 'SA Maritime' in 2023. The

venture established on a partly basis was registered in Alat Free Economic Zone. The joint venture 'SA Maritime AFEZCO' has acquired and operationalized three Aframax tankers named 'Karabagh,' 'Shusha,' and 'Zangezur,' each with a carrying capacity of approximately 115,000 tons. The technical management of these vessels is handled by ASCO Ship Management AFEZCO, a wholly owned subsidiary of ASCO. This subsidiary ensures that the vessels are managed in compliance with international requirements. The funding for ASCO's portion in the acquisition of these massive vessels was performed through the proceeds generated from the issuance of "ASCO bonds" by ASCO on the local market. So, in December 2022, ASCO issued bonds for the first time in the Company's history. ASCO successfully issued 5-year, 6% "ASCO Bonds" with a total value of USD 100,000,000. Each bond has a nominal value of USD 1,000.

**Specialized offshore services for the oil and gas industry:**

The following table provides information on the number of days of service performed by the vessels in the specialized offshore fleet of ASCO on various oil and gas projects during 2021 - 2023.

**Operating results of the specialized oil fleet, working days:**

	2021	2022	2023
Total days worked	37,802	37,439	37,111

As part of the implementation of the commitment taken by our country to reduce oil production within the framework of the OPEC organization, production has been reduced in some offshore oil and gas fields, and the demand for specialized offshore

services has decreased accordingly.

In 2023, SOCAR and ASCO collaborated on a joint project to evaluate SOCAR's long-term optimal demand for specialized offshore vessels. This project involved the participation of the internationally renowned consulting company 'McKinsey & Company'. "Under this project, SOCAR (including "Azneft" PU, "UBOC," "Bahar Energy Operation Company," and "JOCAP" companies) has assessed the long-term demand for ASCO's specialized offshore vessels." Simultaneously, the project considered the replacement of vessels with new ones and the extension of the service life of several existing vessels, considering potential risks for both SOCAR and ASCO.



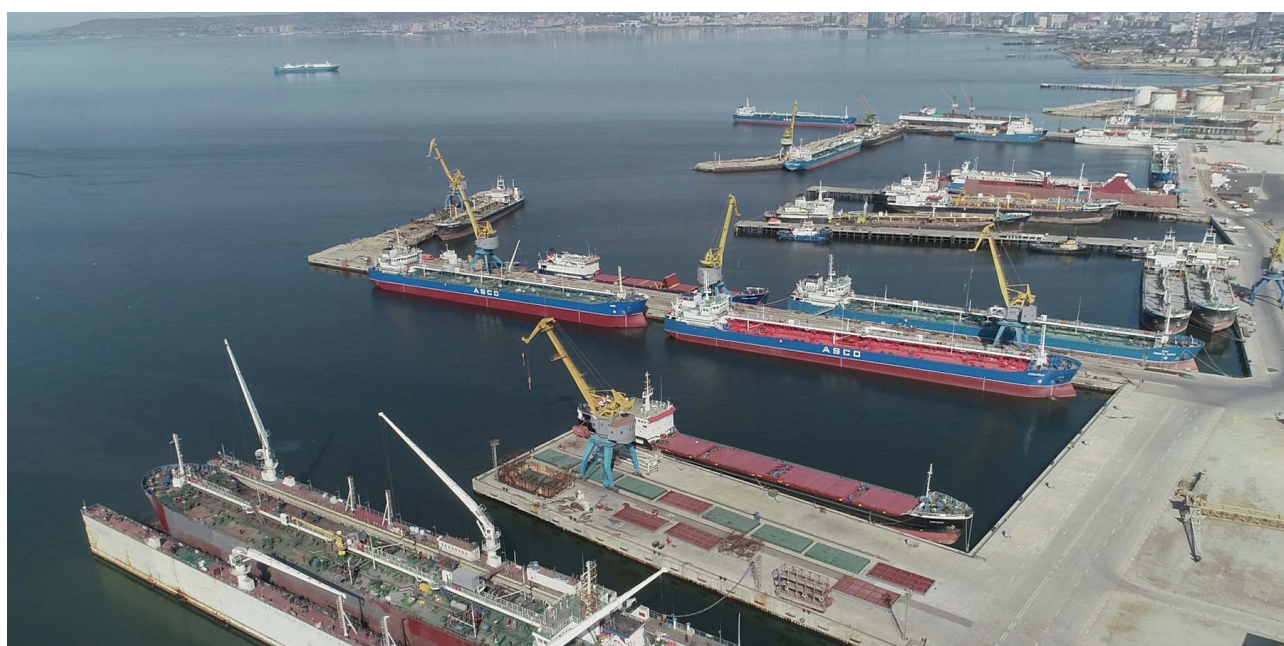
At the same time, ASCO's specialized offshore vessels were involved in projects across the Azerbaijani sector of the Caspian Sea, as well as in other sectors. Thus, the relevant vessels owned by ASCO were involved in the dredging work carried out around the Filanovsky field in the Russian sector of the Caspian Sea and those works were accomplished in 2022.

## Ship repair and construction

The following table provides information on the ship repair works carried out in 2021 - 2023 at Bibiheybat Shipyard and Zigh Ship Repair and Construction Yard, which operate in the structure of ASCO.

### Ship repair results, number of repairs :

Type of repair	Bibiheybat Ship Repair Yard			Zigh Ship Repair and Construction Yard		
	2021	2022	2023	2021	2022	2023
Class repair	18	25	17	7	13	7
Dock repair	35	43	42	18	12	11
Current repair	10	22	16	13	8	9
Emergency repair	3	9	2	0	0	0
Navigation repair between voyages	159	201	247	479	536	760
Dock service	21	32	35	0	0	0
<b>Total:</b>	<b>246</b>	<b>332</b>	<b>359</b>	<b>517</b>	<b>569</b>	<b>787</b>





During the reporting period, both the “Bibiheybat” and “Zigh” yards provided ship repair services not only for vessels operated by ASCO’s fleets but also for vessels owned by other shipping companies operating in the Caspian Sea. It’s worth noting that in 2022, the mentioned yards provided ship repair and dock services to 48 vessels, and this number increased to 49 vessels from other shipping companies in 2023.

#### **Fleet renewal:**

To sustain ASCO’s leading position in the Caspian Sea and ensure the continuity of its cargo transportation capacity, maintaining a fleet that adheres to modern standards and meets the requirements of cargo owners and leading oil and gas companies is crucial. This includes gradually replacing vessels that have reached the end of their service life and constructing new ones in line with market demand, making

shipbuilding a strategically important aspect. In this regard, ASCO commissioned one Ro-Pax type vessel, the “Zarifa Aliyeva” at Baku Shipyard (BSY) in 2022. The vessel is capable of carrying 56 freight cars or 50 trucks (TIRs) and accommodates up to 100 passengers. Additionally, ASCO put into operation the tanker named “Academician Khosbakht Yusifzade” with a carrying capacity of 8,000 tons.

In May 2023, the boat named “ASCO-1,” the first of six small capacity boats built at the “Zigh” Ship Repair and Construction Yard within ASCO’s structure, was put into operation. Later, in November of the same year, the construction of the second ship of the same type — the “Tartarchay” — was completed. Currently, construction work on four small water-capacity boats is ongoing at the “Zigh” Ship Repair and Construction Yard, with plans to commission these vessels in stages.





As part of its fleet renewal efforts, ASCO has placed orders for the construction of the next 8,000-ton tanker is nearing completion, with plans to commission this vessel in 2024.

Afterward, ASCO placed an order for four new vessels at BSY, comprising three passenger vessels and one large diving vessel. Currently, there are plans to place an order for the construction of three small diving vessels at BSY once the rates are determined.

As part of ASCO's expansion into non-Caspian markets, the company plans to purchase Handysize type dry cargo vessels to enter the segment of large-capacity dry cargo vessels in these basins. These vessels are estimated to have 7-9 times more capacity than the dry cargo vessels currently operated in ASCO's fleet. ASCO has initiated cooperation with

the European Bank for Reconstruction and Development (EBRD) to finance the purchase of Handysize vessels. Therefore, in September 2022, ASCO, Azerbaijan Investment Holding (AIH), and the European Bank for Reconstruction and Development (EBRD) signed a Mandate letter for the allocation of a loan of up to 100 million US dollars without a sovereign guarantee. Thereafter, EBRD conducted extensive diagnostics across various areas at ASCO in accordance with the mandate letter with the involvement of "Drewry," "DNV," "Clifford Chance," and other internationally reputable consulting companies, as well as various specialized experts from EBRD. The diagnostics carried out at ASCO covered areas such as financial condition and governance, commercial activities and operations management both within the Caspian region and beyond, compliance with existing international sanctions, procurement and supplies, corporate



governance systems, legal and technical management, as well as environmental protection and social responsibilities of the Company. In 2023, all diagnostic projects conducted by the EBRD at the Company were successfully completed and received positive feedback. Consequently, the EBRD Board of Directors approved the allocation of a loan to ASCO for the purchase of Handysize vessels. In February 2024, a loan agreement with a total value of 60 million USD was signed between ASCO and the EBRD. The loan agreement outlines two tranches, with 70% of the vessels' purchase price financed through the loan funds allocated by EBRD and the remaining 30% covered by ASCO's internal resources. Each tranche of the loan is valued at 21 million USD, with an additional 9 million USD financed from ASCO's internal resources, making the total amount for both tranches 60 million USD. The first Handysize type vessel is expected to be acquired and commissioned in 2024.

Furthermore, ASCO is expected to acquire and commission an Aframax-type vessel. To finance this acquisition, ASCO successfully issued its next bonds with a total value of \$50,000,000 (fifty million US dollars) in December 2023. The Aframax-type tanker is planned to be purchased and commissioned in 2024.

In addition to the above, ASCO's investment plan, approved by the Supervisory Board, includes the construction of tankers and dry cargo vessels for ASCO's transport fleet at BSY. It also encompasses the purchase of an Aframax-type tanker to expand activities beyond the Caspian basins, along with the acquisition and commissioning of a dredging vessel in the Caspian Sea in the coming years.

In general, 28 new vessels, including 8 dry cargo vessels for the transport fleet, 4 tankers and 2 Ro-Pax / ferry, and 1 anchor carrying supply tugboat for the specialized oil fleet, 7 supply vessels, 1 port tugboat and 3 passenger vessels as well as 2 small water displacement boats were put into operation by ASCO since 2014 with the purpose of renewal of the fleet.

**Training and education:**

Demand of the Company in highly qualified, able to operate current technology and professional young personnel are met by the Azerbaijan State Maritime Academy operating under ASCO. In order to reconcile the graduation of students at ASMA with demands of the Company in new personnel, the quality of alumni is preferred over

quantity thereof. As a result of the efforts in this direction, the minimum admission score to the Academy has increased. Being that, 34 students scored over 500 and 2 students over 600 opted for the education at ASMA during the two academic years falling within the reporting period. During the reporting period, interest in education at ASMA has increased not only from local applicants but also from foreign countries. 40 Students from countries such as Egypt, Sudan, and Iraq were admitted to the Academy alongside local applicants. By the end of the reporting period - the number of students getting education of bachelor`s degree constituted 858 and the number of students receiving master`s degree was 52 on December 31, 2023.



The Azerbaijan State Maritime Academy's relations with other higher technical education and research institutions continue to expand. In 2022, an agreement on joint cooperation was signed between ASMA and the "Institute of Scientific-Research Aerospace Informatics" of the National Aerospace Agency. Under this agreement, the "Applied Mechanics" department of the Academy of Sciences and the Scientific-Research Aerospace Informatics Institute will collaborate on personnel training and scientific research.

Additionally, in 2023, ASMA hosted the "Ship Engineer - 2023" technology exhibition. The Academy's departments, along with

"ASCO Engineering" LLC, the Merchant Fleet, Caspian Sea Oil Fleet, "Bibiheybat" Ship Repair Yard, and "Zigh" Ship Repair and Construction Yard, participated in the exhibition. They showcased products from their scientific and technical creative activities, fundamental and applied research, including technological innovations and novelties. The exhibition aimed to support and foster scientific-technical and applied creativity, promote business ideas among young people, and expand the startup movement within the Academy. It also prepared participants for involvement in the "TEKNOFEST" technology exhibition.





# **CORPORATE GOVERNANCE**



## SHAREHOLDER, SUPERVISORY BOARD AND MANAGEMENT BOARD

ASCO is a 100% state-owned shipping company. The exclusive powers of the General Assembly of ASCO are exercised by the President of the Republic of Azerbaijan and Azerbaijan Investment Holding with the consent of the President of the Republic of Azerbaijan:

Powers of the President of the Republic of Azerbaijan:

- Reorganization and dissolution of ASCO
- Appointment and dismissal of heads and members of the Supervisory Board and the executive body

Powers of the Azerbaijan Investment Holding exercised with the consent of the President of Azerbaijan Republic:

- Approving ASCO's charter, structure, as well as annual reports, financial statements and dividend policy
- Determining the amount of the share capital
- Profit and loss sharing,
- Decision-making on the issuance of securities,
- Adopting a decision on concluding a particularly important contract, as well as a contract with a related party with a value exceeding 5% of the Company's assets, based on the opinion of an independent auditor

The Supervisory Board of ASCO performs general supervision on the operations of the Company. The composition of the Supervisory Board and the Management Board of the Company is determined by the relevant decrees issued by the President of the Republic of Azerbaijan.

The composition of ASCO's Supervisory Board is presented below:

- Samir Sharifov - Chairman of the Supervisory Board, Minister of Finance of the Republic of Azerbaijan
- Rahman Hummatov - Member of the Supervisory Board, Deputy Minister of Digital Development and Transport of the Republic of Azerbaijan
- Matin Eynullayev - Member of the Supervisory Board, Chairman of the Management Board of Azerbaijan Investment Holding, Head of the State Service for Property Issues under the Ministry of Economy of the Republic of Azerbaijan
- Khayyam Mammadov - Member of the Supervisory Board, Deputy CEO of Azerbaijan Investment Holding
- Vugar Majidli - member of the Supervisory Board, head of the Department of Finance of Economic Areas of the Office of the Ministry of Finance of the Republic of Azerbaijan.



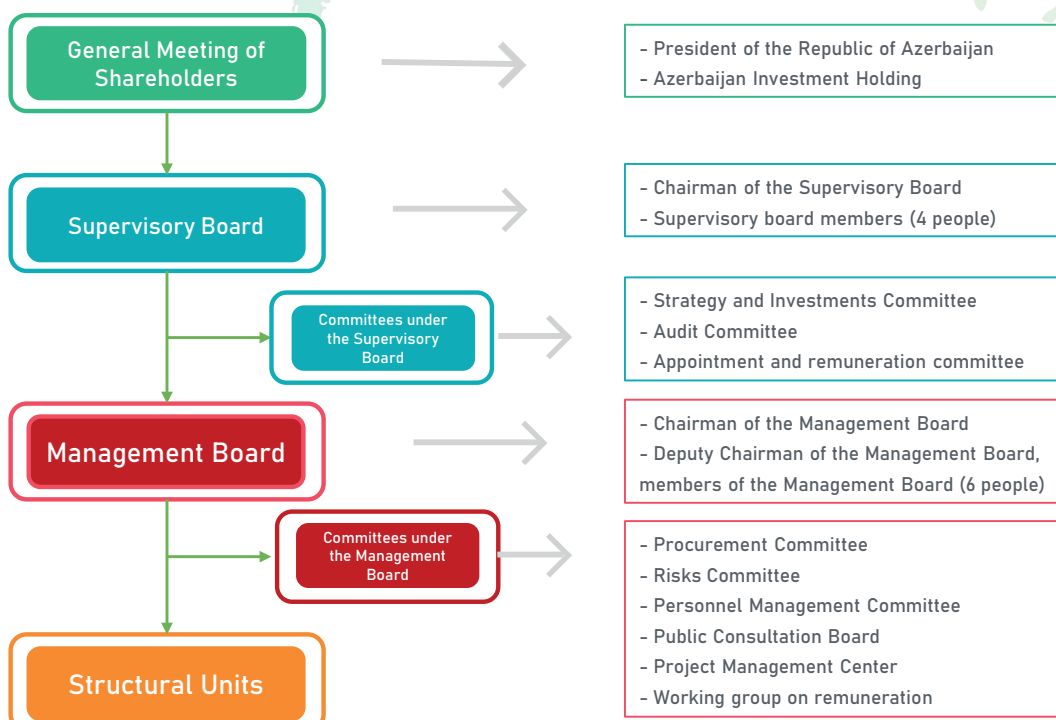
The powers of the Supervisory Board include:

- Approving ASCO's long - term development strategy
- Approving the income and expense pro forma and monitoring its implementation,
- Approving the policies, internal rules on separate areas of activity, as well as the charters of branches and representative offices of the Company,
- Approving transactions with related parties whose value is up to 5% of ASCO's assets along with the opinion of an independent auditor,
- Establishing various committees under the Supervisory Board, approving their rules, appointing and dismissing their heads and members,
- Taking into account the requirements of the existing statutory legal acts, to give consent to the conclusion of agreements related to the management and privatization of the ASCO's assets;

The composition of ASCO's Management Board is presented below:

- Rauf Valiyev – Chairman of the Management Board
- Mubariz Jabbarov – Member of the Management Board, first deputy chairman of the Management Board
- Jalal Farajli – Member of the Management Board, deputy chairman of the Management Board
- Jabrayil Mahmudlu – Member of the Management Board, deputy chairman of the Management Board
- Nazraddin Ahmadzada – Member of the Management Board, deputy chairman of the Management Board
- Zaur Naghiyev – Member of the Management Board, deputy chairman of the Management Board
- Tariyel Mirzayev – Member of the Management Board, deputy chairman of the Management Board

In conclusion, a graphic representation of ASCO's corporate governance structure is provided below:



## IMPROVEMENTS IN CORPORATE GOVERNANCE SYSTEM

ASCO places special importance on implementing and continuously improving its corporate governance system to enhance management effectiveness, make informed investment decisions, and improve financial and economic activities. Since its incorporation, ASCO has prioritized transparency and accountability, essential elements of an effective corporate governance system. This focus has led to the establishment of a robust corporate management system, the adoption and implementation of normative documents widely used in international practice, the formation of committees for collegial decision-making in relevant fields, and the implementation of various measures and projects to support these efforts.

During the reporting period, the Charter of

the Company was updated and approved by the decision of the Supervisory Board of Azerbaijan Investment Holding on July 8, 2022. It was subsequently registered with the state on November 15, 2022. Apart from that, ASCO's corporate governance standards were approved by the decision of the Supervisory Board of Azerbaijan Investment Holding.

Since its foundation, ASCO has placed special emphasis on organizing its activities in alignment with international standards and obtaining relevant certificates of conformity. In this regard, the American Bureau of Shipping (ABS) has conducted numerous audits at ASCO, leading to the awarding of appropriate compliance certificates for the Company. Additionally, ABS conducts continuous audits to ensure ASCO's activities remain aligned with the requirements outlined in those certificates. During the reporting period,



ASCO was awarded a certificate according to the international standard ISO 37001 - "Anti-bribery management system" based on the results of initial and repeated inspections conducted by the audit service of the international classification society LRQA (Lloyd's Register) of Great Britain. Generally, ASCO holds the following certificates and meets the requirements of the relevant conventions:

- ISO 9001: 2015 (Quality Management)
- ISO 14001: 2015 (Environmental Management)
- ISO 50001: 2011 (Energy efficiency management)
- ISO 45001: 2018 (Health and Safety Management System)
- ISO 37001: 2016 (Anti - bribery management system)
- ISM code 2018 (International Security Management System)
- ISPS code: 2003 (International Ship and Port Facility Security Code)
- SOLAS (International Convention on Safety of Life at Sea)
- MARPOL - (Marine Pollution Convention)
- STCW (International Convention on Standards of Training, Certification and Watchkeeping)

In accordance with the strategic development directions of the Company, it has cooperated with reputable international ranking agencies to obtain a credit rating. ASCO

received a credit rating from Fitch Ratings for the first time in its history in 2016, and then the Moody's was invited and the Company's credit rating was re-assessed in 2019. During the reporting period, ASCO collaborated once again with Fitch Ratings to obtain a credit rating in 2022. In all three cases these ranking agencies have analyzed ASCO's business model, conducted numerous meetings and conducted research, and determined that ASCO's liquidity and ability to meet its credit obligations are sustainable.

At ASCO, special attention is given to the automation of business processes and the application of innovative electronic systems and software. In pursuit of this goal, the Company has implemented SAP ERP along with its relevant modules. Additionally, various systems and software for fleet operation, ship repair and design, human resources management, and general administrative work have been deployed. The PM (ship repair and maintenance planning) module of the SAP ERP system was successfully implemented and put into use during the reporting period. At the same time, to enhance the efficiency of data exchange within the SAP ERP system, SAP servers were migrated to the "S4/HANA" system. At present, ASCO is working on the implementation of the tax treatment module of the SAP ERP system.



Alongside this, the “My ASCO” mobile application, an electronic cabinet for ASCO employees was launched. The “My ASCO” mobile application is designed to enhance convenience and efficiency by digitizing several services for employees, thereby improving the accessibility of electronic services for seafarers employed at ASCO. The mobile application “My ASCO” enables ASCO personnel to access up-to-date information about ASCO, request various references and documents from their workplace, communicate directly with ASCO employees, receive collective and individual notifications, announcements, and documents, and receive reminders about certificate expiration dates and other important information. Additionally, employees can access a detailed online statement of their monthly salary in real time, check vacation days and apply for leave electronically, download electronic copies of personal documents, evaluate

service performance over the past years, and access the internal online training platform of ASCO, among other digital services. Moreover, the application includes a list of available bus routes to and from ASCO’s head office and structural offices at the end of the business day. It also provides information about meals served daily at lunchtime in both the head office and structural departments, details regarding available vacancies at ASCO, and the functionality to apply for a suitable vacancy directly through the app. The “My ASCO” mobile application allows seafarers to send various requests, suggestions, complaints, and electronic requests to arrange appointments with the top management of the Company from any location. Furthermore, to facilitate communication among employees, a corporate social network operates within the mobile application.

## STRATEGIC MANAGEMENT

In 2022, ASCO updated its Shipping Strategy for the period of 2022-2030 in collaboration with the internationally renowned consulting company KPMG. The updated strategy was deemed acceptable in terms of the general concept at the meeting of ASCO's Supervisory Board on June 29, 2022. Following the Strategy, a short-term investment plan was formulated and approved by the Supervisory Board.

Currently, a project is being implemented to attract private investments in ASCO in accordance with the relevant Decree

signed in 2023 by the President of the Republic of Azerbaijan. The internationally renowned consulting company Boston Consulting Group (BCG) was engaged in the implementation of the project, which was led by the Ministry of Economy of the Republic of Azerbaijan and supported by Azerbaijan Investment Holding. As part of the project, preparatory work is planned to ensure that BCG conducts analyses, determines possible directions for attracting private investments, and takes relevant actions to attract private investments at ASCO.



## TRANSPARENCY, ACCOUNTABILITY AND DISCLOSURE OF INFORMATION

International Financial Reporting Standards (IFRS) have been implemented in ASCO since 2014. The financial reports of the Company, prepared in accordance with these Standards (IFRS), are audited annually by a reputable international audit company

and published on the official ASCO website along with the auditor's opinion as per the principles of transparency. The consolidated financial statements encompass all structural departments and subsidiaries of ASCO.

In addition, ASCO has been producing Sustainability Reports covering a two-year period starting from 2014. ASCO published its first Sustainability Report covering the years 2014-2015 in 2016, making it the first shipping company in the Caspian Basin to publish a corporate social responsibility report. The current report represents ASCO's fifth Sustainability Report. All these reports were audited by an international audit company, and a positive opinion was issued and publicly posted on ASCO's official website.

Policy on disclosure of information conditioning the disclosure of financial and operational results is implemented in ASCO.

The Public Consultation Council at ASCO operates to foster transparent and effective communication with the public. The composition of the Council is formed by civil society institutions operating in the country, including non-governmental organizations (public associations and funds), media representatives, trade unions, initiative groups of citizens, international experts and consultants, as well as ex-seafarers and current employees of the Company who were distinguished for their special skills and experience and those who have a good reputation within the working staff. The Council directly ensures stakeholder participation in discussions regarding ASCO's economic and operational results achieved during the activity period. This involves providing transparent and

accurate information to stakeholders, as well as considering opinions and suggestions expressed by the public during these discussions. Additionally, ASCO ensures that its achievements, operational results, innovations, and significant events happening in the Company are transparently communicated to the public through ASCO's official website, social network accounts, and other well-known mass media channels.

## **COMPENSATION AND REMUNERATION SYSTEM**

In line with international practice, ASCO has been implementing an annual performance-based remuneration system since 2017 with the purpose of assessing the annual performance of personnel in the implementation of strategic goals, motivating and encouraging them in this field. Within this framework of the remuneration system, balanced "Key Performance Indicators" (KPIs) aimed at achieving the strategic goals and targets of the Company and the passports have been developed for each KPI, covering their specific weight and target values. Targets and weights for ASCO's Corporate KPIs, as well as cascaded KPIs to the Management Board members are approved by ASCO's Supervisory Board on annual basis, and based on this, the personnel reward process is organized. Working Group on Remuneration System has been set up at ASCO with the aim of ensuring regulation and coordination of the remuneration process.



The remuneration system implemented at the Company includes the following criteria, principles, and goals:

- To achieve the strategic goals and objectives set by the Company;
- To encourage employees for development and improvement and to motivate them to be more productive;
- To further increase the commitment and loyalty of highly qualified and leading personnel to ASCO, to involve new strong personnel in the Company;
- To ensure the profitability and commercial viability of the Company;
- To ensure transparency, fairness and objectiveness in the assessment and remuneration of activities.

Since 2021, the Company has automated the incentive scheme remuneration process, enabling the automatic calculation of KPI results and bonus amounts through the electronic system.

## **PROCUREMENT SYSTEM**

Procurement procedures for supplier selection at ASCO are conducted in accordance with the current legislation of the Republic of Azerbaijan, internal documents of ASCO, and advanced principles of procurement in the field of international shipping industry. During the reporting period, ASCO's Supervisory Board approved the "Procurement Guidelines" on November 3, 2023, and the composition of Procurement Committee was subsequently approved on March 7, 2024. In accordance with the "Procurement Rules", the reliability, financial stability and positive business reputation of suppliers are evaluated as part of the selection process. Within the mentioned procedure, the positively evaluated parties are included in the list of potential vendors of the Company, and the negatively evaluated parties are included in the list of unreliable (risky) vendors. During the reporting period, a total of 76

assessment procedures were conducted, and no negative cases were identified during these assessments. The Company places great importance on ensuring transparency during procurement operations. To achieve this goal, ASCO publicly publishes all bidding processes on the Company's official website. As a wholly state-owned shipping company, ASCO prefers local suppliers of goods, works, and services, provided they comply with the relevant quality requirements. In total, the share of procurement budget allocated for local vendors and contractors of ASCO constituted 82 % in 2022 and 75 % in 2023. It should be noted that in 2022, total 431 suppliers, in 2023 total 419 suppliers had provided service to ASCO, consequently out of those suppliers the number of local ones was 298 in 2022, and 300 in 2023 respectively.

## **INTERNAL AUDIT AND INTERNAL CONTROL SYSTEM**

Internal audit and internal control functions are important for ensuring the effectiveness of the corporate governance system. To ensure the performance of these functions effectively within the Company, ASCO has established both an Internal Audit Department and an Internal Control Department. The Internal Audit Department serves as an independent function that provides objective assurance and consulting services. Its purpose is to add value and promote the operations of the Company. The Internal Audit Department employs a systematic and structured approach to assess and enhance the effectiveness of risk management, control,

and corporate governance processes, all aimed at achieving the Company's goals.

The internal audit process at ASCO is organized in accordance with the Law of the Republic of Azerbaijan on Internal Audit, the Regulation of ASCO's Internal Audit Department, and the International Professional Practice Model of Internal Audit. Throughout its professional activities, the Internal Audit Department adheres to the goals, objectives, functions, rights, and duties outlined in the Internal Audit Standards, the Code of Ethical Conduct, and the Statue approved by the Company's Supervisory Board. The Audit Committee under the Supervisory Board oversees general control in the field of internal audit and holds the following powers:

- Developing and implementing the Company's audit policy, and ensuring audit control;
- Establishing an effective system of audit control over the financial and economic activities of the Company, including the completeness and accuracy of financial reports;
- Performing control over the reliability and effectiveness of the company's internal control and risk management systems, including over the execution of documents and performance of tasks in the field of corporate governance;
- Performing control over the independence of external and internal audit at the Company, as well as the process of ensuring compliance with the legislation of the Republic of Azerbaijan;



- Analyzing and discussing the external auditor's report together with the Management Board and relevant structural units, submitting proposals to the Supervisory Board to develop an action plan to eliminate deficiencies and violations;
- Initiating or conducting any investigation associated with the issues within the competence of the Audit Committee.
- Consulting (recommendation) services

During the reporting period, the Statute and Audit Methodology of ASCO's Internal Audit Department was developed which in turn defined the administrative and functional management system. Internal audit at ASCO ensures the third control function of the "three-tier protection model" and operates mainly within the following two key spheres:

Internal control function at ASCO is performed by the Internal Control Department. The Internal Control Department oversees the compliance of the head office and structural units of the Company with the legislation of the Republic of Azerbaijan, internal documents, and regulations. It also evaluates the efficiency of business processes and control mechanisms. In general, the internal control system at the Company is ensured through the effective organization of 5 main components (control environment, risk assessment, control measures, reporting and communication, monitoring) of the model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO model) applied in international practice.

- Assurance (audit) services



## RISK MANAGEMENT

ASCO has organized its risk management system in accordance with leading international practices. Being that, COSO's Enterprise Risk Management methodology serves as the foundation for implementation here. The risk management system at ASCO is governed by documents such as "Risk Management Policy", "Risk Management Concept", "Guidelines on the Risk Management" and "Guidelines on the Risk Detection, Assessment and Monitoring".

The Risk Committee and the Risk Working Group, which are collegial bodies, operate within the Company to ensure control and coordination of activities in the field of risk management at ASCO. The Risk Committee performs evaluation of the works carried out associated with the risk management process, the risk monitoring plan and the

preventive measures to be implemented.

According to the Corporate Risk Map of the Company, the categories of material risks mainly include strategic risks, personnel, inventory and equipment supply, commercial, risks associated with information technology, security, market, financial and environmental risks. To minimize the possibility of these risks occurring, specific preventive measures are identified and documented in risk passports. Monitoring of risk occurrence and preventive measure implementation occurs through quarterly monitoring procedures. In total, 265 monitoring procedures were organized in 2022, followed by 282 monitoring procedures in 2023.



ASCO uses compulsory and voluntary insurance in accordance with the requirements of local legislation and international conventions within the framework of its risk management. In accordance with the Law of the Republic of Azerbaijan “On Compulsory Insurance”, ASCO has been insured against the following circumstances:

- Compulsory insurance against loss of function arising out of occupational accidents and occupational diseases
- Compulsory motor third party liability insurance

- Compulsory real estate insurance
- Compulsory civil liability insurance related to the use of real estate
- Compulsory personal accident insurance of passengers

In accordance with the requirements of international conventions, the Company has obtained the types of insurance “On Civil Liability for Bunker Oil Pollution Damage” and “On Civil Liability for Oil Pollution Damage”. In addition, ASCO has concluded voluntary insurance agreements such as “Voluntary Medical Insurance” and “Ship Hull and Machinery Insurance”.



## COMPLIANCE, BUSINESS ETHICS AND DISCIPLINARY RULES

The Code of Conduct and the Internal Disciplinary Rules applied at ASCO determine the basic requirements for the conduct of employees in the Company, the business ethics, ethical norms and relations associated with their observance and the key principles of ethics in professional activities. The key principles of the Code of Conduct include:

- Application of uniform and accurate ethical norms and values, as well as the principles of professional conduct within the ASCO and in relations with counterparties, including third parties;
- Establishing and maintaining an environment of honesty, integrity, trust and mutual respect at ASCO;
- Ensuring transparency in the business activities of ASCO and maintaining trust in the Company by business associates, suppliers, customers, authorities and other third parties;
- Elimination of damage to the reputation of the Company due to unethical behavior of employees or their behavior

contradicting with the applicable law.

There is "Hotline" contact center operating in 24/7 mode and electronic application section on the ASCO official website designed for reporting of complaints on unethical and inappropriate behavior. Furthermore, the "My ASCO" mobile application, functioning as a corporate social network, which was launched in 2022, includes a dedicated complaint reporting feature. The Hotline Contact Center serves for ensuring quick and anonymous reporting of circumstances that may be associated with the actions of the Company officials and other employees that are suspected not to be in compliance with the law or ethical rules, reasonable doubts on non-compliance with the ASCO Code of Conduct and the relevant internal anti-bribery documents, as well as other information that may relate to material damages to the Company or its employees or other violations that may damage their business reputation.



Information on the telephone numbers of the “Hotline” contact center is placed at the administrative buildings and on board the vessels of ASCO, as well as on the official website of the Company. An additional point is that, continuous trainings courses are conducted and relevant instructions are given to the employees of the Company as part of educating and informing them in the field of business ethics.

It’s worth noting that in 2022, the Company received 176 complaints, and in 2023, it received 92 complaints. These complaints were mainly the complaints associated with labor relations and social status, all were investigated, explanations of witnesses and relevant persons were obtained if necessary, and the issues raised in the complaints were settled in accordance with the legislation of the Republic of Azerbaijan and ASCO internal regulations. In the event of violation of internal disciplinary rules, the Human Resources Department and the immediate supervisor of the relevant employee shall provide appropriate instructions and warn the employee.

The protection of human rights at the Company is governed by the requirements of the Company’s Code of Conduct, the Constitution of the Republic of Azerbaijan and other statutory instruments of the country, as well as the international conventions, including the European Convention for the Protection of Human Rights and Fundamental Freedoms. Human rights abuses are investigated in the course

of audits conducted at ASCO and, if found, necessary actions are taken to eliminate such violations and re-occurring thereof. At the same time, employees are regularly instructed on the issues associated with human rights. Violation of employees’ rights to liberty and security of person, circumstances imposing risks on the right to use collective agreements, violation of rights such as labor, safety, strikes and recreation, social security, education, freedom of thought and expression, protection of honor and dignity, citizenship and other right, slavery, forced labor and child labor, as well as human rights violations in relation to suppliers, were not reported during the reporting period. At the same time, there were no cases of non-compliance with local and international laws and regulations in the social and economic spheres during 2022 - 2023.

The compliance function within ASCO ensures that the Company’s activities comply with internal standards of ethical conduct and meet the requirements of both local and international legislation. In this regard, the compliance function plays a crucial role in promoting the sustainable development of the Company and enhancing ASCO’s credibility among stakeholders. It achieves this by monitoring operations, analyzing potential risks of non-compliance, and implementing appropriate preventive measures. During the reporting period, employees responsible for the compliance function participated in relevant training sessions.

## ANTI-BRIBERY MEASURES

Anti-bribery measures by ASCO are regulated by the “Instructions on Combating Bribery”, “Anti-Bribery Policy” and “Anti - Bribery Guidelines”. Simultaneously, a “Hotline” contact center was established to facilitate the reporting of information regarding potential violations and to ensure efficiency in addressing such concerns. The main principles outlined in the “Instructions on Combating Bribery,” “Anti-Bribery Policy,” and “Anti-Bribery Guidelines” of the Company are as follows:

- Strengthening trust between the employer and the employee;
- Prohibition of performance of illegal duties;
- Creating conditions excluding the opportunity of committing bribery offenses;
- Protection of justice, human and civil rights and freedoms;

- Establishing a common understanding among all stakeholders that ASCO does not accept corruption in any form;
- Mitigating bribery risks associated with ASCO, increasing transparency in operations;
- Formation of basic rules and norms of anti-bribery action.

Furthermore, LRQA - the reputable international classification society “Lloyd’s Register conducted audits at ASCO in 2022 and following the audits conducted ASCO a certificate for compliance with the international standard ISO 37001 - “Anti-bribery management system” was made available to ASCO.

There were no bribery complaints received by or reported to ASCO during the reporting period. Moreover, 27 employees of the Company were involved in anti - bribery training.



## FUTURE PLANS

ASCO envisions continuous implementation of projects aimed at further improving the corporate governance system. As such, ASCO has planned to obtain several new international certificates, including ISO 31000 (Risk Management Standard), ISO 37301 (Compliance/Compliance Management Systems Standard), ISO 56002 (Innovation Management) certificate, ISO 27001 (Information Security Management Systems) compliance certificates, and

an ESG rating. In addition, it is planned to commence ISO certification processes at Zigh and Bibiheybat ship repair yards. At the same time, it is planned to update the Internal audit methodology in 2024.

Additionally, plans are in place to implement projects aimed at enhancing the Climate-related corporate governance system and improving the Compliance function at ASCO through collaboration with the EBRD.



# **HUMAN RESOURCES MANAGEMENT**





## HUMAN RESOURCES MANAGEMENT POLICY

Strong, professional and competent personnel is critical for ensuring the sustainable development of the Company. At ASCO, these processes are governed by the Human Resources Management Policy and Guidelines on Human Resources Management. This Policy and Guideline have been developed in compliance with the legislation of the Republic of Azerbaijan, which includes the Labor Code of the Republic of Azerbaijan, as well as international practices in this field. Recruitment, career development of employees and creation of a healthy work environment are carried out in accordance with ASCO's Management System procedures.

Below is a summary of ASCO's total manpower for the years 2021 to 2023, along with the number of new hires and layoffs:

The human resources management process at ASCO is governed in accordance with the Labor Code of the Republic of Azerbaijan, leading international practice and ASCO's internal documents - Human Resources Management Policy and Guidelines on Human Resources Management. The Human Resource

Management Policy encompass the following principles:

- Increasing the devotedness of the current personnel to the Company;
- More efficient use of human resources;
- Ensuring transparency in the process of human resources management;
- Monitoring the career development of leading young employees;
- Objective service performance assessment;
- Ensuring equal opportunities and a healthy working condition for all employees.

The following processes are governed by the Guidelines on Human Resources Management:

- Management of vacancies based on the principle of transparency,
- Recruitment,
- Transfer to another job,
- Establishment of Reserve Candidate Pool (RCP),
- Adjusting the wage rate,
- Assessment of the employee performance,
- Organizing production experience.

Indicators	2021	2022	2023
Manpower by years, people	8,042	7,923	7,798
Number of employees hired	446	407	420
Number of employees discharged	492	471	553
Employee turnover ratio, %	6%	6%	7%

Classification of employees, person	2021	2022	2023
Number of permanent employees	8,042	7,923	7,798
Number of temporary employees	0	0	0
Number of full-time employees	7,991	7,875	7,755

The oversight of the Guidelines' implementation is conducted by the Personnel Management Committee, a collective body. Furthermore, the Appointment and Remuneration Committee operates under ASCO's Supervisory Board. This committee addresses matters such

as ensuring an effective personnel policy, establishing salary and remuneration systems, providing social support for personnel, and overseeing their professional training and development within ASCO.



An electronic testing software has been used to test candidates' theoretical knowledge during recruitment and transfer at ASCO. Within this software framework, candidates have the opportunity to assess their knowledge through both multiple-choice (MCQ) and open-ended questions. Candidates who meet the vacancy criteria are invited to the test examination via email. The result document is provided to the candidate immediately after the exam. Candidates who pass the exam successfully are invited to an interview in their relevant specialty at the next stage. Those with high scores are offered employment, while other candidates are included in the Reserve Candidate Pool.

The Company organizes comprehensive induction procedures for newly recruited employees at ASCO to facilitate their adaptation to the new work environment and internal procedures. As part of this process, newly hired employees are briefed on ASCO's organizational structure, essential internal documents, Quality, Health, Occupational Safety, and Environmental Protection regulations, Internal Disciplinary Rules, dress codes, and other pertinent matters. ASCO calculates wages for seafarers working on both transport and specialized offshore

vessels in accordance with the "Rules for the consolidated accounting of special working time for offshore crew members."

## TRAINING AND EDUCATION

At ASCO, significant emphasis is placed on employees' career development, continual enhancement of their professionalism, and the development of their personal qualities. The Company regularly implements various measures in this regard. In line with the demands of the modern business landscape, ASCO takes proactive steps to develop its employees by conducting a comprehensive analysis of the Company's training needs, followed by the organization of tailored training programs to address these requirements effectively. Moreover, senior personnel frequently engage in meetings with specialists to exchange and share production experiences. This commitment is evident in the goals established for high level personnel of ASCO during both the Service Performance Assessment and the development of their team members.

ASCO cooperates with local and international companies and organizations to conduct trainings. The table below illustrates the volume of trainings conducted by employee categories during

**Total duration of training courses conducted for various categories of personnel, days**

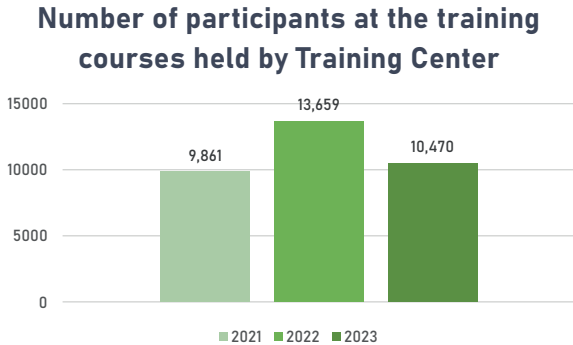
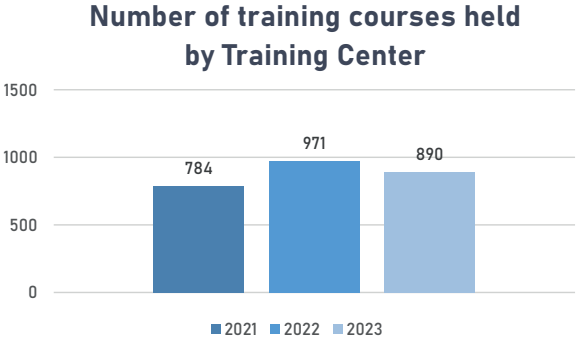
Categories of personnel	2021	2022	2023
<b>Shore personnel:</b>	<b>1,088</b>	<b>617</b>	<b>2,104</b>
Managers	92	102	866
Specialists	774	404	1,078
Technical staff and workers	222	111	160
<b>Offshore personnel:</b>	<b>25,184</b>	<b>42,730</b>	<b>23,844</b>
Officers	17,354	34,584	16,941
Crew members	7,830	8,146	6,903

In general, trainings on the following topics were organized at ASCO during the reporting period. "Strategic Agility" training was conducted for top management by a professional trainer invited from Turkiye. Moreover, ASCO organized "Leadership and Management with Emotional Intelligence" training sessions for middle management to enhance leadership and management qualities. Additionally, personal development training was provided for ASCO's young staff, and free English language courses were offered to improve personnel's foreign language skills. Additionally, "Bureau De Qualite" has conducted an anti-bribery management system and Internal Auditor training sessions based on ISO 37001 for management staff and specialists.

performed at the Training and Education Center for the purposes of certification of seafarers. The Center is outfitted with state-of-the-art simulators, equipment, and a swimming pool designed for training in various emergency scenarios that could arise at sea. Training sessions at the Training and Education Center are conducted in Azerbaijani, Russian, and English languages, catering to both local sailors and foreign individuals. The prestigious organization "The Nautical Institute" of Great Britain has certified the Dynamic Positioning Simulator at the Training and Education Center. This certificate ensures the Training and Education Center to conduct "DP Induction" and "DP Simulator" training courses. Thus, the Training and Education Center is currently one of the 95 centers in the world entitled to conduct the mentioned trainings and the only organization in Azerbaijan.

It is worth notifying that training courses, practical classes and their evaluation is being

The following diagrams illustrate the number of training sessions conducted at the Training and Education Center and the number of participants from the years 2021 to 2023.



ASCO consistently prioritizes enhancing the quality of education at the Azerbaijan State Maritime Academy (ASMA). To advance in this direction, ASCO establishes relationships with renowned maritime educational institutions worldwide. Concurrently, the material and technical infrastructure of the Academy undergoes continuous enhancement. Collaborations are forged with local and international companies to enrich students' practical knowledge. Regular meetings are also organized with selected students to address their inquiries comprehensively.

The Company provides material and methodical support to aid ASMA students in obtaining theoretical knowledge. Furthermore, ASCO provides students with opportunities to gain practical knowledge and skills aligned with their specialization while they are studying. Hence, students have a chance to engage in internship at ASCO's structural departments and

vessels, including diverse departments and workshops at Bibiheybat Ship Repair Yard and Zigh Ship Repair and Construction Yard, as well as aboard vessels of the Merchant Fleet and Caspian Sea Oil Fleet of ASCO. In 2023, ASCO facilitated pre-diploma internship for 106 final-year ASMA students aboard vessels of the Merchant Fleet and for 72 of them on board the vessels of the Caspian Sea Oil Fleet, including 30 students, who benefited from conditions provided by ASCO for pre-diploma production experience at Baku Shipyard based on their qualifications.

In 2023, in conjunction with the "Year of Heydar Aliyev," as per the respective Decree of the President of the Republic of Azerbaijan, the "Heydar Aliyev Scholarship" was instituted for full-time bachelor's level students who demonstrate exceptional academic achievements. The mentioned scholarship was awarded to 100 students from ASMA



During the reporting period, ASMA's printing house published new textbooks and study guides. As such, the textbook "Automated Design Systems of Ships" provides comprehensive information on ship hull designing using CADMATIC software. A textbook has been published for postgraduate students majoring in "Marine Technics and Technology Engineering." The materials included in this textbook have been adapted to meet the requirements outlined in the International Maritime Organization Model Course 3.17, the annexes to the STCW International Convention, and the Regulations of Classification Societies. The published textbook "Geography of Maritime Routes" is a comprehensive resource that delves into various aspects of the world ocean. It covers detailed information about the ocean's different parts, including sea and inland waterways, economic zones, and infrastructures. Moreover, it explores maritime states across continents and regions, shedding light on their ports and the interconnectedness of global maritime routes. The textbook caters

not only to students but also to masters, maritime professionals, and researchers in the field.

## **EMPLOYEES AND EMPLOYEE RELATIONS**

ASCO places special emphasis on ensuring effective communication among employees. The activity in this direction is based on the "My ASCO" mobile application designed in 2022, various software products, and continuous measures. ASCO management conveys official decisions to a broad spectrum of employees through Electronic Document Exchange. Additionally, employees can stay informed about ASCO's news through mass SMS and the corporate social network. They also have an opportunity to share their own news and updates on these platforms. During various events and online meetings organized for both employees and managerial staff, ongoing discussions address human resource management operations. Proposals for changes are actively considered,



and efforts are made to implement improvements in this area. Regularly, electronic surveys on various topics are conducted to gather public opinion.

Efforts have been made to provide necessary conditions and infrastructure, including communication opportunities, for personnel working aboard vessels. Being that, ASCO employees, particularly seafarers, are notified about the requirement to renew any document, including relevant seafaring certificates, through the "My ASCO" mobile application and email. Seafarers and shore personnel working at ASCO are required to undergo regular medical examinations. Ten days before the expiration of this period, relevant information is automatically sent to these employees and human resources specialists within the structural division via email and SMS.

ASCO has implemented an Incentive Scheme Remuneration System to encourage and boost the motivation of

the personnel. Detailed information on this system is provided in the Corporate Governance System section of the Report. In addition to this, other motivational mechanisms for employees, such as additional monthly payments for excellence in work, orders, medals, honorary titles and badges, selection of winners in the competition of "the best of the year" among offshore staff, are applied to encourage employees.

ASCO conducts an annual Service Performance Assessment (SPA) in line with leading international practices. The SPA process is organized based on internal guidelines and safe quality management systems. Both the individual qualities and professional skills of an employee are assessed within this process. The process is carried out by each employee's immediate supervisor as follows:

- Shore personnel: At the start of the year, supervisors input knowledge on the area





of activity, skill standards, and relevant goals corresponding to the employee's position. At the beginning of the year, employees familiarize themselves with the goals set by their supervisors in their individual accounts within the electronic system. The employee works towards achieving these goals on a quarterly basis. At the end of the year, the same supervisor evaluates the employee using a 5-point system. The control of the process is carried out by the Human Resources Services of the organization.

- Offshore personnel: Offshore personnel members are also evaluated according to personal qualities and professional skills. Evaluation is carried out on separate forms designed for the commanding officers and the crew members. The filled in and approved form is included in the seafarer's personal file. The control of the process is carried out similarly by the Human

Resources Services of the organization. The Company has established a transparent reporting mechanism for employees. As a modern application tool, the "My ASCO" mobile application offers employees the ability to submit complaints. Such complaints are directed to the relevant employee within the corresponding structural division and are promptly addressed. Employees also enjoy the option to report orally, in writing, or electronically. Complaints are typically considered within 15 business days, while applications requiring additional investigation and verification are resolved within 30 working days at the latest. Verbal applications are registered immediately, and a meeting with the relevant manager is scheduled. At ASCO, investigating all complaints and finding solutions is of paramount importance.





## **DIVERSITY AND EQUAL OPPORTUNITIES, GENDER EQUALITY, HUMAN RIGHTS**

Fostering a healthy and equitable work environment, along with making decisions based on transparent and inclusive input, is of paramount importance. In this respect, ASCO is setting one of its goals to prevent discrimination among its personnel and promote equal opportunities for all employees within the Company.

ASCO ensures that every employee has the opportunity for career advancement, irrespective of race, religion, physical appearance, or affiliation with any special group. The performance evaluation of Company personnel considers their skills, level of professionalism, and demonstrated work results, ensuring no discrimination is allowed based on any criteria. All significant processes performed at ASCO in this field are governed in line with the Code of Conduct of the Company, the Law of the Republic

of Azerbaijan on Guarantees of Gender Equality, and the United Nations and the International Labor Organization Convention on the Equal Remuneration based on the principle of “Same Remuneration for Same Labor”.

During the reporting period at ASCO, there was no reported incident or received complaint of discrimination based on gender, race, religion, political opinion, age, disability or affiliation with any particular group.

During the reporting period, in 2022, ASCO employed 131 individuals with disabilities, and in 2023, this number increased to 132.

ASCO places special emphasis on vulnerable groups, particularly participants of the Patriotic War and Martyr’s families. Priority is given to these individuals during the recruitment process at ASCO. In light of this,

- Citizens who participated in the Patriotic War and received awards for their bravery and valor in military operations aimed at liberating regions from occupation are individually considered for employment applications at ASCO provided that they possess suitable education in the field of shipping and meet the relevant requirements, they are interviewed for the purpose of acquaintance and considered for employment in relevant vacancies.
- Moreover, in the course the recruitment process, preference is given to IDPs, individuals with disabilities, participants in the patriotic war, and families of martyrs. In accordance with the Decree of the President of the Republic of Azerbaijan, IDPs are granted preferential rights to retain their positions during staff or employee reductions within administrations, enterprises, and organizations.
- ASCO participates in the “employment marathon” established by the order of the President of the Republic of Azerbaijan and facilitated by the State Employment Agency. Within this initiative, ASCO provides employment opportunities to participants of the Patriotic War and

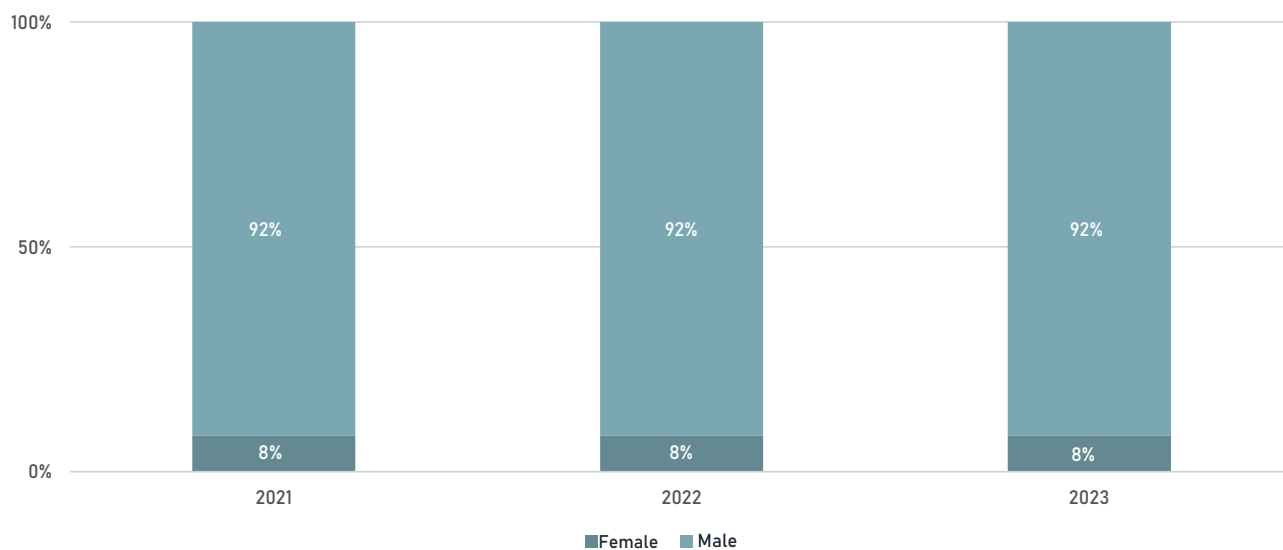
members of martyr’s families based on the vacancies announced by the company. Promoting gender equality within ASCO is one of the top priorities of the Company, and comprehensive measures are implemented to ensure equal opportunities and treatment for all employees, regardless of gender. In 2023, ASCO established a dedicated position focusing on Gender issues and work with special vulnerable groups to ensure effective organization, coordination, and support for the families of martyrs, persons with disabilities, and other vulnerable categories of workers.

The predominance of males in the field of shipping industry is generally attributed to the physical demands of the work and the extended periods spent at sea, which can keep them away from their families for extended periods. Naturally, similar situations are observed at ASCO as well. ASCO is committed to promoting gender diversity and ensuring representation of both male and female personnel across all positions, despite the typical gender dynamics observed in the shipping industry. The Company is actively working to promote gender equality and increase the representation of female employees within the management category.

**Number of employees by categories and genders for 2021–2023, people**

Categories	2021		2022		2023	
	Female	Male	Female	Male	Female	Male
<b>Shore personnel:</b>	<b>660</b>	<b>3,026</b>	<b>648</b>	<b>2,952</b>	<b>611</b>	<b>2,921</b>
Managers	68	363	69	367	62	364
Specialists	311	520	304	515	290	499
Technical specialists	25	15	27	13	28	12
Workers	256	2,128	248	2,057	231	2,046
<b>Offshore personnel:</b>	<b>22</b>	<b>4,334</b>	<b>18</b>	<b>4,305</b>	<b>33</b>	<b>4,233</b>
Officers	1	2,416	1	2,407	1	2,408
Crew members	21	1,918	17	1,898	32	1,825
<b>Total</b>	<b>682</b>	<b>7,360</b>	<b>666</b>	<b>7,257</b>	<b>644</b>	<b>7,154</b>

### Allocation of the total number of employees by gender during 2021 - 2023, percentage



### Allocation by age, person

	2021			2022			2023		
	up to 30	30-50	Over 50	up to 30	30-50	Over 50	up to 30	30-50	Over 50
Total number of employees	1,187	3,824	3,031	1,125	3,704	3,094	1,019	3,726	3,053
Total number of employees hired	250	126	70	230	117	60	140	182	98
Total number of employees discharged	34	185	273	89	192	190	80	164	309

### Number of employees by gender hired in 2021 - 2023, people

	2021		2022		2023	
	Female	Male	Female	Male	Female	Male
Total number of employees hired	60	386	48	359	365	55
Total number of employees discharged	108	384	65	406	472	81

### Number of female employees within management category, people

	2021	2022	2023
Number of women in managerial positions	68	69	62

### Composition of the Management Board by age, person

	2021			2022			2023		
	up to 30	30-50	Over 50	up to 30	30-50	Over 50	up to 30	30-50	Over 50
Management Board	0	2	4	0	3	4	0	3	4

### Number of members of the Management Board by gender, people

	2021		2022		2023	
	Female	Male	Female	Male	Female	Male
Management Board	0	6	0	7	0	7

All members of ASCO's supreme governing body are citizens of the Republic of Azerbaijan and belong to the local population.

## FUTURE PLANS

There are specific plans related to the implementation of sustainable development initiatives in the Human Resources department of the Company, which are scheduled to be implemented in the upcoming reporting period. Currently, efforts are underway to establish a training program for successors. As part of vacancy management, ASCO is developing an electronic database for both domestic and foreign candidate applications. This database will streamline recording competition results and facilitate candidate registration through a dedicated 'personal account' on ASCO's official website. Among other initiatives, the following projects are planned for implementation at ASCO in the future:

- A new organizational structure and action plan are in development for the renewal and restructuring of business processes at ASCO;
- An action plan to enhance the employee payroll system, including setting and

automating additional payments based on factors such as seniority, education, SPA, and other priority indicators;

- Organizing career days at leading universities in the Republic to promote the maritime profession;
- Conducting a satisfaction survey among ASCO's young employees;
- An electronic system is planned to be implemented for effective monitoring of the 'Career Development' map of personnel and the subsequent measures related to it. This system will enable the control of career development for ambitious personnel.
- Organizing trainings through an electronic learning platform (E-training);
- The intention is to develop an education system at ASMA that aligns with international standards, collaborate with leading global educational institutions in the shipping sector, expand English language instruction, and educate students about Sustainable Development Goals, among other initiatives.



# **SOCIAL ACTIVITIES**



The Company's social responsibility initiatives encompass the following areas:



**Financial support  
and charity**



**Employees' welfare  
and their health  
support**



**Support for the de-  
velopment of sports  
in the country**



**Youth support**



**Propagation of the  
seafaring profession  
in the country**

## FINANCIAL SUPPORT AND CHARITY

As part of its corporate social responsibility, every year ASCO regularly provides welfare assistance to orphans, families facing severe financial problems, war veterans and people with disabilities. In this regard, efforts are being made in accordance with the Company's 'Regulations on the Provision of Welfare Assistance,' and the Welfare Assistance Committee is operational to

facilitate collaborative decision-making. The Welfare Assistance Committee reviews applications for providing welfare assistance during its monthly sessions. These applications come from both ASCO employees and members of the general public. The tables below present information on welfare assistance provided by ASCO during the period of 2021-2023, based on the applications received.

### Number of welfare assistance recipients, people:

Structural unit	2021	2022	2023
Head office of ASCO	25	38	16
The Merchant Fleet	30	42	42
The Caspian Sea Oil Fleet	33	93	86
Bibiheybat Ship Repair Yard	23	33	23
Zigh Ship Repair and Construction Yard	30	47	32
Azerbaijan State Maritime Academy	5	20	10
The Production Services Department	19	22	21
ASCO Security LLC	19	16	20
ASCO Transport LLC	36	29	28
Denizchi Repair and Construction LLC	5	14	20
Denizchi Housing Construction Cooperative	1	1	1
ASCO Logistics LLC	-	1	-
Yacht Club	-	8	4
ASCO Engineering	2	4	2
Former employees	10	10	10
External persons	-	2	-
<b>Total:</b>	<b>239</b>	<b>381</b>	<b>315</b>



### Amount of welfare assistance, AZN:

Structural unit	2021	2022	2023
Head office of ASCO	34,100	47,550	20,480
The Merchant Fleet	30,900	42,950	60,490
The Caspian Sea Oil Fleet	45,600	107,100	116,020
Bibiheybat Ship Repair Yard	21,050	26,350	18,250
Zigh Ship Repair and Construction Yard	30,250	42,150	32,410
Azerbaijan State Maritime Academy	4,500	27,700	11,330
The Production Services Department	21,750	23,900	28,640
ASCO Security LLC	16,000	12,800	17,840
ASCO Transport LLC	35,550	30,650	25,450
Denizchi Repair and Construction LLC	5,350	15,600	16,450
Denizchi Housing Construction Cooperative	1,000	800	1,000
ASCO Engineering	5,500	5,300	3,500
ASCO Logistics LLC	-	2,500	-
Yacht Club	-	8,100	4,760
Former employees	6,300	7,700	14,000
External persons	-	2,600	-
<b>Total:</b>	<b>258,350</b>	<b>404,250</b>	<b>370,620</b>

ASCO pays constant attention to and takes care of the participants of the battles for the territorial integrity and independence of Azerbaijan and the families of those martyred in these battles. As such, ASCO makes monthly additional payments to a total of 872 individuals, including heirs of those who died during the 1st and 2nd Karabakh wars, the January 20

tragedy, war veterans, and persons with disabilities. Food aid is provided to the families of martyrs during holidays. In addition, 8 ASMA students who took part in the Karabakh War II were provided with discounts by ASCO on tuition fees and were exempted from accommodation charges of the Academy's dormitory.



ASCO also provides guardianship to the children of employees who have either lost their ability to work or lost their lives during production, as well as to other children in need of assistance. The table below displays information on the number of children

under the guardianship of the Company for the years 2021-2023. In 2022, the increase is attributed to the large number of young children of deceased workers, while the decrease in 2023 is due to children reaching the age limit for care.

**Information on children under the care of ASCO, person:**

Structural unit	2021	2022	2023
The Merchant Fleet	28	33	31
The Caspian Sea Oil Fleet	75	78	72
Zigh Ship Repair and Construction Yard	7	9	6
Bibiheybat Ship Repair Yard	11	14	12
The Production Services Department	6	4	4
Azerbaijan State Maritime Academy	1	1	1
ASCO Security LLC	1	1	1
ASCO Transport LLC	2	1	2
<b>Total:</b>	<b>131</b>	<b>141</b>	<b>129</b>

During the reporting period, significant attention was given to veteran sailors who had worked on ASCO vessels and are now retired. They were invited to events organized by the Company on significant days. A total of 25 individuals, including 17 in 2022 and 8 in 2023, were visited and congratulated by ASCO and the Trade Union on the occasion of their jubilee.

Throughout the COVID-19 pandemic, including in 2022, ASCO has consistently maintained contact with veteran employees

facing challenging social and financial circumstances. As part of our ongoing support efforts, food rations have been regularly dispatched to those in need, ensuring they receive essential assistance during these challenging times. In total, during 2022, ASCO provided food rations to 107 elderly and retired individuals. This included 1 person from the Head Office, 35 people from the Merchant Fleet, 25 people from the Caspian Sea Oil Fleet, 20 people from the 'Zigh' SRCY, and 26 people from the 'Bibiheybat' SRY.

## EMPLOYEE WELFARE AND HEALTH SUPPORT

Based on the employees registered in the housing queue of organizations for which ASCO is a successor, a unified housing queue list was drafted for the Company, consisting of 1100 people. To enhance the housing conditions of these individuals, ASCO constructed a residential complex comprising five buildings. The complex was completed and handed over on May 10, 2023, coinciding with the 100th anniversary of Great Leader Heydar Aliyev. 487 apartments were made available to new owners in the complex located in the Khatai district of

Baku city. The allocation of apartments to owners was determined through a random selection process with the aim of ensuring transparency. The apartments were renovated to high standards, equipped with kitchen furniture, and provided with continuous water, electricity, and natural gas supply. The residential complex also features an underground parking area. The Company has already commenced works for the development of a kindergarten and other social infrastructure facilities within the residential complex.





The process of allocating apartments and determining discounts was overseen by the Committee on Housing Issues established within ASCO, following the Guidelines for Admission to membership in the 'Denizchi' Housing Construction Cooperative. The discount amount applied according to these guidelines is determined based on the registration date of the individual in the queue.

An annual work plan is approved to promote

a healthy lifestyle among ASCO employees and foster their interest in physical education and sports, Regular sports events and various competitions are organized in accordance with this plan. Examples of such events include tournaments in football, volleyball, tug-of-war, table tennis, chess, checkers, and other sports. In 2022, a football field was constructed and became operational at the "Denizchi" recreation base. Furthermore, in 2023, renovations were conducted on the changing rooms and

service areas of the playing field situated within the “Zigh” SRCY premises.

In order to ensure the health of the Company employees, voluntary health insurance is implemented at ASCO. Under this insurance, ASCO employees have access to free examinations and treatments at several clinics and hospitals across the country. Additionally, their family members can benefit from discounts of up to 50%.

Additionally, ASCO operates shuttle services with scheduled routes to transport employees between their residences and workplaces, facilitating convenient transportation across various parts of the city. Moreover, ASCO provides hot meals to employees at its Head Office and structural departments during business days. ASCO provides vouchers for the “Denizchi” recreation base, situated in the Khachmaz district, through the Production

Services Department’s balance sheet to facilitate employees’ recreational activities effectively. The vouchers were used by 2,281 employees in 2022 and 2,497 employees in 2023.

Regular disinfection, insect control, and rodent extermination are conducted through contracts with specialized companies. These measures are taken to uphold sanitary and hygienic standards across ASCO’s vessels and coastal facilities.

A voluntary blood donation campaign is organized by ASCO every year. Following the examination of blood samples collected during the blood donation drive in the laboratory, they are then transferred to the Republican Blood Bank. It is worth noting that the blood donation campaign is part of the State Program “Care for Children Suffering from Hemophilia and Thalassemia,” approved by President of the



Republic of Azerbaijan, Mr. Ilham Aliyev, and the “Life without Thalassaemia” program by the Heydar Aliyev Foundation. The campaigns saw 77 participants in 2022 and 143 participants in 2023.

In 2023, ASCO organized an eye examination campaign in commemoration of the 100th anniversary of the renowned ophthalmologist, Academician Zarifa Aliyeva. The medical campaign, themed “Let’s Look At The World Healthy” encompassed all departments within ASCO. Doctors also provided recommendations to employees based on their eye examination results during the event.

## SUPPORT FOR THE DEVELOPMENT OF SPORTS IN THE COUNTRY

Supporting the development of sports in the republic is one of ASCO’s initiatives under its corporate social responsibility framework.

ASCO sponsors the Sabail Professional Football Club as part of its efforts to

promote football development in the country. Under the sponsorship agreement, the stadium where the team hosts its games was named “ASCO Arena,” and the football players were outfitted with suitable uniforms and sports equipment featuring the ASCO logo. Additionally, in 2023, Rauf Valiyev, the Chairman of ASCO’s Management Board, was elected as the Chairman of the Supervisory Board of the “Sabail” Professional Football Club.

In addition, ASCO contributes to the development of sailing sports in the country by sponsoring the Public Union of the Sailing Sports Federation of the Republic of Azerbaijan. ASCO engages in financing events at both international and local levels as part of its sponsorship commitments. Besides that, Khazar Sailing Boats Sports Club operates under ASCO, and this Club contributes to the development of sailing sports in Azerbaijan, the training of athletes for the national teams and the representation of our country in international competitions.



ASCO also supports organization of various events by the Equestrian Federation of the Republic of Azerbaijan by making donations to the Federation.

A team of ASCO employees participated in a football tournament among state institutions dedicated to the 100th anniversary of the Great Leader Heydar Aliyev. The tournament was organized with the support of the Ministry of Youth and Sports, the Association of Azerbaijan Football Federations, and the Azerbaijan Minifootball Federation.

### YOUTH SUPPORT

ASCO engages in various activities within the framework of supporting young people. These efforts aim to enhance their personal and professional qualities, maintain their motivation, and acquaint them with the activities of the Company. In line with this objective, the “Surakhani” Ship-Museum regularly hosts open days for children of martyrs,

orphans, and other vulnerable youth.

ASCO places special emphasis on employing students from the Azerbaijan State Maritime Academy who demonstrate exceptional knowledge and skills. Under ASCO’s leadership, regular meetings are organized with these outstanding students and young workers. These meetings focus on discussions about their career development, professional growth, sharing experiences, and other related topics. It’s worth noting that ASCO currently employs over a thousand graduates under the age of 35 from the Azerbaijan State Maritime Academy (ASMA), with approximately 85% of them serving as members of the sailing crews.

On February 2, 2023, in honor of the 100th anniversary of National Leader Heydar Aliyev and on the Day of Youth, ASCO organized an intellectual game called “Brain Ring” under the theme “Our youth is our future.” The primary goal of the intellectual game



was to promote the legacy of the Great Leader Heydar Aliyev and provide participants with deeper insights into the 165-year rich history of the Azerbaijan Caspian Shipping Company. Additionally, the game aimed to create opportunities for enhancing employees' intellectual capabilities, broadening their perspectives, and fostering mental development. It also seeks to cultivate teamwork skills and encourage a sense of healthy competition among participants. During the intellectual competition, eight teams, each consisting of five members, tested their knowledge, and the winning teams were awarded diplomas and gifts.

## PROMOTION OF THE SEAFARING PROFESSION IN THE COUNTRY

ASCO carries out various events with the aim of propagating the seafaring profession, studying the seafaring history of Azerbaijan and preserving seafaring traditions.

Since 2021, ASCO has been operating the "Surakhani" ship-museum within the Coastal

National Park. Surakhani, the first ship-museum in the Caspian Sea and the world's first tanker-museum, serves as a bridge connecting modern Azerbaijan's future with its ancient seafaring traditions. It is worth noting that the audio-video and printed materials displayed at the exhibition of the "Surakhani" ship-museum are exhibited in Azerbaijani, English and Russian. The organized excursions at Surakhani are conducted in three languages. In 2023, a list of 220 tourist attractions in our country was compiled based on user opinions from the internationally renowned "TripAdvisor" tourism platform. Surakhani Ship-Museum was ranked first among these attractions.

Simultaneously, the "Baku Sailing Regatta-2023" event was organized with the support of the Ministry of Youth and Sports, "Azerbaijan Caspian Shipping" CJSC (ASCO), the Azerbaijan Sailing Federation, and the "Khazar" Sailing Sports Club. 39 sailors participated in the regatta held in the Baku Bay (Yacht Club area) under the motto "The Caspian is Calling Us."





In commemoration of the 100th anniversary of the birth of National Leader Heydar Aliyev in 2023, a comprehensive plan of relevant events was devised, and a series of commemorative activities were conducted throughout the year. As part of these celebrations, several activities were organized, including exhibitions on various topics, tree planting and cleaning campaigns, sports competitions, presentations such as the book "Great Leader Heydar Aliyev and National Shipping Policy," visits by ASCO employees who participated in the Patriotic War to the "Heydar Aliyev" summit, and an international scientific and technical meeting at the ASMA conference.

In 2023, significant milestones were celebrated, including the 100th anniversary of the birth of National Leader Heydar Aliyev, the 165th anniversary of the founding of the national Shipping in Azerbaijan, and the 10th anniversary of the establishment of the "Azerbaijan Caspian Shipping" Closed Joint Stock Company, formed

by merging two prominent shipping companies in the country through the relevant Decree of President Ilham Aliyev. An event dedicated to the anniversary of "Great Leader Heydar Aliyev and national shipping policy" was held in honor of these occasions. The event organized by ASCO drew the participation of distinguished heads from various state structures, representatives from local and international companies collaborating with the Company, esteemed public and political figures, experienced veteran sailors, and aspiring students from the Azerbaijan State Maritime Academy. During the event, attendees were treated to a viewing of the short feature-documentary film titled "Witness to Three Centuries." The film chronicles the 165-year history of the Company, highlighting national maritime traditions and the company's evolution in modern times. At the event, renowned artists performed songs about the sea, which were beloved by Great Leader Heydar Aliyev.



## FUTURE PLANS

In the future, there are plans to construct a second residential complex to offer housing on preferential terms to individuals who are on the housing queue and did not acquire an apartment from the first implemented project. Additionally, there are plans to construct a

hotel building and a swimming pool at the "Denizchi" recreation base. Furthermore, there are plans to replace the buses that transport ASCO employees to and from the workplace with new, modern, environmentally friendly vehicles that consume cleaner fuels.

# **HEALTH AND OCCUPATIONAL SAFETY**



## HEALTH AND OCCUPATIONAL SAFETY MANAGEMENT

ASCO prioritizes safety throughout its operations, ensuring all work is carried out without causing harm or health risks to employees and without any accidents or losses. The management of health and safety at work in every company is regulated based on local legislation, regulations, and international requirements and conventions. ASCO's current Management System is designed in alignment with these standards. ASCO's Management System is structured around the "Four Pillars" principle, which includes MARPOL, SOLAS, STCW, and MLC (Maritime Labor Convention), aligning with the International Maritime Organization's framework. Additionally, ASCO adheres to international standards such as the International Safety Management Code (ISM Code), the International Ship and Port Facility Security Code (ISPS

Code 2003), and the ISO 45001:2018 standard. Furthermore, ASCO complies with the legal requirements outlined in the Law of the Republic of Azerbaijan on Technical Safety and the Labor Code of the Republic of Azerbaijan.

As new requirements and standards are introduced, ASCO updates the forms and procedures within its Management System accordingly. If necessary, new forms and procedures are added to the system to ensure compliance with the latest regulations and standards. During 2022-2023, a total of 19 forms and 37 procedures were enhanced through various modifications within ASCO's Management System. Additionally, 7 new forms and 2 new procedures were developed and integrated into the system



during this period. These changes and innovations primarily focus on corporate risk management, opportunities assessment, emissions monitoring, reporting, approval processes, and the incorporation of new policies into ASCO's Management System.

ASCO consistently undergoes external audits to ensure occupational health and safety standards are met. In 2022, the American Bureau of Shipping (ABS) conducted a thorough audit of ASCO's headquarters and vessels to assess compliance and best practices in this area. The audit confirmed that ASCO's current Management System is in compliance with international requirements, validating the company's commitment to upholding global standards.

Furthermore, internal audits are conducted to assess the effectiveness

and proper implementation of ASCO's Management System, ensuring its active integration into operations. From 2022 to 2023, ASCO conducted a total of 214 internal inspections, including 3 at the company's head office, 209 on vessels, 1 in the Merchant Fleet, and 1 at the "Zigh" Ship Repair and Construction Yard. These inspections are integral to maintain high standards of performance and compliance throughout the organization. During the audits, several deficiencies were identified, prompting ASCO to take proactive measures to rectify these issues. Throughout the reporting period, regular actions were implemented to address these deficiencies, resulting in the successful elimination of most serious nonconformities.

All ASCO employees undergo periodic medical examinations at the expense of the Company. At the same time, a voluntary





health insurance agreement was provided for all personnel of the Company. Through the medical insurance program, all ASCO employees and their family members are provided access to medical services at designated clinics and hospitals throughout the country. This benefit ensures they can receive medical care either free of charge or under favorable conditions, contributing to their overall well-being and health.

Furthermore, chefs (cooks) at ASCO are assessed based on their performance scores. The evaluation process is conducted using a scoring system ranging from 20 to 42, considering factors such as the chef's education, experience, adherence to sanitary and hygienic standards, and various other criteria. Therefore, during the reporting period, a total of 143 inspections of chefs were conducted aboard vessels.

QHSE employees regularly conduct internal training sessions to enhance employees' knowledge in health and safety

and to keep them updated on the latest safety requirements. Throughout the reporting period, employees underwent a range of in-house HSE training sessions covering topics such as work permits, risk assessment, fire safety, energy isolation, confined space entry and rescue, water and energy conservation, community policies, slips and falls prevention, office safety, hand and finger protection, loop signaller usage, hot air hazard awareness, rules of conduct when working with compressed gas cylinders, and sealing of blow lines and discharge points. Throughout the reporting period, a comprehensive array of 19 internal training sessions were conducted, attracting a significant participation of 4,789 employees. During this period, 371 HSE employees participated in 80 international training programs covering various topics and purposes. The external training programs conducted encompassed a wide range of topics, including occupational health, alternative marine fuel,



ISO 45001:2018 internal auditing, asbestos management, control of hazar asbestos asbestos management, control of hazardous substances, labor safety and health protection in construction management, support for implementing the green port concept at Baku Sea Port, and enhancing operational capabilities. Additionally, the training covered international regulations, ship inspections, and various other shipping and HSE-related topics.

ASCO's Department of Quality, Health, Occupational Safety, and Environmental Protection organizes the "Safety Day" event on a quarterly basis. ASCO management, all department heads, heads of structural departments and other relevant persons participate in the event. During the "Safety Day" event, information is shared about the events that occurred during the quarter, identified gaps, and potential solutions for addressing them. The event also covers audits conducted, work progress, achieved milestones, and discussions on

new ideas and proposals related to safety and environmental protection. ASCO's Management System comprises a total of 7 policies, with two new policies, namely "Anti-harassment, violence, and non-discrimination" and "Anti-Bribery," being developed and implemented during the reporting period. Additionally, all policies, including the QHSE policy, "Policy on drugs, gambling, alcoholic beverages," and "Policy on the use of tobacco products," are prominently displayed in the administration office, administrative buildings of all structural departments, and on vessels for easy accessibility and reference by everyone. The policies are also published on ASCO's official website in a dedicated section for easy access by all stakeholders. Furthermore, detailed explanations of all policies are provided during the initial induction given to each new employee, ensuring that everyone is well-informed about the organization's policies and procedures from the start.

ASCO adopts safety bulletins internally and distributes them electronically to all employees with the aim of promoting HSE culture among employees and preventing incidents. Additionally, HSE representatives conduct specific instructions for both offshore and onshore personnel, ensuring that safety protocols are effectively communicated and followed across the organization. Furthermore, ASCO publishes bulletins from reputable international institutions and companies such as IMCA, BP, SAIPEM, and Equinor within the organization. These bulletins are shared with employees and discussed to promote the adoption of international best practices and standards across the company. During the reporting period, ASCO compiled and distributed a total of 19 internal and 6 external safety bulletins to all company employees, contributing to a culture of safety and awareness throughout

the organization.

In 2022, ASCO developed and launched the “My ASCO” mobile application, which is now accessible to all employees. Through the “QHSE application” section of the “My ASCO” mobile app, employees can conveniently report any positive or negative situations observed in administrative buildings, territories, vessels, production areas, and divisions, ensuring timely feedback and action on relevant matters.

ASCO dedicates specific budget allocations each year to support occupational health and safety initiatives. In this regard, the expenditures allocated by the Company are reflected in the following table. These allocated expenditures encompass preventive measures against accidents and industrial injuries, initiatives to enhance working conditions, and the provision of all necessary personal protective equipment.

**Occupational health and safety expenditures covering the years 2021 - 2023, AZN:**

<b>Expenditures</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Occupational health and safety costs including	2,680,291	1,829,510	1,726,451
Expenditures allocated for the improvement of working conditions	1,798,718	1,068,269	1,120,700
Expenditures for personal protective equipment	575,802	761,241	605,751

**EMERGENCIES**

Various types of accidents and incidents, such as fire outbreaks, grounding incidents, and collisions, are typical occurrences during vessel operations and production processes. On the other hand, incidents such as slips and falls, electric shocks, occupational diseases, and equipment malfunctions are categorized as incidents leading to lost working days.

During the reporting period, ASCO did not experience any fatalities. In 2022, there were 5 incidents that resulted in lost working days, while in 2023, this number decreased to 4 incidents. All these incidents occurred onboard vessels, and their cause was attributed to employee carelessness and failure to adhere to occupational health and safety rules.





There was a total of 1 ship collision and 3 cases of equipment loss during the reporting period. The collision incident involved ASCO's STB-1 barge colliding with objects during a tow mooring operation, which was caused by improper hazard management and a wrong evaluation of work performance. After investigating the incident, appropriate measures were taken by the relevant departments. Incidents of loss of equipment include cases of anchor chain breakage and loss of anchor arising out of technical failure due to windy weather conditions. No one was injured in the

incidents stated above.

The causes of all the mentioned incidents were thoroughly investigated, leading to the performance of appropriate instructional activities and the implementation of corrective measures for individuals responsible for the incidents.

The table below presents the main productivity indicators in the field of occupational health and safety during the reporting period.

**Productivity indicators in the field of occupational safety for 2021 - 2023:**

	2021	2022	2023
Total number of injured employees	5	6	4
Total number of deceased employees	0	0	0
Number of occupational diseases	0	0	0
Total number of days lost due to accidents	463	422	302
Total number of working days lost due to disease	459,094	26,916	23,221
Total number of injuries resulting in temporary incapacitation	5	5	4
Number of personnel	8,042	7,923	7,798
Total hours worked	12,706,380	14,205,772	14,210,210
Total days worked	1,588,298	1,775,721	1,767,328
Occupational Injury rate (per 1,000,000 hours worked)	0.4	0.35	0.28
Lost working days rate (per 1,000,000 worked hours)	36.4	30	21
Frequency of accidents which caused loss of working days (number of accidents per 1,000 employees)	0.6	0.8	0.5
Accident severity rate which caused loss of working day (number of lost working days per accident)	92.6	70.3	75.5
Absence at work rate (per 1,000,000 days worked)	289,048	15,158	13,139
Occupational disease rate (per 1,000,000 hours worked)	0	0	0

**FUTURE PLANS**

In the upcoming reporting period, there are plans to continue conducting internal HSE trainings and educational meetings for all employees of the Company. Additionally, HSE employees will be involved in external trainings to enhance their expertise and knowledge.

On the other hand, there are plans to conduct necessary improvement works in the Shipping Management System due to updates in international requirements, as well as internal and external audit inspections.



# **ENVIRONMENTAL PROTECTION**



## ENVIRONMENTAL IMPACT MANAGEMENT

One of Azerbaijan's five national priorities for socio-economic development until 2030 is defined as 'Country of clean environment and green growth. ASCO has consistently emphasized the importance of reducing its operational impact on the environment. Implementing leading initiatives in environmental management stands as one of ASCO's strategic goals. ASCO takes measures to ensure the efficient use of resources, encompassing water, energy, and other environmental aspects. This includes ongoing efforts to implement innovative practices on board the vessels and coastal facilities to further this goal.

Environmental issues related to the Company's activities are regulated by local

legislation, international conventions, and ASCO's internal policies and regulations. For this purpose, the local law refers to the Laws of the Republic of Azerbaijan on Environmental Protection, Industrial and Household Waste, Hazardous Waste Transportation, Air Protection and Greenery Protection. Additionally, ASCO adheres to the requirements outlined in international conventions such as the International Conventions on Prevention of Pollution from Ships (MARPOL 73/78), Ballast Water Management, Civil Liability for Damage Caused by Bunker Fuel Pollution, Civil Liability for Damage Caused by Oil Pollution, and other pertinent documents within the Company, as part of its management system.





ASCO has implemented QHSE Policy and Energy Saving Policy regarding environmental protection within the Company. ASCO has developed and implemented appropriate procedures and documents in its management system based on the local and international requirements, as well as in compliance with ISO 14001:2015 Environmental Management and ISO 50001:2011 Energy Efficiency Management international standards. ASCO conducted an assessment of all environmental impacts based on 32 aspects, identifying 5 as significant and 27 as moderate in terms of their impact.

Comprehensive information regarding the management of diverse waste types, water resources, energy consumption, and emissions resulting from shipping operations, along with the corresponding regulatory requirements applicable to vessels in this domain, is provided below.

## WASTE

Works performed in respect of the management of various types of liquid and solid waste deriving from operation of vessels and coastal facilities, including

domestic wastewater and food waste, sewage water, oil wastes and fuel sediments, sludge, various dry garbage and other pollutants, and maintaining them at a minimum level, are regulated in accordance with the requirements of the country's legislation and international conventions and controlled by the relevant documents from the Waste Management Plan and the Waste Operations Log. Information about waste generated on board vessels and handed over to facilities is recorded in environmental logs such as Waste Operations Log, Oil Operations Log Part 1 and 2, and Sewage Operations Log. At the same time, regular voluntary work and clean up days are organized and carried out within the territories of the coastal facilities, including ship repair and construction yards, fleets and other administrative areas of the Company to ensure environmental protection. All kinds of waste are removed, renovation and planting works are performed at those areas. The "Bulvar 1" vessel, part of ASCO's specialized fleet, conducts regular solid waste collection from water areas within the fleets, yards, and sea surface of Coastal National Park waters. Over the period of



2022-2023, the ship "Bulvar 1" collected and delivered approximately 117.04 cubic meters of waste of varying sizes.

Following the guidelines set by the ISO 14001:2015 Environmental Management international standard and local environmental regulations, solid and liquid wastes produced within the Company's premises and aboard vessels are disposed of by contracted specialized companies as per the agreed terms. Prior to the conclusion of contract agreements with the organizations intended to hand over the waste, internal audits are conducted at such organizations and their utilization opportunities, permit documents, and licenses of the company are checked before concluding an agreement with them. Apart from that, the Company terminates the agreement with such companies, if any significant environmental deficiency is detected in the activities of such

companies as a result of regular audits conducted at these companies. Not any nonconformities have been detected in the course of such audit checks conducted during the reporting period.

Various types of waste generated by operation of vessels owned by ASCO, including domestic and food waste, domestic sewage, used oils, oily bilge water are collected and transported by SLV type vessels without pollution of sea areas and delivered to the relevant organizations at coastal collection stations. Additionally, beyond vessels operating in the Caspian Sea, ASCO has obtained passports for domestic sewage treatment plants on the "Academician Khoshbakht Yusifzadeh," "Azerbaijan," and "Israfil Huseynov" vessels during 2022-2023. These passports were made available to the vessels upon approval by the State Environmental Expertise Agency.



Moreover, in 2023, ASCO installed domestic water systems on 10 small-capacity vessels of the Caspian Sea Oil Fleet in accordance with the 4th appendix of the Marpol 73/78 International Convention.

In previous years, managing domestic sewage generated at the “Bibiheybat” Ship Repair Yard involved challenges and additional costs due to contractual arrangements. However, in 2023, the

connection of BSRY to the Baku city sewage system was finalized, effectively resolving this issue. Currently, work is underway to connect the ASCO Training and Education Center to the Baku City sewage system.

The following table provides information on various types of waste generated and disposed of at the Company during 2021-2023.

**The amount of different types of waste generated and handed over as a result of the activities of the fleets and coastal facilities of ASCO, tons:**

Type of waste	2021	2022	2023
Volume of hazardous waste generated	9,182	8,044	7,201
Volume of non-hazardous waste generated	3,493	4,734	4,786
Volume of hazardous waste handed over	9,975	7,901	7,030
Volume of non-hazardous waste handed over	3,493	4,735	4,797

It is worth noting that the disposal of domestic wastewater into the sea in the neutral waters of the Caspian Sea is not prohibited by local law and the MARPOL Convention. Nevertheless, to prevent pollution of the Caspian Sea which is our natural resource, to protect its biological resources and biodiversity, ASCO has voluntarily prohibited disposing of all types of waste from its vessels into sea, even in neutral part of the Caspian. This kind of waste volumes are collected and handed over to specialized onshore facilities only upon the vessels sail back to shore.

What is more, the vessels belonging to the transportation and specialized oil fleets of ASCO are involved in dock and major repairs at certain time intervals in accordance with the requirements of the classification society and international conventions. To mitigate environmental impact from vessel

operations, the ongoing overhaul process includes cleaning the vessels’ hulls and replacing the main and auxiliary engines with modern, lower-emission models. Between 2022 and 2023, ASCO’s yards cleaned the hulls of 180 vessels and installed 33 auxiliary engines and 7 main engines that are more environmentally friendly. Out-of-service vessels are cleaned, dismantled, and delivered to recycling facilities. In 2022-2023, ASCO recycled 9,481 tons of ferrous metal and 15.2 tons of non-ferrous metal from these decommissioned vessels.

Appropriate boxes for the collection of plastic containers and used paper were installed in the new administrative building of the Company since 2021 and during 2022-2023 years 1.3 tons of plastic containers, 1.1 tons of used paper were collected and handed over to the relevant companies specializing in this field.

## WATER

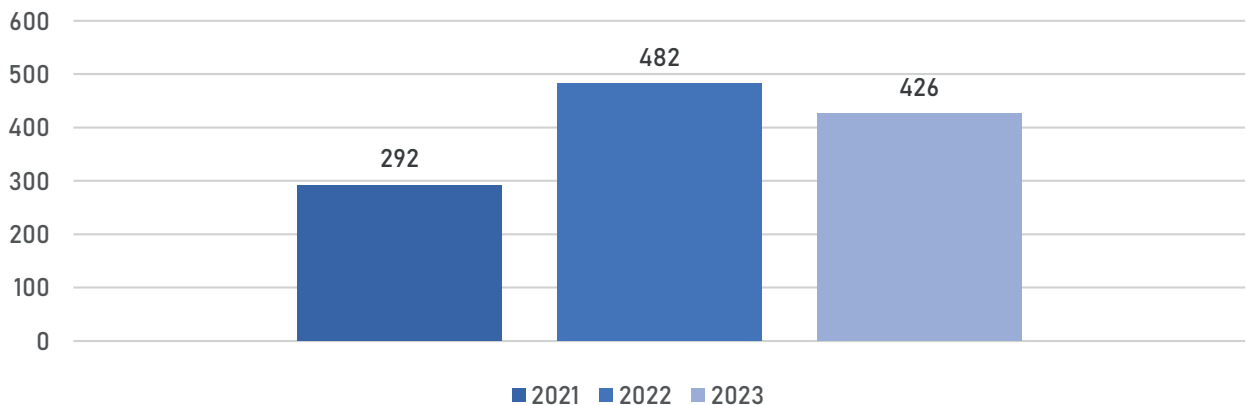
ASCO is cognizant of the importance of efficient use of clean and drinking water. The Company devotes special attention to the protection and abstaining from pollution of water basins, along with use of drinking water sparingly on board the vessels and relevant structural units on the shore while running its business activities either in the Caspian Sea and international waters beyond the Caspian basin. ASCO implements continuous measures within the framework of its Management System to ensure efficient use of drinking water on board the vessels and coastal facilities and to prevent pollution of water basins while running its business activities either in the Caspian Sea and other international waters outside the Caspian.

As the pandemic period came to an end, increased production and the discontinuation

of work-from-home policies resulted in a rise in water consumption during 2022. However, from 2023, water consumption stabilized again and decreased by 12% compared to 2022.

All water gauges installed on the water lines have been upgraded, and responsible persons have been appointed for each structural department of ASCO to ensure control over drinking water consumption. Such persons in charge keep records of drinking water intake and consumption and draw up monthly reports. Employees working on board the vessels of ASCO vessels and structural departments are regularly educated about the efficient use of potable water through awareness programs.

**Drinking water consumption, thousand m3**



\*Indicators on water consumption include ASCO's main administrative building, Caspian sea Oil fleet, Merchant Fleet, Zigh Ship Repair and Construction Yard, Bibiheybat Ship Repair Yard and The Production Services Department

Information posters promoting water conservation have been displayed in relevant locations as part of this initiative.

Seawater is used in firefighting lines, engine cooling and ballast reception at the Company and this process is regulated in accordance with the requirements of the international convention MARPOL. The following table provides information on the use of sea water during 2021 - 2023.

**Use of sea water by the Company in 2021 – 2023, thousand m3:**

<b>Structural unit</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
The Merchant Fleet	5,221	5,220	5,300
The Caspian Sea Oil Fleet	10,322	10,322	10,322
Zigh Ship Repair and Construction Yard	8.5	8.7	8.7
Bibiheybat Ship Repair Yard	174	174	174

ASCO installs state-of-the-art ballast water treatment systems on its vessels to prevent marine pollution by ballast waters. Responsible individuals document details of each ballast operation in “Ballast Operations” logs. In 2022–2023, six of the vessels of the Merchant Fleet operating in non-Caspian basins had these ballast cleaning devices installed. Seawater used in fire lines and cooling of engines is not polluted and therefore does not require any special cleaning procedures.

There is a risk that various marine biological lifeforms and organisms stick to the hulls of vessels moving between a few different water bodies, thus exchanging those lifeforms and organisms between these bodies by vessels resulting in a negative impact on ecosystems and biodiversity. For the prevention of these circumstances, ASCO is cleaning the hulls of vessels planned to navigate between different water bodies in accordance with

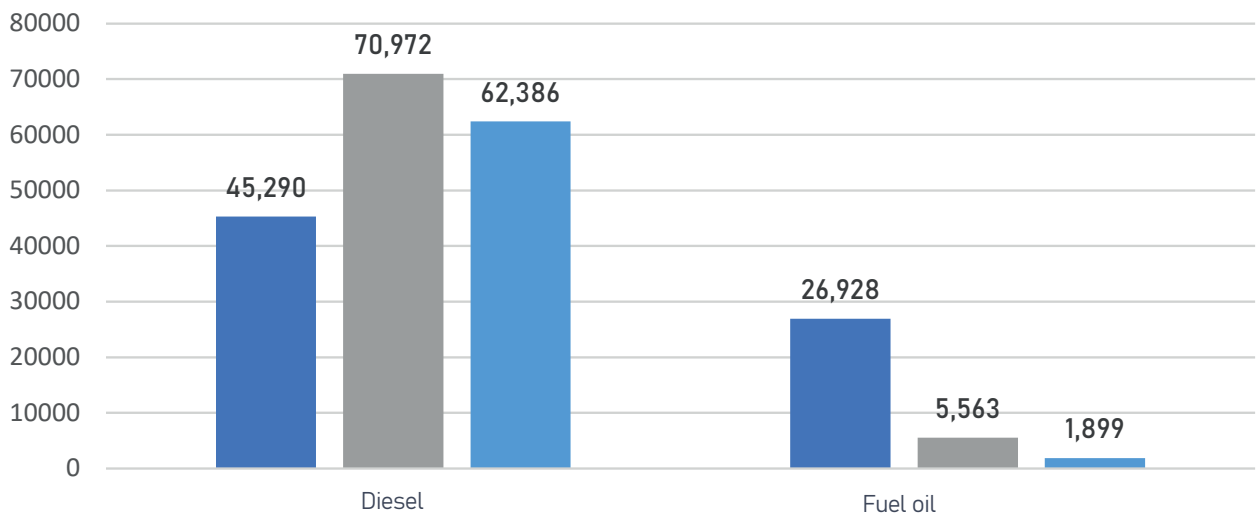
the requirements of relevant conventions and standards.

**ENERGY**

ASCO utilizes a range of energy sources such as electricity, thermal energy, natural gas, and various types of fuels throughout its production processes. The Company’s primary focus is to maintain a stable shore power supply for vessels and provide industrial voltage power supply to berths, operational areas, shipyards, and cargo lifting facilities for ship repair and construction activities. This includes managing natural gas, water supply, compressor stations, and heating systems. These tasks are carried out by the electrotechnical and mechanical staff in accordance with relevant normative documents, operating rules, and standards. The energy efficiency procedures implemented by the Company are fully compliant with the ISO 50001 standard. ASCO adheres to local regulatory guidelines to ensure operational compliance. These include guidelines for electricity usage, technical operation of power and heating devices, installation of power equipment, safety protocols for operating power and heating devices, and guidelines for constructing and safely operating lifting devices.



**Fuel used in fleet activities, ton**



The following diagram depicts information regarding the fuel consumption in ASCO's fleets for the years 2021-2023

As evident from the diagram, there has been a significant reduction in the use of fuel oil, considering its adverse effects on the atmosphere. Diesel fuel is predominantly favored instead. Throughout the reporting period, vessels in the Caspian Sea Oil Fleet exclusively utilized diesel fuel. Conversely, vessels within the Marine Transport Fleet utilized fuel oil, albeit in minimal quantities.

A "Ship Energy Efficiency Management Plan" is developed for vessels in compliance with Annex VI of the MARPOL convention, comprising three parts. This plan aims to enhance and regulate energy consumption efficiency aboard vessels. The latest requirement to implement the third part of this plan came into effect in 2023 and applies to vessels with a gross tonnage exceeding 5,000 tons. This requirement applies to 31 vessels within

ASCO's fleet, and the necessary documents have been adopted and distributed to all these vessels. To optimize fuel consumption on vessels, the underwater parts are cleaned during dock inspections and repairs, and newly built vessels are equipped with energy-saving devices. The possibility of installing such devices during repairs on existing vessels is also

evaluated, while masters onboard choose the preferred optimal route and speed to save fuel during vessel operations.

Additionally, fuel consumption by vehicles is accounted for on ASCO's balance sheet. Information on the amount of fuel consumed by motor vehicles is shown in the table below.

**The amount of fuel used in motor transport during the years 2021-2023, tons:**

Fuel Type	2021	2022	2023
Diesel	454	432	308
Gasoline	385	369	304

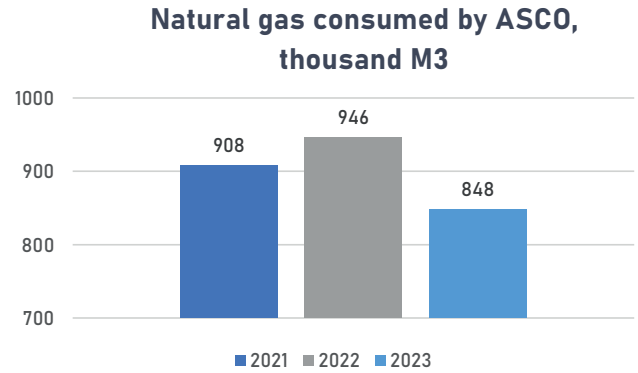
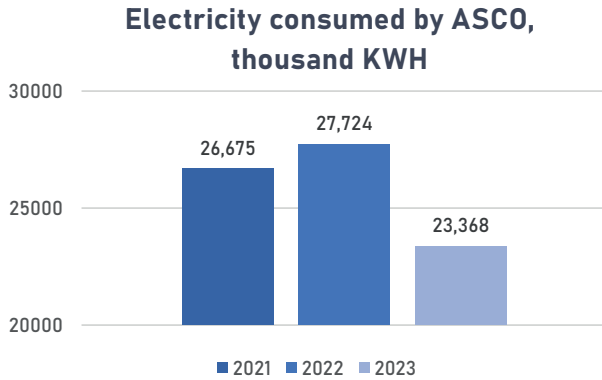
During 2021-2023, fuel consumption decreased gradually. Generally, savings by 32% in diesel consumption and savings by 21% in gasoline consumption were achieved in 2023 compared to 2021. This was achieved

through the adoption of more optimal routes for motor vehicles, increased control in this area, and implementing measures to discourage personal use of motor vehicles.



The company also utilizes natural gas and electricity for various technical and catering purposes. The diagrams below illustrate electricity and natural gas consumption

from 2021 to 2023, while the following table presents energy intensity indicators.



\*Indicators on electricity and natural gas consumption include ASCO's main administrative building, Caspian sea Oil fleet, Merchant Fleet, Zigh Ship Repair and Construction Yard, Bibiheybat Ship Repair Yard and The Production Services Department

**Energy intensity ratio for 2021-2023 (thousand kWh of electricity used per employee):**

	2021	2022	2023
on ASCO	3.3	3.5	3.0

As evident, power consumption in 2023 has decreased compared to 2021. This reduction is primarily attributed to the limited number and duration of vessels undergoing repair and berthed at the Caspian Sea Oil Fleet, Bibiheybat Ship Repair Yard, and Zigh Ship Repair and Construction Yard. Additionally, engineering technicians' maintenance efforts aimed at achieving savings as part of austerity measures have contributed to this decrease.

The decrease in natural gas consumption in 2023 compared to 2021 can be attributed to a relative reduction in demand for service works in natural gas-powered areas within production zones. Simultaneously, engineers and technicians implemented cost-saving measures aimed at enhancing efficiency, further contributing to the reduction in consumption.

**EMISSIONS**

The reduction of air emissions and the minimization of greenhouse gases have emerged as highly discussed topics in recent years. Numerous proposals have been put forth, leading to agreements between countries aimed at addressing these environmental challenges effectively. One of the most significant agreements in this regard is the Paris Climate Treaty. It outlines measures to reduce carbon dioxide emissions into the atmosphere starting from 2020, in alignment with the UN Framework Convention on Climate Change. 194 countries, including the Republic of Azerbaijan, became signatories to the Treaty. In addition, various requirements are applied by the United Maritime Organization with the aim of reducing emissions.



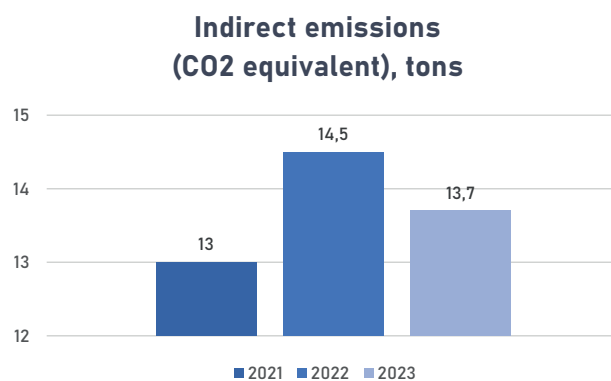
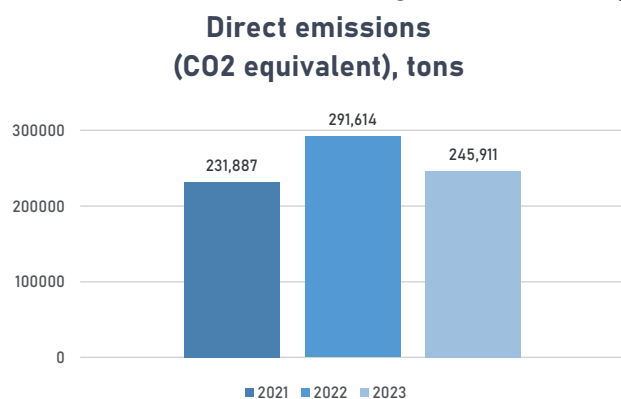
Considering the aforementioned international standards and their significant importance, ASCO, as the nation's largest shipping company operating in the global market, diligently monitors the compliance with these standards and implements necessary measures accordingly. Examples of measures taken by ASCO include ensuring timely and high-quality maintenance of vessels, engines, and oil and fuel separators without delays. This includes a significant reduction in the use of fuel oil and optimizing vessel speed to minimize additional fuel consumption during operations. Additionally, ASCO implements measures to prevent delays in port arrival and departure times.

Regarding emissions, ASCO has implemented the Carbon Intensity Indicator plan (CII index) and the European Union Monitoring, Reporting and Verification (EU MRV) plans, which are required to be applied on vessels starting from January 1, 2023. The CII plan aims to implement

regular operational measures to enhance a vessel's carbon emission indicators, assess these indicators using an appropriate scale, assign the vessel a carbon intensity rating, and approve the plan on an annual basis. The EU MRV plan's essence lies in ensuring the accurate implementation of potential measures to reduce vessel emissions, carbon reporting based on relevant methodologies, and transparency in the process of presenting reports reliably and qualitatively. Ultimately, both plans aim to incentivize shipping companies to take proactive measures in reducing carbon emissions generated by vessels. Currently, the CII plan applies to vessels with a gross tonnage exceeding 5,000 tons that navigate international waters. On the other hand, the EU MRV plan applies to vessels calling at ports within the European Union. As appropriate to this, ASCO has already implemented CII plans for 31 vessels, and 5 of these vessels have both CII and EU MRV plans in place.

The following diagrams depict the indicators of direct and indirect CO2 emissions resulting from ASCO's activities for the years 2021 to 2023. Direct emissions have been calculated using internationally

accepted coefficients and annual fuel consumption data. However, indirect emissions have been calculated based on consumed electric power using relevant formulas and calculations.



GHG emission increased in 2022 compared to 2021 due to the increase in cargo transportation volume. As a result of the work carried out in the field of GHG emission control, the volume of emissions at Company decreased in 2023 compared to 2021. In essence, the reduction in emissions is attributable to the corresponding decrease in fuel consumption. This reduction is facilitated by implementing operational measures that promote lower fuel consumption,

such as optimizing speed, selecting optimal routes, and considering weather conditions. Furthermore, as part of each dock inspection and repair, the underwater parts of the vessels undergo cleaning, which has not only led to enhanced engine performance but has also contributed significantly to the reduction of emissions. Simultaneously, there was a notable reduction in the use of fuel oil, which was substituted by diesel fuel.

**Volume of hazardous emissions into the atmosphere resulting from operations of the fleets during 2021-2023, tons**

Emission type	2021	2022	2023
Carbon dioxide (CO2)	231,887	289,100	243,990
Nitric oxide (NO2)	3,338	4,162	3,512
Carbon monoxide (CO)	1,307	1,629	1,375
Hydrocarbons (CH)	0.822	1.025	0.865
Particulate materials (PM)	0.286	0.357	0.301
Sulfur oxide (SO2)	1,284	1,601	1,351

**Carbon dioxide emitted from vehicles into the atmosphere during 2021-2023, tons**

	2021	2022	2023
CO2	2,602	2,514	1,922

**Carbon intensity ratio for 2021-2023 (emissions in CO2 equivalent by number of employee), tons:**

	2021	2022	2023
on ASCO	28,8	36,5	31,3



## GREEN ENERGY

In recent years, international organizations and major corporations have emphasized the importance of expediting the transition to green energy. The primary cause of global warming is emissions released into the air, originating from the combustion process of fuels. Therefore, transitioning from existing energy resources to green energy signifies a substantial reduction in emissions and helps prevent global warming.

The Republic of Azerbaijan collaborates with international organizations such as the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank, the International Finance Corporation, and the International Renewable Energy Agency on the implementation of renewable energy sources. Through agreements, Azerbaijan is actively working to initiate numerous projects in this field. In line with these initiatives, ASCO has also commenced implementing green energy practices as part of its operations. Furthermore, in addition to managing emissions within the company, the Environmental Social Governance (ESG) group, as mentioned in the “Environmental Social Governance” section of the report, is actively engaged in researching the opportunities and stages of transitioning to green energy. As part of their efforts, the members of the group are developing projects related to the implementation of various alternative energy sources aboard the vessels. For instance, ASCO plans to utilize hybrid dual-fuel engine, combining diesel and electricity, in the next three vessels that

have already been designed and will be built by the Company. These vessels are designed to primarily utilize electric power during operation, with diesel being used only in special cases when necessary. Additionally, ASCO is undertaking a project to transition the “Academician Zarifa Aliyeva” and “Azerbaijan” vessels, operating in the Caspian Sea, to run on Liquefied Natural Gas (LNG) fuel. These vessels will be the first in Azerbaijan to operate using this type of alternative fuel.

ASCO has set its sights on implementing alternative energy solutions in production areas beyond vessels. ASCO plans to maximize the use of solar panels in production areas and gradually transition forklifts, which are commonly used in these areas, to those equipped with electric motors. Additionally, in order to promote the use of electric vehicles among employees, it is planned to purchase charging stations and install them in the administrative buildings of ASCO and structural departments and other relevant coastal facilities. Thus, 2 charging stations with a total capacity of 60 kW were already bought for the use and installed in the parking of ASCO’s administrative building.

The aforementioned measures have already been approved within the Company and are on the verge of being implemented. Furthermore, there are several proposals currently under discussion that will be included in the next reporting period once the decision is made on their implementation.



## OIL SPILLS AND EMERGENCY MEASURES

The international practice in the field of shipping witnesses that there is a risk of contamination of the sea surface, as well as the coastal areas with oil and oil products during the process of transportation of oil and oil products and bunker operations by vessels. Having considered that ASCO owns the largest permanent fleet in the Caspian Sea basin and the Shipping Company is actively involved in the transportation of oil and oil products in the Caspian basin, ASCO is constantly taking appropriate preventive actions in this direction to prevent oil spills and similar incidents with the objective of protecting the ecosystem of the Caspian Sea. Accordingly, comprehensive training sessions are organized for crew members throughout the year to address these concerns. During audits, all aspects related

to oil pollution are thoroughly checked and reviewed. Moreover, necessary equipment is renewed and supplied on vessels to prevent oil pollution. A Shipboard Oil Pollution Emergency Response Plan, as mandated by Annex I of the MARPOL convention, is ensured to be available on board all relevant ASCO vessels. This plan encompasses procedures outlining the responsibilities of the ship's crew and the provision of all necessary oil response equipment in the event of an oil spill incident. Accordingly, the relevant International Oil Pollution Prevention Certificate has also been issued to those vessels. An additional point is that, the appropriate seals have been installed at the discharge points onboard the vessels owned by ASCO to prevent spills into sea. Apart from that, ASCO vessels are holding

“Certificate of insurance and other financial security for damage caused by bunker fuel pollution”, as well as “Certificate of financial security for damage caused by oil pollution”. ASCO conducts an annual analysis of oil pollution control measures and incorporates new methods into the Environmental Action Plan as needed.

Throughout the reporting period, there was only one recorded incident of oil and oil

product spillage on an ASCO vessel. This incident occurred during the bunkering operation, specifically during the transfer of bunker fuel from one ship to another. Following the incident, employees were briefed on related matters, appropriate disciplinary actions were taken, and a Safety Bulletin was prepared and distributed to all vessels to prevent similar incidents from recurring.

**FUTURE PLANS**

Given the significance of global environmental challenges in today’s era, environmental management is a crucial and highly focused area. ASCO plans to further its efforts in implementing various environmental innovations in the upcoming years, alongside regular initiatives in this realm.

The Company is prioritizing the implementation of the carbon market, optimizing water consumption, reducing the use of plastic water bottles, lowering CO2 emissions from vessels, and obtaining new accreditations and certificates in this area in the upcoming reporting period.

# **GRI STANDARDS TABLE**



GRI standards and disclosures (indicators)	PAGE / NOTE
<b>GRI 2: General Disclosures - Organization Profile</b>	
2-1. Organizational details	page.3
2-2. Entities included in the organization's sustainability reporting	page. 40-41
2-3. Reporting period, frequency and contact point	page. 1, 13, 85-86
2-4. Restatements of information	page. 130, 137
2-5. External assurance	page. 156, 157
2-6. Activities, value chain and other business relationships	page. 30
2-7. Employees	page. 107-108
2-8. Workers who are not employees	No relevant case was identified during the reporting period.
2-9. Governance structure and composition	page 38-39
2-10. Nomination and selection of the highest governance body	It is under the authority of the President of the Republic of Azerbaijan.
2-11. Chair of the highest governance body	The General Assembly of Shareholders is the highest governance body of ASCO. The powers of the General Assembly are distributed between the President of the Republic of Azerbaijan and the Azerbaijan Investment Holding. page. 80-81
2-12. Role of the highest governance body in overseeing the management of impacts	page. 80-81
2-13. Delegation of responsibility for managing impacts	page. 80-81
2-14. Role of the highest governance body in sustainability reporting	The Sustainable Development Report is submitted to the Supervisory Board for approval.
2-15. Conflicts of interest	The Code of Conduct (or the Code of Business Ethics) of the Shipping Company defines the relevant rules and measures to be taken by ASCO in the event of a conflicts of interest. page. 92-93
2-16. Communication of critical concerns	page. 92-93, 105-106
2-17. Collective knowledge of the highest governance body	The highest governance body of the Shipping Company is composed of representatives with relevant skills and experience. The relevant information on the Company is regularly shared at meetings of the Supervisory Board and its Committees, and collective knowledge is maintained.
2-18. Evaluation of the performance of the highest governance body	page. 86-87
2-19. Remuneration policies	page. 86-87
2-20. Process to determine remuneration	page. 86-87
2-21. Annual total compensation ratio	It is not mentioned in the report due to confidentiality reasons.
2-22. Statement on sustainable development strategy	page. 10-14
2-23. Policy commitments	page. 92-93
2-24. Embedding policy commitments	page. 92-93
2-25. Processes to remediate negative impacts	No relevant case was identified during the reporting period.
2-26. Mechanisms for seeking advice and raising concerns	16-17, 85-86, 92-93
2-27. Compliance with laws and regulations	page. 92-93
2-28. Membership associations	page. 49
2-29. Approach to stakeholder engagement	page. 44-47
2-30. Collective bargaining agreements	page. 106

<b>GRI 3: Material topics</b>	
3-1. Process to determine material topics	page. 44
3-2. List of material topics	page. 44
3-3. Management of material topics	page. 44
<b>GRI 201: Economic Performance</b>	
201-1. Direct economic value generated and distributed	page. 66-67
201-2. Financial implications and other risks and opportunities due to climate change	It has been intended for future periods.
201-3. Defined benefit plan obligations and other retirement plans	Payments to the SSPF by ASCO are regulated by the Labor Code of the Republic of Azerbaijan.
<b>GRI 202: Market Presence</b>	
202-1 Ratios of standard entry level wage by gender compared to local minimum wage	Salary at ASCO is governed by appropriate national legislation.
202-2 Proportion of senior management hired from the local community	page. 108
<b>GRI 203: Indirect Economic Impacts</b>	
203-1. Infrastructure investments and services supported	page. 66-67, 72-75
203-2. Significant indirect economic impacts	page. 44
<b>GRI 204: Procurement Practices</b>	
204-1. Proportion of spending on local suppliers	page. 49
<b>GRI 205: Anti-corruption</b>	
205-1. Operations assessed for risks related to corruption	page. 94-95
205-2. Communication and training about anti-corruption policies and procedures	page. 94-95
205-3. Confirmed incidents of corruption and actions taken	No bribery cases were reported at the Shipping Company during the reporting period.
<b>GRI 206: Anti-competitive behaviour</b>	
206-1. Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	ASCO is a 100% state-owned shipping company and there are no cases of anti-competitive behavior, anti-trust, and monopoly.
<b>GRI 207: Tax</b>	
207-1. Approach to tax	page. 67
207-2. Tax governance, control, and risk management	page. 67, 90-91
207-3. Stakeholder engagement and management of concerns related to tax	page. 67
<b>GRI 301: Materials</b>	
301-1. Materials used by weight or volume	Materials used in the key areas of activity (fuel and lubricants, water, etc.) have been reflected in the report. Other materials of smaller volume have not included in the report due to their level of importance.
301-2. Recycled input materials used	It is not mentioned since it is not relevant to the company's activities.
301-3. Reclaimed products and their packaging materials	It is not mentioned since it is not relevant to the company's activities.
<b>GRI 302: Energy</b>	
302-1. Energy consumption within the organization	page. 139-142
302-2. Energy consumption outside of the organization	The data on energy consumption outside of the company is not consolidated.
302-3. Energy intensity	page. 142
302-4. Reduction of energy consumption	page. 139-142
302-5. Reductions in energy requirements of products and services	page. 140-142

<b>GRI 303: Water and Effluents</b>	
303-1. Interactions with water as a shared resource	page. 138-139
303-2. Management of water discharge-related impacts	page. 138-139
303-3. Water withdrawal	page. 138-139
303-4. Water discharge	page. 138-139
303-5. Water consumption	page. 138-139
<b>GRI 304: Biodiversity</b>	
304-1. Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	The activities of ASCO do not extend to the protected areas or areas of high biodiversity value.
304-2. Significant impacts of activities, products and services on biodiversity	The activities of ASCO do not extend to the protected areas or areas of high biodiversity value.
304-3. Habitats protected or restored	The activities of ASCO do not extend to the protected or restored areas.
304-4. IUCN Red List species and national conservation list species with habitats in areas affected by operations	During the reporting period, there were no species of habitats or plants on the Red List of the International Union for Conservation of Nature in the areas where ASCO operates.
<b>GRI 305: Emissions</b>	
305-1. Direct (Scope 1) GHG emissions	page. 144
305-2. Energy indirect (Scope 2) GHG emissions	page. 144
305-4. GHG emissions intensity	page. 144
305-5. Reduction of GHG emissions	page. 144
305-6. Emissions of ozone-depleting substances (ODS)	page. 144
305-7. Nitrogen oxides (NOx), sulphur oxides (SOx), and other significant air emissions	page. 144
<b>GRI 306: Waste</b>	
306-1. Waste generation and significant waste-related impacts	page. 135-137
306-2. Management of significant waste-related impacts	page. 135-137
306-3. Waste generated	page. 137
306-4. Waste diverted from disposal	page. 137
306-5. Waste directed to disposal	page. 137
<b>GRI 308: Supplier Environmental Assessments</b>	
308-2. Negative environmental impacts in the supply chain and actions taken	page. 87-88
<b>GRI 401: Employment</b>	
401-1. New employee hires and employee turnover	page. 98, 107-108
401-2. Benefits provided to full-time employees that are not provided to temporary or part-time employees	All additional payments, benefits and privileges provided to full-time employees also apply to temporary and part-time employees.
401-3. Parental leave	Parental leave is provided to the concerned persons as per the national legislation.



<b>GRI 402: Labor/Management Relations</b>	
402-1. Minimum notice periods regarding operational changes	page. 105-107
<b>GRI 403: Occupational Health and Safety</b>	
403-1. Occupational health and safety management system	page. 124-125
403-2. Hazard identification, risk assessment, and incident investigation	page. 127-129
403-3. Occupational health services	page. 124-129
403-4. Worker participation, consultation, and communication on occupational health and safety	page. 127-129
403-5. Worker training on occupational health and safety	page. 126
403-6. Promotion of worker health	page. 126-128
403-7. Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	page. 128, 130
403-8. Workers covered by an occupational health and safety management system	page. 130
403-9. Work-related injuries	page. 130
403-10. Work-related ill health	page. 130
<b>GRI 404: Training and Education</b>	
404-1. Average hours of training per year per employee	page. 100-101
404-2. Programs for upgrading employee skills and transition assistance programs	page. 100-101
404-3. Percentage of employees receiving regular performance and career development reviews	page. 100, 108
<b>GRI 405: Diversity and Equal Opportunity</b>	
405-1. Diversity of governance bodies and employees	page. 107-108
<b>GRI 406: Non-discrimination</b>	
406-1. Incidents of discrimination and corrective actions taken	No relevant case was identified during the reporting period. page. 106
<b>GRI 407: Freedom of Association and Collective Bargaining</b>	
407-1. Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	No relevant case was identified during the reporting period.
<b>GRI 408: Child labour</b>	
408-1. Operations and suppliers at significant risk for incidents of child labour	No relevant case was identified during the reporting period.

<b>GRI 409: Forced or Compulsory Labour</b>	
409-1. Operations and suppliers at significant risk for incidents of forced or compulsory labour	No relevant case was identified during the reporting period.
<b>GRI 410: Security practices</b>	
410-1. Security personnel trained in human rights policies or procedures	Appropriate training, including training on human rights policies and procedures, is provided for security personnel during their recruitment.
<b>GRI 411: Rights of Indigenous Peoples</b>	
411-1. Incidents of violations involving rights of indigenous peoples	No relevant case was identified during the reporting period.
<b>GRI 413: Local Communities</b>	
413-1. Operations with local community engagement, impact assessments, and development programs	page. 118-120
413-2. Operations with significant actual and potential negative impacts on local communities	No relevant case was identified during the reporting period.
<b>GRI 414: Supplier Social Assessment</b>	
414-2. Negative social impacts in the supply chain and actions taken	No relevant case was identified during the reporting period.
<b>GRI 415: Public Policy</b>	
415-1. Political contributions	No relevant case was identified during the reporting period.
<b>GRI 416: Customer Health and Safety</b>	
416-1. Assessment of the health and safety impacts of product and service categories	ASCO does not provide services that may adversely affect health and safety.
416-2. Incidents of non-compliance concerning the health and safety impacts of products and services	No relevant case was identified during the reporting period.
<b>GRI 417: Marketing and Labelling</b>	
417-2. Incidents of non-compliance concerning product and service information and labelling	No relevant case was identified during the reporting period.
417-3. Incidents of non-compliance concerning marketing communications	No relevant case was identified during the reporting period.
<b>GRI 418: Customer Privacy</b>	
418-1. Substantiated complaints concerning breaches of customer privacy and losses of customer data	No relevant case was identified during the reporting period.



## INDEPENDENT ASSURANCE REPORT I

### **Independent practitioner's limited assurance report by Deloitte & Touche LLAC ("Deloitte") to the Chairman of Management Board of Azerbaijan Caspian Shipping CJSC ("the Company") on the 2022-2023 Sustainability Report for the period from 1 January 2022 to 31 December 2023:**

#### **Scope of assurance**

We have been engaged by the Company to perform an assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) ("the Standard") to provide independent limited assurance on accuracy of selected data presented in "ASCO Sustainability Report 2022-2023" ("the Report") prepared in accordance with the requirements of Global Reporting Initiative ("GRI") Sustainability Reporting Standards for the period from 1 January 2022 to 31 December 2023.

#### **Assurance procedures and roles**

We carried out limited assurance on accuracy of the following data related to 2022-2023 years and included into the Report:

- (1) Selected key performance indicators specified below in the section "Selected non-financial performance data for limited assurance", and
- (2) The Company's self-declaration in preparing the Report in accordance with the requirements of GRI Sustainability Reporting Standards as stated on "About the Report" subsection of the Report.

#### **Our key assurance procedures**

To achieve limited assurance, the Standard requires that we review the processes, systems and competencies used to compile the areas on which we provide our assurance. Considering the risk of material error, we planned and performed our work to obtain all of the information and explanations we considered necessary to provide sufficient evidence to support our assurance conclusion.

To form our conclusions, we undertook the following procedures:

- Analyzed on a sample basis the key systems, processes, policies and controls relating to the collation, aggregation, validation and reporting processes of the selected sustainability performance indicators;
- Conducted interviews with employees of the Company responsible for sustainability performance, policies and corresponding reporting;
- Conducted selective substantive testing to confirm accuracy of received data to the selected key performance indicators;
- Made enquiries of management and senior executives to obtain an understanding of the overall governance and internal control environment, risk management, materiality assessment and stakeholder engagement processes relevant to the identification, management and reporting of sustainability issues; and
- Performed selective review of disclosures in the Report on compliance with GRI Sustainability Reporting Standards.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

### **Inherent limitations**

Inherent limitations exist in all assurance engagements due to the selective testing of the information being examined. Therefore fraud, error or non-compliance may occur and not be detected. Additionally, non-financial information such as that included in reporting documents is subject to more inherent limitations than financial information, given the nature and methods used for determining, calculating and sampling or estimating such information.

Our work has been undertaken so that we might state to the Company those matters we are required to state to them in this Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our work, for this Report, or for the conclusions we have formed.

Our engagement provides limited assurance as defined in the Standard. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and, consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

### **Roles and responsibilities**

The Directors of the Company are responsible for the preparation, accuracy and completeness of the sustainability information and statements contained within the Report. They are responsible for determining the Company sustainability objectives and for establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived.

Our responsibility is to independently express a conclusion on the selected data based on our procedures. We conducted our engagement in accordance with the ISAE 3000 (Revised) Assurance Engagements other than Audit or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board.

### **Independence and quality control**

We have complied with the independence and other ethical requirements established by the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which are based on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Deloitte applies the International Standard on Quality Control Management 1 (ISQM 1) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Selected non-financial performance data for limited assurance**


We have been engaged by the Company to perform limited assurance procedures on accuracy of the following key performance data of the 2022-2023 reporting years included into the Report:

<b>Employees</b>	<ul style="list-style-type: none"> <li>• Total number of employees</li> <li>• Total number of employees by gender, male</li> <li>• Total number of employees by gender, female</li> <li>• Number of hired employees</li> <li>• Number of dismissed employees</li> <li>• Employee turnover rate</li> <li>• Number of permanent employees</li> <li>• Number of temporary employees</li> <li>• Number of full-time employees</li> <li>• Number of part-time employees</li> <li>• Composition of women in leadership</li> </ul>
<b>Health and safety</b>	<ul style="list-style-type: none"> <li>• Number of hours worked</li> <li>• Total number of fatalities, directly employed</li> <li>• Total number of recordable injuries</li> <li>• Number of lost time injuries (LTI)</li> <li>• LTI frequency rate (1,000,000 hours worked)</li> <li>• Number of days lost due to injury/accidents</li> </ul>
<b>Environmental</b>	<ul style="list-style-type: none"> <li>• Total amount of direct CO2 emissions</li> <li>• Non-hazardous waste generated</li> <li>• Hazardous waste generated</li> <li>• Total number of oil spills</li> <li>• Total water consumption*</li> <li>• Electrical energy consumption*</li> <li>• Total natural gas consumption*</li> <li>• Diesel consumption</li> <li>• Gasoline consumption</li> </ul>
<b>Supply chain</b>	<ul style="list-style-type: none"> <li>• Total number of suppliers</li> <li>• Number of local suppliers</li> <li>• Share of the procurement budget that is allocated on local suppliers/contractors</li> </ul>

\*These KPIs cover only major consumption facilities which are Merchant Fleet, Caspian Sea Oil Fleet, Bibiheybat Ship Repair Yard, Zygh Ship Repair and Construction Yard, Production Services Department and Head office.

**Limited assurance conclusion**

Based on the scope of our work and the assurance procedures performed, we conclude that nothing has come to our attention that causes us to believe that the aforementioned selected non-financial performance data, which we were engaged to provide limited assurance on, as specified in the "Roles and responsibilities" section above are materially misstated.

21 may 2024  
 Deloitte + Touche WAC  




## ABBREVIATIONS

ABS – American Bureau of Shipping

ASMA – Azerbaijan State Maritime Academy

AMC – Azerbaijan Marine College

EU MRV – European Union Monitoring, Reporting and Verification plan

AIH – Azerbaijan Investment Holding

ASCO / the Company – “Azerbaijan Caspian Shipping” Closed Joint Stock Company

EBRD – European Bank for Reconstruction and Development

BSRY – Bibiheybat Ship Repair Yard

BSY – Baku Shipyard

UN – United Nations

COSO – Committee of Sponsoring Organizations of the Treadway Commission

SDG – Sustainable Development Goals

DP – Dynamic Positioning

EBITDA – Earnings before interest, taxes, depreciation, and amortization

EKB – Employee Reserve Pool (ERP)

ESG – Environmental, Social, Governance

GRI – Global Reporting Index

CSOF – Caspian Sea Oil Fleet

CSTPE SR – Caspian Sea Transport Project-Exploration and Scientific - Research institute

SPA – Service Performance Assessment

IFRS – International Financial Reporting Standards

IMO – International Maritime Organization

ISM – International Safety Management

ISO – International Organization for Standardization

GHG – Greenhouse gases

PSD – Production Services Department



CII – Carbon Intensity Indicator

KPI – Key performance indicators

QAIP – Quality assurance and improvement program

MARPOL – International Convention for the Prevention of Pollution from Ships

MLC – Maritime Labor Convention

HCC – Denizchi Housing Construction Cooperative

PM – Plant Maintenance

PI – Performance Indicators

SOLAS – International Convention for the Safety of Life At Sea

STCW – International Convention on Standards of Training, Certification and Watchkeeping for Seafarers

TITR – Trans-Caspian International Transport Route

TRACECA – Transport Corridor Europe-Caucasus-Asia

TEC – Training and Education Center

ZSRCY – “Zigh” Ship Repair and Construction Yard



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