ASCO

Your shortest bridge between Asia & Europe



FIVE-YEAR REPORT
2019-2023

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ASCO
1858

FIVE-YEAR REPORT
2019-2023



“Our fleet of Caspian Shipping is a huge 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.”

National Lider

HEYDAR ALIYEV



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

President of Azerbaijan Republic

ILHAM ALIYEV

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Greetings to all readers of the 5 years report covering the period from 2019 to 2023 of Azerbaijan Caspian Shipping Closed Joint Stock Company (ASCO).

In this report you will learn about our history, mission and strategic targets, as well as obtain valuable information on operational and financial results, organizational structure, core business areas and routes of our fleet, governance of the Company and other topics.

The 5-year period covered by the report will be remembered by pandemic, wars, volatile oil prices, geopolitical uncertainty and a resulting economic stagnation in many markets, radically changing cargo volumes and other extraordinary events in the world. Increasing shareholder value through efficiencies in our operations and ensuring profitability, supporting our customers, proper using of assets for safe operations with lower cost, continuous optimization, securing material and spiritual well-being of our employees and meeting our obligations under corporate social responsibility in a period constituting such challenging conditions required special effort.

Not only did ASCO ensure profitability each year during the mentioned tough period, but also made notable progress in fleet renewal, kept cargo volumes at satisfactory level and significantly increased the salaries of employees.

One of the main directions of the socio-economic development strategy established by the Nationwide Leader Heydar Aliyev and successfully continued by President Ilham Aliyev is comprehensive development of the transport sector. As a result of the special attention and care provided by the government to the shipping industry, which is one of the priority areas of the transport sector bearing international importance, ASCO achieved important outcomes in ensuring profitability, safety of operations, corporate governance, fleet renewal, delivering value adding solutions to customers, transparency in reporting, digitization and other areas since its inception. It's no coincidence that ASCO is considered ready by the government for attracting private capital.

During the reporting period noteworthy events happened in ASCO, among which commissioning of "Lachin", "Kalbajar" and "Academician Khoshbakht Yusifzade" tankers, "Azerbaijan" and "Zarifa Aliyeva" Ro-Pax type ferries after being built in Baku Shipyard, commissioning of "ASCO-1" and "Terterchay" vessels after being built in Zykh ship repair and construction yard of ASCO, purchase of 3 "Aframax" type tankers with a carrying capacity of approximately 115,000 tons by SA Maritime AFEZCO, company established on a parity basis with

ASCO's main strategic partner, State Oil Company of the Azerbaijan Republic (SOCAR) and assigning the names "Karabakh", "Shusha" and "Zangezur" to these tankers with the direct support of the President of the Republic of Azerbaijan in honor of the victory in the Patriotic War, emission of ASCO bonds, inauguration of the new administrative building of ASCO and the first tanker museum in the world "Surakhani", providing 487 sailor families with renovated apartments and others can be mentioned.

Today ASCO is a profitable company with established corporate governance, international cargo transportation operations and technological offshore fleet, environmental and social awareness, strong balance sheet, its own ship repair yards and academy, employing approximately 7,800 employees with more than 4 thousand professional seafarers.

It is set in ASCO's culture to protect today while caring for tomorrow.

Continuing the efforts on increasing profitability while maintaining safe operations, improving corporate governance, building stronger control environment, attracting private capital, fleet renewal, abandoning non-profitable vessels and non-core activities, steadily decreasing emissions, leveraging digital technology opportunities are among the main challenges of tomorrow.

We thank valuable members of the Supervisory Board who always support ASCO with important decisions made, all employees of Azerbaijan Investment Holding, customers showing confidence in us, vendors providing quality services, our reliable and professional employees for being closely involved in this path travelled by ASCO. Today ASCO is looking into the future with confidence by virtue of them.

Rauf Valiyev

Chairman of the Management Board of ASCO



ABOUT ASCO



OUR HISTORY

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.

Foundation of the Azerbaijan Caspian Shipping Company by establishment of the “Caucasus and Mercury” Joint Stock Company **1858**

Laying the foundation of the mechanical plant of “Caucasus and Mercury” Joint Stock Company in Baku



1866

Launch of “Alexander” in the Caspian Sea, the world’s first ever oil-carrying barge **1873**



Launch of “Zaroaster” in the Caspian Sea, the world’s first ever tanker **1878**



1881

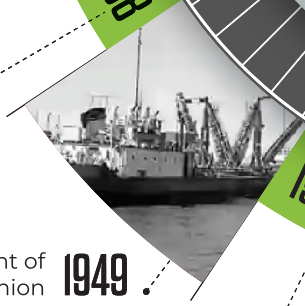
Organization of Baku maritime classes to meet the seafarer needs of the vessels



Launch of “Vandal” in the Caspian Sea, the first vessel with internal combustion engine **1903**

1908

Launch of the “Delo” in the Caspian Sea, the first vessel equipped with two reversible engines



Laying the foundation of the Caspian Sea Oil Fleet by the establishment of the “Floating Vehicles” division within the “Azerdenizneft” union **1949**

1960 **1962**

Vessels belonging to the Caspian Shipping sail out into international waters



Construction of the first ferry crossing in the Caspian Sea (Turkmenbashi) and the launch of ferries



Issuance of ASCO bonds



Launch of the first vessel built at the Zigh Ship Repair and Construction Yard of ASCO (“ASCO-1”)

2023 Launch of “Aframax” type tankers (“Karabakh”, ”Shusha” and “Zangezur”)



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

2021 Launch of the first Ro-Pax / Ferry ship built in Azerbaijan (“Azerbaijan”)

2019 Launch of the first tanker built in Azerbaijan (“Lachin” tanker)

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

2018 Renewal of fleets (launching of 28 new vessels)

2014-2023

2014 Resuming activities outside the Caspian Sea

2013 Establishment of the “Azerbaijan Caspian Shipping” CJSC by merging the Azerbaijan State Caspian Shipping Company and the Caspian Oil Fleet of the State Oil Company of the Republic of Azerbaijan

2005-2012 Renewal of the ferry fleet

2004 Launch of the largest tanker in the Caspian Sea - the first tanker with a deadweight of 13,000 tons (“President Heydar Aliyev” tanker)

2003-2011 Renewal of the tanker fleet

1997-2010 Delivery of the vessels 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

1969-1987 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

ORGANIZATIONAL STRUCTURE

STRUCTURAL UNITS



Merchant Fleet



Caspian Sea Oil Fleet



Zygh Ship Repair and Construction Yard



Bibiheybat Ship Repair Yard

Production Services Department



- Azerbaijan State Marine Academy
- Training Center
- Azerbaijan Maritime College



ASCO Shipmanagement AFEZCO



ASCO Engineering LLC

SUBSIDIARIES

- "ASCO Turkey Gemi İşletmeciliği" AŞ (the Republic of Turkiye)
- ASCO Transportation LLC
- Danizchi Repair and Construction LLC
- Yacht Club LLC
- "Danizchi" Housing Cooperative
- Azerbaijan Caspian Shipping Limited (the Republic of Malta)

JOINT VENTURES

- SA Maritime AFEZCO
- Caspian Sea Shipping LLC
- Caspian Marine Engineering Bureau LLC

Values, mission and strategic targets



Values

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



Mission

To meet the country's demand for shipping services in transit cargo transportation through Azerbaijan and strategic oil and gas projects of our republic, to contribute to the state policy in these spheres and the transformation of Azerbaijan into a regional transport and logistics hub



Vision for the future

Establishment of a modern shipping company that operates efficiently and ensures sustainable development and operational security,expanding international shipping activities outside the Caspian Sea along with supporting state policy in the Caspian Sea



Strategic targets

- **Target 1:** Renewal of the transport and merchant fleet, contribution to the transit strategy of Azerbaijan
- **Target 2:** Renewal of the specialized offshore support fleet and maintaining ASCO's leading position in the Azerbaijani sector of the Caspian Sea
- **Target 3:** Expansion of operations beyond the Caspian basins
- **Target 4:** Implementation of advanced initiatives in the field of environmental and social governance (ESG)
- **Target 5:** Digital transformation and optimal organizational structure
- **Target 6:** Financial stability and creation of shareholder value





ASCO'S OPERATIONS

Key business segments



Cargo transportation



Specialized offshore services to oil and gas industry



Ship repair and construction



Education and training in the field of shipping

Cargo transportation



20
Tankers

Transportation of crude oil and oil products

14
Universal dry cargo vessels

Transportation of grain, wheat, barley, corn, bran, cut timber and wood products, metal products, fertilizers, construction materials, containers and other various types of dry cargo

17
Ferries, Ro-Ro and Ro-Pax type vessels

Transportation of railway wagons, containers, trucks (TİR), other vehicles, as well as passengers

Currently ASCO operates 2 tankers and 4 dry cargo vessels in the basins outside the Caspian – mainly in Black and Mediterranean Seas.

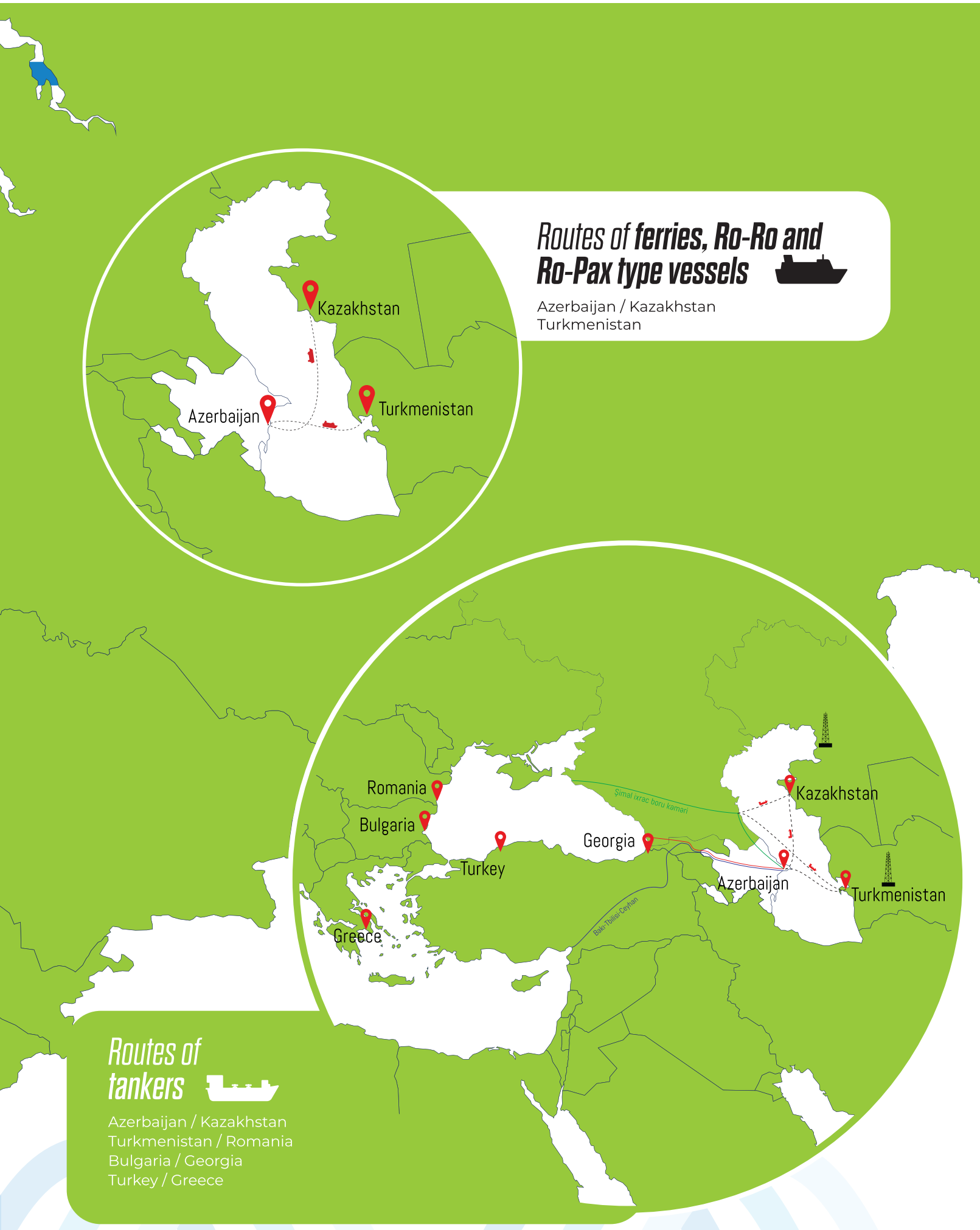
3
Aframax type tankers



These giant vessels under the ownership of SA Maritime AFEZCO joint venture and managed by ASCO Shipmanagement AFEZCO and embodying a new page in the Company's history are proudly operated under the flag of Azerbaijan in basins outside the Caspian Sea.

Operation routes





Routes of **ferries, Ro-Ro and Ro-Pax type vessels**

Azerbaijan / Kazakhstan
Turkmenistan

Routes of tankers

Azerbaijan / Kazakhstan
Turkmenistan / Romania
Bulgaria / Georgia
Turkey / Greece

Specialized offshore services to the oil and gas industry

ASCO is involved in all processes of oil and gas production, including complex services such as constructing sea platforms and jackets, conducting geographical and geological surveys, laying underwater oil and gas pipelines and their repairs during operations, fire protection for offshore oil facilities, transportation of oil workers to their workplaces, also transportation of various types of cargo (fuel-lubricants, drinking water, methanol, goods and materials, equipment, metal structures and etc.).




21
Crane vessels


24
Supply tug vessels


3
Tugboats


8
Port tugboats


23
Passenger vessels


5
Firefighting vessels


5
Engineering and geological vessels


2
Pipe-laying vessels


10
Diving vessels


4
Fuel bunkering vessels


12
Vessels carrying liquid, fecal and oil-contaminated water


5
Dredgers


5
Barges


57
Small boats


8
Yachts


3
Floating workshops

3
Other



The past five years have been marked by significant accomplishments and challenges for ASCO. Despite the difficulties brought on by the COVID-19 outbreak and complex geopolitical situations such as the war in Ukraine and conflicts in the Middle East, ASCO has successfully navigated these turbulent waters. The disruptions in traditional markets, particularly in the Russian Federation and Ukraine in the Black and Caspian Seas, required ASCO to restructure its operations swiftly and effectively. This period has underscored the importance of adaptation, flexibility, and prompt action for our organization.

Recognizing these challenges and opportunities, ASCO's Supervisory Board has approved a strategy aimed at further expanding beyond the Caspian Sea, entering new segments, and ensuring sustainable development. Over the past years, we have expanded into two new market segments with larger ships, including Aframax tankers and Handysize bulkers. These new ventures have allowed us to establish valuable relationships with new partners, built on mutual benefit and respect.

Our journey is just beginning. ASCO is optimistic about further growth, with plans to add new units to our fleet. We are focused on strengthening our positions in these new segments by acquiring new vessels. When selecting ships, ASCO prioritizes high specifications, quality, and environmental compliance. Our goal is to serve our clients with the best ships available while contributing to environmental protection through minimized emissions and waste. We believe that these values will be highly appreciated by our clients and contribute to sustainable development.

Our recent acquisitions and those in the pipeline have nearly doubled our fleet's deadweight. Alongside secondhand acquisitions, ASCO has invested in new construction projects. In the last five years, we have taken delivery of six newbuild vessels, including two RO-PAX and four tankers. In 2022-2024, we have placed orders for 13 new builds, including one RO-PAX, three 8,000-deadweight chemical tankers, three fast crew boats, four diving support vessels, and two 9,800-deadweight dry cargo vessels. All of these projects are designed with energy efficiency and minimal environmental impact in mind and expected to

be delivered within a 2–3 year period.

Along with fleet development and environmental issues, well-being of our people is within the main priority for us. We regard our eight thousand employees, including more than four thousand seafarers, as valued members of the ASCO family. We are committed to ensuring fair treatment and decent working conditions for all. With zero tolerance for any forms of discrimination, harassment, or inequality, we stand by each member of our family, empowering those in need and fostering an inclusive and supportive environment.

We are also committed to responsible business practices that ensure sustainability, transparency, and equality. We have adopted several policies aligned with international and national standards, including the G20/OECD Principles of Corporate Governance, the United Nations Millennium Development Goals (MDGs) and ISO 37001:2016 Anti-bribery management systems. Environmental protection is a top priority for us, and compliance with green energy standards is integral to our operations. We are implementing several projects aimed at significantly reducing greenhouse gas emissions.

All current and planned activities will benefit future generations. We are confident that in the next annual report covering the past five years, with the support of our partners, we will see a completely transformed ASCO with significantly increased revenue, an improved organizational structure, a renewed fleet, better market segmentation, a stronger presence in other market segments, significantly reduced emissions and waste, and satisfied employees successfully managing our company!

Zaur Naghiyev

Deputy Chairman of the Management Board of ASCO

Fleet renewal



Tanker “Lachin” built in Baku Shipyard

One of the 50 best civilian ships built in 2019 according to the list of Royal Institution of Naval Architects (RINA)



Purchase of “Sugovushan” supply vessel



Ro-Pax type ferry “Azerbaijan” built in Baku Shipyard

"Best ferry" in the list of the best ships of 2021 organized by "Baird Maritime"

One of the 50 best ships of the world according to the "Significant Ships 2021" rating of Royal Institution of Naval Architects (RINA)



Tanker "Kalbajar" built in Baku Shipyard



Ro-Pax type ferry "Zarifa Aliyeva" built in Baku Shipyard



Tanker "Academician Khoshbakht Yusifzade" built in Baku Shipyard





Small boats "ASCO-1" and "Terterchay" built in Zygh Ship Repair and Construction Yard

“Aframax” type tankers, each with a carrying capacity of approximately 115,000 tons, acquired in 2023 by SA Maritime AFEZCO, a company established on a parity basis with the main strategic partner of ASCO - State Oil Company of Azerbaijan Republic (SOCAR) and managed by ASCO Shipmanagement AFEZCO, a wholly owned-subsidiary of ASCO, are named after the historical lands of Azerbaijan in honor of the victory in the Patriotic War, with the direct support of the President of the Republic of Azerbaijan.



“Aframax” type tanker “Shusha”



“Aframax” type tanker “Karabakh”



“Aframax” type tanker “Zangezur”



Ship repair and construction

"Bibiheybat Ship Repair Yard" and "Zygh Ship Repair and Construction Yard", which operate within the corporate structure of ASCO, carry out high-quality repairs of all types of vessels. 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 (Zygh Yard);
- Installation and tuning of vessel systems and equipment, electrical and radio navigation equipment, engines, devices;
- Performance of underwater engineering and hydro-technical works as part of 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.




SAVALAN



Education and training in the field of shipping

Entities providing training for seafarers within ASCO:

Azerbaijan State Maritime Academy (ASMA)

- More than **130** years of experience in maritime education
- Its diploma is acknowledged by more than **170** countries globally
- Bilateral collaboration with **18** universities across **11** countries globally
- Member of the International Association of Maritime Higher Schools
- Member of the Teaching-Methodical Council of maritime higher schools within CIS countries
- Active participant in the Association of Higher Schools of the Caspian Littoral States
- Education meeting modern standards at bachelor, master and doctoral studies
- Education in Azerbaijani, Russian və English
- **Specializations:**

Marine navigation engineering

Shipbuilding and ship repair engineering

Ship power plants operation engineering

Electrical and electronics engineering



Training Center (TC)

- Accreditation by the State Maritime and Port Agency
- Enhancing the professional skills of seafarers
- Certification of seafarers aligned with international conventions and standards
- Trainings in Azerbaijani, Russian və English
- **Certification by the organizations below:**

American Bureau of Shipping - ABS

The Nautical İnstitute

Bureau Veritas



TC is one of the 95 centers authorized to conduct "DP Induction" and "DP Simulator" trainings on modern dynamic positioning (DP2) simulator globally and the only organization occupied in this field in the Caspian region.

Azerbaijan Marine College (AMC)

- **Secondary vocational education on below spheres:**

Ship navigation

Exploitation of ship energetic installations

Power supply



Key projects



Pipe-laying work in “Absheron” gas condensate field – pipe-laying vessel “Suleyman Vezirov” and supply tug vessel “Aura”



Construction works on “Pirshagi Wastewater Treatment Plant” – dredger “Muhandis Balarza Mammadov”, crane vessel “Zulfu Hajiyev”, supply vessel “Neftegaz-64” and other vessels



Operations on transportation of “Absheron Early Production Platform Complex” superstructures to the “Absheron” field and installation thereof on the bearing unit – crane vessel “Azerbaijan”



Dispatchment of the support block of the “Azeri-Central-East” platform to the sea – barge “STB-1”, the largest barge in the Caspian Sea



Dispatchment of the upper module of the “Azeri-Central-East” platform to the sea – barge “STB-1”



Pipe-laying work in “LAM and ZHDANOV” oil field in Turkmenistan sector of the Caspian Sea – pipe-laying vessel “Suleyman Vezirov”

Issuing of ASCO bonds

- **Nominal value USD 1000**
- **Annual interest rate 6%**
- **Maturity 5 years**
- **In two tranches, as 100 million and 50 million**





Launch of "My ASCO" mobile application – an electronic cabinet for ASCO employees

Key exhibitions where ASCO participated during the reporting period

- **"Trans-Russia 2019" exhibition**
- **26th International Caspian Oil and Gas Exhibition**
- **Europe's largest transport exhibition in Munich, Germany**
- **"Trans-Caspian 2019" exhibition**
- **"Caspian Ecology 2019" exhibition**
- **"Trans-Russia 2021" exhibition**
- **27th International Caspian Oil and Gas Exhibition**
- **28th International Caspian Oil and Gas Exhibition**







ASCO IN NUMBERS

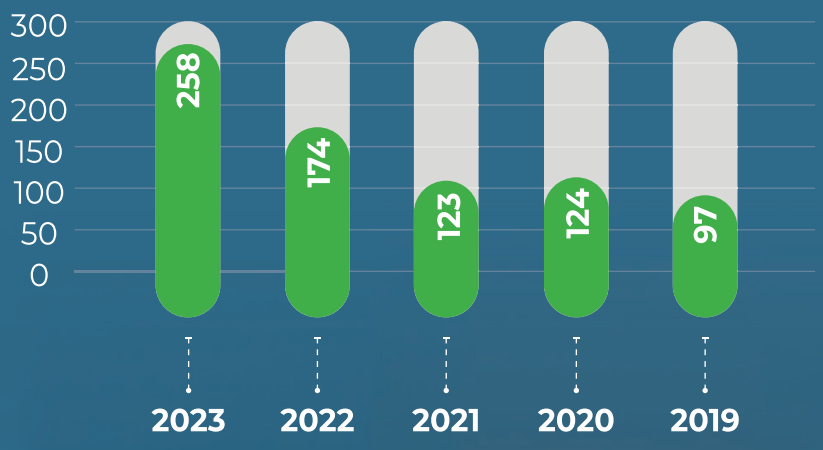
Financial indicators

Summary from the financial statements prepared based on IFRS

thousands of AZN	2023	2022	2021	2020	2019
Revenue	524,195	570,071	459,133	421,049	479,192
Cost of sales	(375,113)	(369,444)	(306,069)	(259,559)	(300,065)
Gross profit	**149,082**	**200,627**	**153,064**	**161,490**	**179,127**
General and administrative expenses	(60,921)	(52,159)	(39,962)	(40,860)	(51,485)
Social expenses	(9,506)	(8,575)	(7,124)	(12,542)	(12,354)
Other operating income	50,490	32,827	21,757	19,602	32,118
Other operating expenses	(69,923)	(79,425)	(59,445)	(63,808)	(56,585)
Operating profit	**59,222**	**93,295**	**68,290**	**63,882**	**90,821**
Finance costs	(9,621)	(1,222)	(1,735)	(2,680)	(1,288)
Share of result of joint venture	6,761	0	0	0	0
Income tax	(12,677)	(26,632)	(14,763)	(16,159)	(25,660)
Net profit	**43,685**	**65,441**	**51,792**	**45,043**	**63,873**

	as of 31 December of				
thousands of AZN	2023	2022	2021	2020	2019
Current assets	438,691	320,514	319,765	314,001	316,649
Non-current assets	1,304,848	1,014,902	971,443	949,329	895,617
Total assets	**1,743,539**	**1,335,416**	**1,291,208**	**1,263,330**	**1,212,266**
Current liabilities	99,305	110,765	152,866	186,280	190,702
Non-current liabilities	207,802	50,961	50,093	44,693	44,250
Total liabilities	**307,107**	**161,726**	**202,959**	**230,973**	**234,952**
Total equity	**1,436,432**	**1,173,690**	**1,088,249**	**1,032,357**	**977,314**

Investment (millions of AZN)



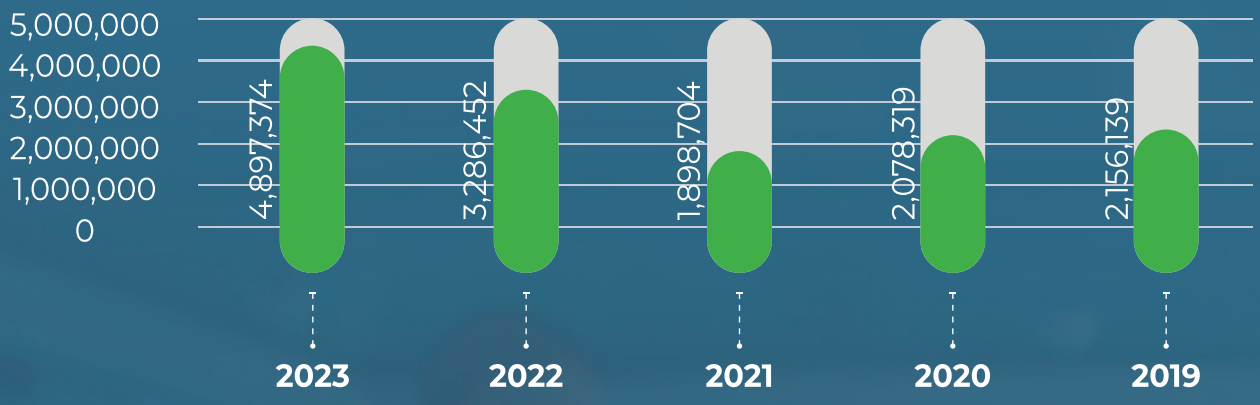
EBITDA (millions of AZN)



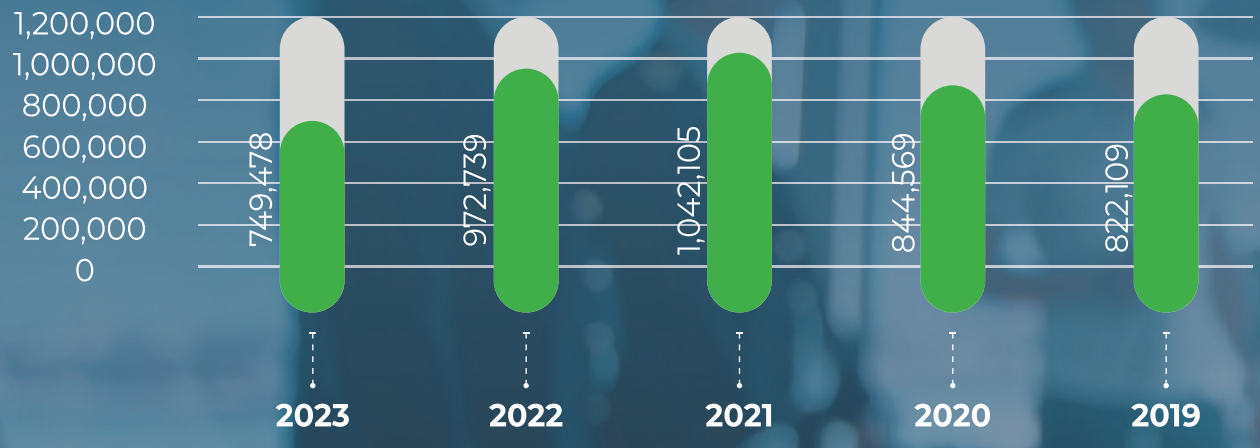
	2023	2022	2021	2020	2019
EBITDA margin	30%	33%	31%	32%	33%
Return on equity	3%	6%	5%	4%	6%
Return on assets	3%	5%	4%	4%	5%
Debt to EBITDA	1.16	0.05	0.09	0.23	0.46
Debt to equity	0.12	0.01	0.01	0.03	0.08
Current liquidity ratio	4.42	2.89	2.09	1.69	1.66

Operational indicators

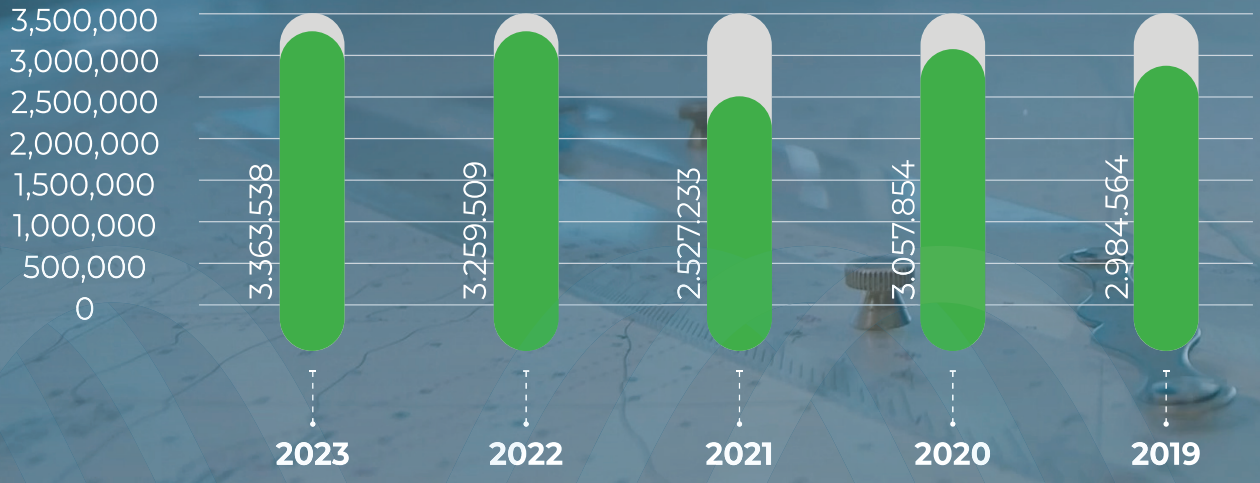
Transportation by tankers, tons



Dry cargo transportation, tons

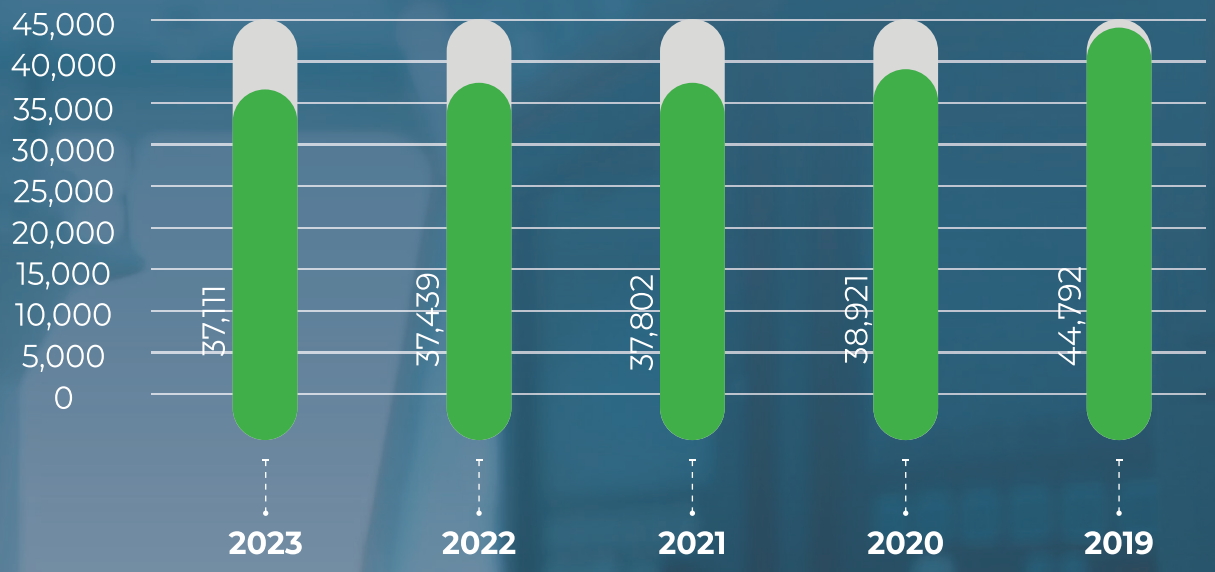


Transportation by ferries/Ro-Ro, tons



	2023	2022	2021	2020	2019
Transportation of wagons, units	37,642	38,635	30,466	37,424	44,159
Transportation of TIRs, units	35,207	35,290	30,893	31,872	22,049

Days worked by the Specialized offshore fleet (vessel-day)



	2023	2022	2021	2020	2019
Number of repair works carried out by the yards	1,146	901	763	809	932





SUSTAINABLE DEVELOPMENT

A company's strategic management plays a significant role in achieving its long-term targets and being successful in the market. But many organizations overlook one key factor in the successful implementation of the strategy – the role of the Human resources management department ("HRMD").

ASCO implements human resources management Guidelines and Policy in line with the international requirements in maritime industry. This policy aids the Company in reaching its strategic targets through effective management of human capital, securing transparency, creating equal opportunities for all employees, as well as healthy work environment and conditions.



Main principles of the Human resources management Policy are the following:

- Increasing commitment of the current staff to the Company;
- Guaranteeing qualified seafarers wages compatible with the international salary standards;
- More efficient use of human resources potential;
- Achieving transparency in the process of human resources management;
- Controlling the career development of leading young employees;
- Objective performance appraisal;
- Creating equal opportunities and healthy work environment for all employees;
- Improving social welfare of the employees and organizing work with the omployees from vulnerable groups within the Company.

As the Human resources management department constitutes a foundation within ASCO, we must note the exceptional role of the department's employees in the Company's initial and subsequent development stages, and especially emphasize the significance of innovations in organizing the work of the Human resources management department.

Actions towards creating a productive, positive and inclusive work environment is one of the wide responsibilities of the leader of the Human resources management department.

A number of key projects have been implemented with the purpose of increasing employee interest to work, simplifying human capital management processes through automation and improving effectiveness in the workplace.

It should be noted that, completion of the transition to the online recruitment process and a resulting application of qualified candidates through asco.az website, full test examination and organizing interviews with experienced specialists in the relevant field may be counted as the most significant of the actions towards increasing transparency in employee admission process and minimizing external influence.

Improving the knowledge and skills of employees is always on the management's agenda. "E-training" platform was launched in this regard. Application of the platform has a positive effect on learning, labor functionality and career development of the employees.

Additionally, in order to get rid of paper information carriers and reduce paper processing, "E-archive" project is also on the spotlight. This project enables availability of all personal information of ASCO employees on an online platform.

A performance appraisal process is in place and Key Performance Indicators (KPI) are set for objective and fair assessment of employee skills. The mentioned process supports employee motivation together with enabling performance evaluation.

"My ASCO" mobile application is deveoped with the initiative of HRMD and with ASCO's internal resources by the specialists of Information Technologies Department. This application enables a quick access to the Company news for the employees, as well as builds a closer contact with the employer.

As HRMD we always strive for application of world famous software and innovations within ASCO and using their advantages for the epmloyees and the employer.

Actions towards preparing professional local seafarers, ensuring personal and professional development of the personnel, as well as improving corporate work environment are continuing in ASCO. One of the priority issues is securing local seafarers for new Handysize and Aframax type vessels in relation of the Company's access to worldwide waters. As HRMD, we use international job search sites for improving the knowledge and skills of the local staff to the level of highly qualified seafarers, as well as strive for improving ASCO's reputation in maritime field among seafarers.

Improving the process of preparing qualified staff is always under our attention. We plan to launch an online knowledge examination platform for organizing on-the-job tests for the seafarers without interrupting the operations.

Additionally, in order to improve functionality and apply international work environment in ASCO as part of the steps towards ASCO's improvement and strategic development, transition to a "Hybrid work schedule" is among the intended actions.

Sevda Mammadova

Head of Human resources management department of ASCO

Human resources management

Special attention is given to the professional development of employees in ASCO. Preparation of strong Azerbaijani seafarers and propagation of the seafaring profession in the country, improvement of the education quality in our academy, continuous improvement of the professionalism of personnel, identification of promising youth and their appointment to key positions are the priority matters.

In ASCO, employees are the main force in adding value to our customers by meeting their needs. Our operations in a competitive environment as an international shipping company requires our employees also to be competitive. It is the management's responsibility to create a fair work environment for the employees. The priority of the Company in the regard is the safety of employees on land or at sea.

Total headcount in ASCO

	2023	2022	2021	2020	2019
Number of employees	7,798	7,923	8,042	8,016	8,443

Regarding employees' career development, continuous enhancement of their professionalism, and the development of their personal qualities in ASCO, all the training needs are analyzed and trainings are tailored to meet those requirements. Additionally, senior personnel frequently engage in meetings with specialists to exchange and share production experiences.

Total duration of training courses in ASCO (days)

	2023	2022	2021	2020	2019
Shore personnel	2,104	617	1,088	312	6,682
Offshore personnel	23,844	42,730	25,184	14,758	22,830

Representatives of other companies and foreign individuals also participate in training sessions conducted in Azerbaijani, Russian and English languages in the Training Center which is equipped with modern training apparatus and simulators.

Number of training courses and participants in Training Center

	2023	2022	2021	2020	2019
Number of training courses	890	971	784	634	786
Number of participants	10,470	13,659	9,861	6,458	10,499

ASCO provides material and methodical support to aid the students of Azerbaijan State Maritime Academy (ASMA) in obtaining theoretical knowledge. 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 units, vessels and various departments and workshops of ship repair and construction yards. Additionally, special attention is given to publishing new textbooks and updating study guides.

The performance appraisal process in ASCO enables fair assessment of both the individual qualities and professional skills of the employees. The following are applied for the stimulation and motivation of personnel in ASCO:

- Remuneration system;
- Awarding employees with orders, medals, honorary titles and badges;
- Additional monthly payments to employees for excellence in work;
- Selection of winners in the competition of "the best of the year" among offshore staff and etc.

Promoting gender equality within ASCO is one of the top priorities. ASCO is committed to ensuring representation of both male and female personnel across all positions. 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

	2023		2022		2021		2020		2019	
	female	**male**	**female**	**male**	**female**	**male**	**female**	**male**	**female**	**male**
Shore personnel	**611**	**2,921**	**648**	**2,952**	**660**	**3,026**	**646**	**3,090**	**729**	**3,437**
Managers	62	364	69	367	68	363	48	323	43	353
Specialists and others	549	2,557	579	2,585	592	2,663	598	2,767	686	3,084
Offshore personnel	**33**	**4,233**	**18**	**4,305**	**22**	**4,334**	**21**	**4,259**	**23**	**4,254**
Officers	1	2,408	1	2,407	1	2,416	1	2,424	1	2,390
Ordinary crew members	32	1,825	17	1,898	21	1,918	20	1,835	22	1,864
Total	**644**	**7,154**	**666**	**7,257**	**682**	**7,360**	**667**	**7,349**	**752**	**7,691**

When a company's work is rated in the modern age, the indicator of measures taken in the environmental and social fields – Environmental, Social and Governance (ESG) İs considered as a priority matter. In this regard, attention in ASCO is growing for defining sustainable development policy covering social, health, safety of work, sanitation, ecology, as well as emissions management, green energy, innovations, education, equality and other aspects, preparation of implementation plans in accordance with the policy, preparation and execution of complex monitoring activities.



Today, one of the global problems that concern the world is the climate change and ASCO conducts its business operations in accordance with the relevant instructions on low carbon pathways ("LCP") and climate sustainable ways ("CRP").

It must be noted that, ASCO has joined "The International Convention for the Prevention of Pollution from Ships" (MARPOL) of the International Maritime Organization (IMO) and Annex VI to this Convention "Prevention of Air Pollution from Ships" and accordingly has taken continuous measures in the field of energy efficiency management since 2012. Based on the latest requirements coming into force since 2023, ASCO vessels have been furnished with duly arranged "Ship Energy Efficiency Management Plan" (SEEMP), information relating to fuel consumption in 2023 of vessels with a total capacity of 5000 tons and more, as well as information on "Energy Efficiency Existing Ship Index" (EEXI) and "Energy Efficiency Design Index" (EEDI) for relevant vessels, moreover information on "Carbon Intensity Indicator" (CII) have been presented to State Maritime and Port Agency and IMO. ASCO makes its own contribution in the field of coping with the climate change through continuous implementation of the IMO requirements mentioned above on reducing greenhouse gas emissions.

One of the five national priorities for socio-economic development of Azerbaijan till 2030 is “a clean environment and country of green growth” and ASCO takes actions towards maintaining its operations in relation to that priority by environmental health, restoration and expansion of greenery, efficient use of water resources and sustainable energy sources.

The fact that such an esteem event as the 29th session of the Conference of the Parties to the United Nations Framework Convention on Climate Change – COP29 is going to be held in Azerbaijan, as well as the fact that the President of the Republic of Azerbaijan Ilham Aliyev signed an Order on declaring 2024 as the “Green World Solidarity Year” on 25 December 2023, stimulates ASCO to widen its work in this field through the whole year and intensify its efforts on protecting the environment to a considerable extent.

The following can be exhibited as a part of constructive changes planned on vessels regarding emission reduction and application of innovations in ASCO:

- installation of hybrid fuel system in ASCO’s next new-built diving vessel,

- installation of nozzles on the aft side of vessels,

- application of air bubble system on the underwater part of the vessels and robotic hull cleaning system,

- installation of Flettner rotor on one of the Ro-Pax type vessels,

- increased use of shore power,

- fuel consumption reduction measures via voyage optimization through application of electronic trip monitoring system on the vessels,

- building new vessels intended in the investment strategy and their replacement of older and more fuel consuming vessels in the fleet will contribute to the reduction of carbon emissions.

“Eco pilot” project which is an electronic trip monitoring system, execution of which has started bu ASCO, should be specificly noted among these measures, so that as a result of the project fuel consumption is expected to be reduced by 6% by controlling vessel speed and route via automatic electronic system considering sea currents and weather conditions.

At the same time, for the sake of environmental protection in all spheres of its operations, measures such as replacement of automobiles with electric type, substitution of diesel powered cranes with electric engine vehicles, installation of solar panels, sea water processing and its use as technical water after desalination via installation of water treatment plants and relevant water pipes on the shore facilities, balancing drinkable water consumption on the shore facilities and reduction of plastic waste are intended.

Alekber Azizli

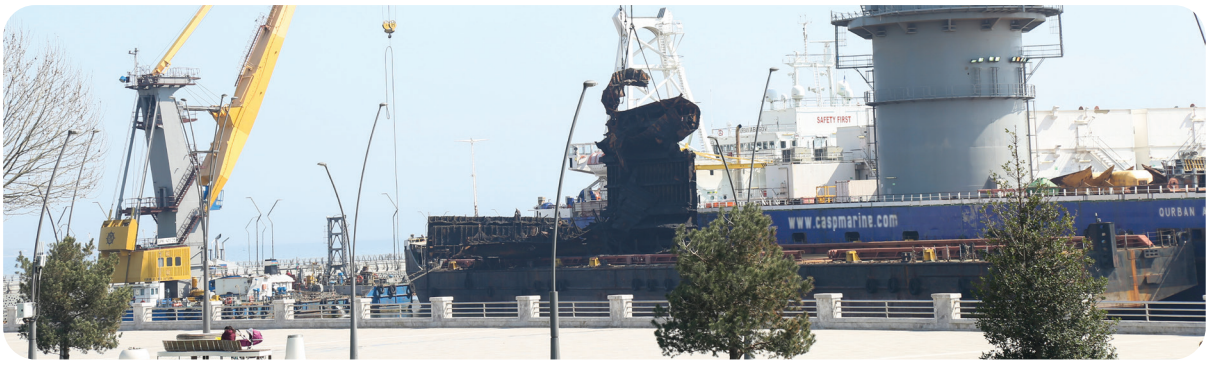
ASCO Director on Sustainability and Emissions Management

Environmental protection

Environmental protection is one of the key sustainable development measures in ASCO. As a company with the history of more than 165 years, ASCO considers important to protect Azerbaijan's nature for future generations and spares no effort on this sphere.

ASCO contributes to global initiatives on prevention of atmospheric pollution. Prevention of toxic gases released into the atmosphere from ships is one of the main targets of ASCO. In order to reach this target, crucial efforts are made in ASCO in line with the Company's Environmental, Social and Governance (ESG) system, as well as the emission reduction requirements of International Maritime Organization and several other classification societies coming into force since 1 January 2023.

In this regard, maintenance of vessels and their engines, oil and fuel separators without delays, significant reduction in the use of heavy fuel, optimizing vessel speed to minimize additional fuel consumption during operations are of particular importance.



Additionally, according to the requirements, ASCO has begun the implementation of the following:

· **Ship Energy Efficiency Management Plan 3 (SEEMP part III)**

- In order to improve and control energy efficiency, vessels are provided with "Ship Energy Efficiency Management Plan" consisting of 3 parts in accordance with the requirements of Annex VI to the MARPOL Convention.

- Provided to 31 vessels.

· **Carbon Intensity Indicator Plan (CII plan)**

- Has the purpose of taking continuous actions for improving carbon emission indicators of the vessel, assessment of the indicators based on the relevant scale and annual approval of the plan via providing carbon intensity rating to the vessel.

- Is applicable to vessels with a capacity of more than 5000 tons and floating in international waters.

- Provided to 5 vessels.

· European Union Monitoring, Reporting and Verification Plan (EU MRV)

- The essence of this plan consists of accuracy of potential actions towards vessel emission reduction, doing carbon reporting based on relevant methodologies, ensuring transparency in the process of duly presenting the reports.

- Is applicable to vessels entering European ports.

- Provided to 5 vessels.



6% reduction of sulphur in the composition of fuel consumed on vessels is achieved as a result of work done in the previous period. **1-2%** fuel economy is achieved by cleaning bottom of the vessels of the Specialized Fleet twice a year.

One of the five national priorities for socio-economic development of Azerbaijan till 2030 is "a clean environment and country of green growth". ASCO has always placed high importance on minimizing environmental impact of operations and application of advanced initiatives in the field of environmental management is one of the strategic targets of ASCO. In this regard, ASCO takes measures for economical use of resources covering water, energy and other environmental aspects, as well as steadily works towards application of certain innovations on this sphere on vessels and shore facilities.

Continuous works are performed in ASCO 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, electronic and other pollutants, and maintaining them at a minimum level. Additionally, ASCO vessels conduct regular solid waste collection from the sea surface in the waters of fleets and shipyards, as well as the Coastal National Park.

Delivery of various types of waste as a result of activities of fleets and coastal facilities of ASCO (m^3)

	2023	2022	2021	2020	2019
Volume of hazardous waste delivered	7,030	7,901	9,975	8,559	8,665
Volume of non-hazardous waste delivered	4,797	4,735	3,493	9,203	3,472

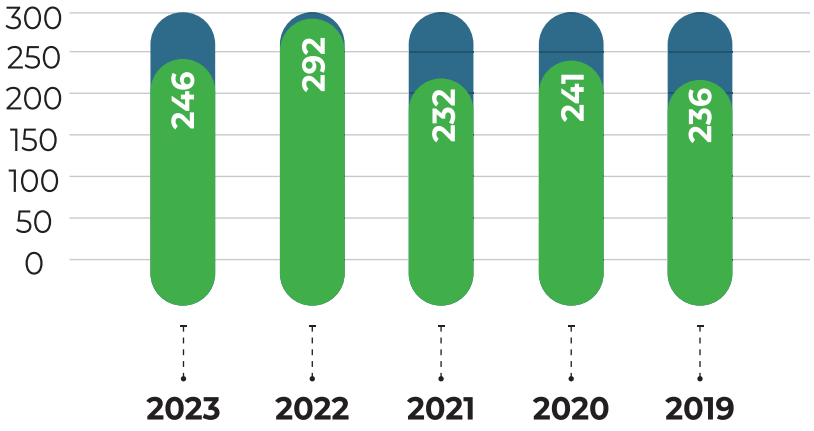
Metal recycled by ASCO (tons)

	2023	2022	2021	2020	2019
Ferrous metal	655	8,826	7,299	1,866	15,618
Non-ferrous metal	3	12	15	18	89



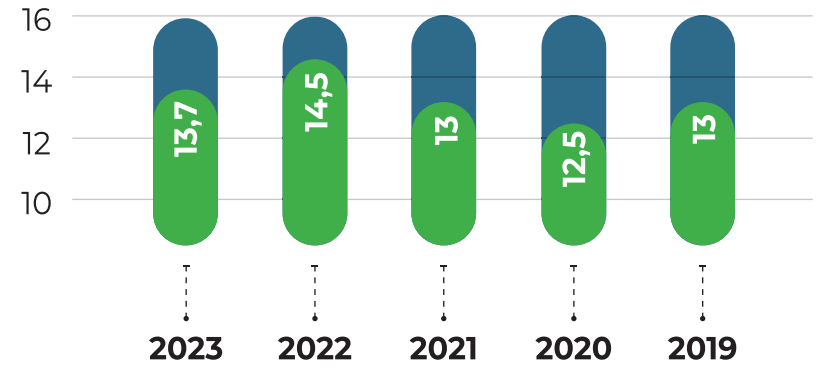
Direct emissions calculated using internationally accepted coefficients and annual fuel consumption

Direct emissions (CO_2 equivalent) thousand tons



Indirect emissions calculated using consumed electric power and relevant formulas

Indirect emissions (CO_2 equivalent) tons



Carbon intensity ratio (emissions in CO2 equivalent by number of employees), tons

2023	2022	2021	2020	2019
31.3	36.5	28.8	30.0	28.0

Emission reduction measures:

- Implementing operational measures that promote lower fuel consumption, such as speed optimization, optimal route selection considering weather conditions;

- Engine performance enhancement and emission reduction as a result of cleaning of the underwater parts of the vessels as part of each dock inspection and repair;

- Notable substitution of heavy fuel consumption with diesel fuel.

Other noteworthy environmental protection actions taken during the reporting period:



April 2019 – Vessels of the Caspian Sea Oil Fleet raised the parts of sunken ships from the bottom of the sea. The body of three ships of 445 tons in total were removed from the bottom of the Caspian Sea as part of the initiative of the cleanup of the water area of white city boulevard.

December 2019 – 1000 different types of evergreen trees have been planted by ASCO employees as part of the campaign on planting 650 thousand trees in one day, organized upon the initiative of the First Vice-President of the Republic of Azerbaijan Mehriban Aliyeva in connection with the anniversary of the great poet Imaddeddin Nasimi.





February 2021 – 100 trees have been planted on the area of "Bibiheybat" ship repair yard on the occasion of Youth Day, 2 February.

March 2023 – Massive cleaning works in ASCO offices and units





More than 3000 various types of trees have been planted in Mushfigabad village, Sabail region, areas of the fleets, shipyards and other structural units as part of the campaign on planting trees in connection with the 100th anniversary of the Great Leader Heydar Aliyev.



Special attention have been given to actions related to technical innovations on shipping in ASCO. ASCO management had a clear idea that the possibility of transition to new evolution phase in the shipping industry in the world and beginning of dynamic development in the years of 2020-2024 is high.

As expected, transition period took place and is continuing dynamically today. ASCO was fully prepared to this transition via the preventive actions taken, had a successful transition and is proceeding with its operations without any slow downs.

It is essential to stress the following as examples to the measures taken during the 5 years reporting period:

- Obtaining compliance documents relevant to the new requirement of D2 standard of BWM convention of IMO covering the period of 07.09.2019 - 07.09.2024 and organization of vessel exploitation.

- Organization of vessel exploitation in accordance with the requirements of Annex VI to the MARPOL Convention of IMO which came into force on 01.01.2020.

- Calculation and assessment of operational carbon intensity ratio in accordance with the new requirements of Annex VI to the MARPOL Convention which came into force on 01.01.2023 and IMO strategy on reducing greenhouse gas emissions, obtaining compliance documents and organization of respective vessel exploitation.

- Recalculation of “Energy Efficiency Existing Ship Index” (EEXI) for the vessels in operation in accordance with the new requirements of Annex VI to the MARPOL Convention which came into force on 01.01.2023 and IMO strategy on reducing greenhouse gas emissions, obtaining compliance documents and organization of respective vessel exploitation.

- Study of the hybrid vessel exploitation possibilities by ASCO, and eventually signing a vessel construction agreement with Baku Shipyard in 2024 on building a hybrid vessel.

The measures mentioned are a small part of the work done and ASCO constantly studies the latest available technologies in the world, is in mutual contact with major institutes and companies in the world working on new technologies and places special attention on research on the following matters towards energy efficieny promotion:

- Possibility of installation of wind rotors on the vessels.

- Possibility of the application of dual fuel (diesel fuel and liquid gas fuel) vessel engines.

- Possibility of graphite paint usage on the underwater part of the vessels.

- Possibility of design changes on the ship hull and around the propeller.

- Possibility of air bubble lubrication of the ship hull.

- Possibility of future usage of hydrogen power.

- Possibility of alternative and renewable energy consumption on vessels.

In general, past 5 years should be counted as a special period in ASCO's dynamic development. Due to requirements arising from the current geopolitical changes in the world, ASCO has started collaborating with additional four leading classification societies (LR, BV, RINA, ABS) and this is a sign of human resources working in line with dynamic changing requirements in the shipping industry, as well as an indicator of multifaceted development of ASCO.

2023 is considered a specific year from the innovations standing point. So that, 2023 has been a remarkable year not only in ASCO history, bu also being a new page in Azerbaijan shipping history. Aframax type tankers sailing in the world waters under Azerbaijan National Flag and having unlimited sailing areas have been taken under ASCO management. Managing this type of vessels requires special knowledge, dynamic functioning human resources, technical skills and building cooperations, and ASCO has successfully coped with this task in a short period.

Measures taken by ASCO during the reporting period, especially successful maintenance of operations by adapting its vessels to the new requirements in a period when demands on shipping industry grow rapidly, probably covered the most successful period of the shipping history in Azerbaijan and today, ASCO has all the means and resources to preserve and expand this success.

Rashad Goyushov

ASCO Deputy Technical Director on Technical Innovations and New Technologies

Health and occupational safety

Health and occupational safety management in ASCO is in line with the requirements of the follwing:

- MARPOL (The International Convention for the Prevention of Pollution from Ships)
- SOLAS (The International Convention for the Safety of Life at Sea)
- STCW (The International Convention on Standards of Training, Certification and Watchkeeping for Seafarers)
- MLC (Maritime Labour Convention)
- ISM Code (International Safety Management Code)
- ISO 45001 (Occupational Health and Safety Management Systems)
- The Law of the Republic of Azerbaijan on Technical Safety
- The requirements of the Labor Code of the Republic of Azerbaijan



As a result of the audit conducted by American Bureau of Shipping (ABS) in ASCO headquarters and vessels, it was confirmed that ASCO's current Health and Occupational Safety Management System is in line with the international requirements.

In order to ensure the proper application of the Health and Occupational Safety Management System in ASCO, the following measures are implemented:

- Intracompany audits
- Regular actions towards eliminating the identified deficiencies
- Periodical medical examinations of the employees at the Company's expense
- Regular internal trainings
- Quarterly organized "Safety Day" event

Company's management, all department heads, heads of structural units and other relevant persons are informed about the events that occurred during the quarter, identified deficiencies and potential solutions for addressing them, audits conducted, work done, achieved milestones during the event.

- Electronical distribution of various safety bulletins to ASCO employees
- Allocation of specific budget to safety measures and support in occupational health sphere each year (amounts in the following table, in AZN)

	2023	2022	2021	2020	2019
Costs on safety measures and occupational health including	**1,726,000**	**1,830,000**	**2,680,000**	**2,067,000**	**3,064,000**
Improvement of working conditions	1,121,000	1,068,000	1,799,000	1,568,000	2,026,000
Personal protective equipment	606,000	761,000	576,000	469,000	1,038,000

Productivity indicators in the field of occupational safety

	2023	2022	2021	2020	2019
Number of employees injured	4	6	5	6	6
Employee fatalities	**0**	**0**	**0**	**0**	**0**
Occupational injury rate (per 1,000,000 hours worked)	0.3	0.4	0.4	0.5	0.4
Lost working days rate (per 1,000,000 hours worked)	21.0	30.0	36.4	61.8	47.5

Corporate social responsibility

ASCO's activities in the framework of corporate social responsibility cover the directions below:

Financial support and charity

As part of corporate social responsibility, every year regular financial support is provided to orphans, families facing severe financial problems, internally displaced families, war veterans and people with disabilities. ASCO also provides guardianship to the children of employees who have lost their ability to work during production, as well as to other children in need of assistance.

	2023	2022	2021	2020	2019
Number of financial support recipients	315	381	239	140	1,849
Financial support amount, AZN	371,000	404,000	258,000	208,000	1,729,000
Number of children under care	129	141	131	128	121

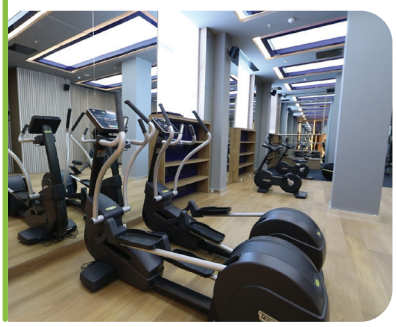
ASCO has traditionally provided holiday donations consisting of food necessities to 779 refugee and internally displaced families under ASCO's care, 3350 persons in total, on the eves of World Azerbaijanis Solidarity Day, Novruz Holiday, Eid al-Adha, Eid al-Fitr, Independence Day and National Salvation Day of the Azerbaijani people till June 2021.

In February 2023, ASCO has twice provided humanitarian aid consisting of tents, food, hygienic means and other items of daily use in order to meet the necessity needs of earthquake victims in brother Turkiye, via the employees of ASCO's representative office in Turkiye, in accordance with the directions of the President of the Republic of Azerbaijan Ilham Aliyev.



Employees' welfare and their health support

March 2021 – Commissioning of ASCO's new administrative building. A gym meeting modern standards, a library and a museum reflecting the history of the Company operates in the building.





April 2023 – Eye examination in ASCO in honor of the 100th anniversary of the distinguished ophthalmologist, Academician Zarifa Aliyeva





May 2023 – Presenting 487 renovated apartments within a modern residential complex to sailors in housing queue on the 100th anniversary day of the Great Leader Heydar Aliyev.

Provision of hot meals during working days to the employees of ASCO headquarters and structural units.

Recreation of thousands of people from sailor families in "Danizchi" recreation base in Khachmaz District



Support for the development of sports in the country

ASCO sponsors "Sabail" Professional Football Club. The stadium where the team hosts its games was named “ASCO Arena” and the football players were outfitted with uniforms featuring ASCO logo.





ASCO also sponsors the Public Union of the Sailing Sports Federation of the Republic of Azerbaijan. "Khazar" Sailing Boats Sports Club operates under ASCO.

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



Youth support

Enhancing personal and professional qualities of the youth, maintaining their motivation are under regular attention in ASCO.

ASCO places special emphasis on employing students of the Azerbaijan State Maritime Academy demonstrating exceptional knowledge and skills.

Regular monthly meetings are organized between these students and distinguished young workers and ASCO leadership, discussions are conducted about their career development, professional growth, sharing experiences and other topics.

In order to provide a deep understanding on the operations of the Company, “Surakhani” Ship-Museum regularly hosts open days for children of martyrs, orphans, and other vulnerable youth.



February 2023 – In honor of the 100th anniversary of the Nationwide Leader Heydar Aliyev and on the Youth Day, an intellectual game called “Brain Ring” was organized under the theme “Our youth is our future”.



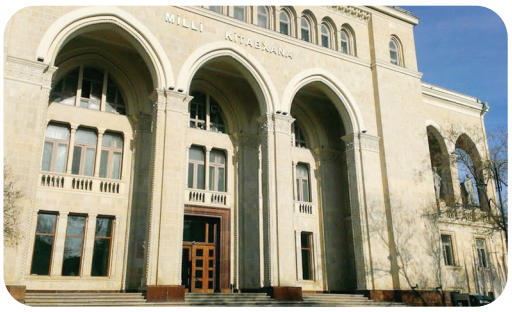
Promotion of the seafaring profession in the country

ASCO gives special attention to propagating the seafaring profession, studying the seafaring history of Azerbaijan and preserving seafaring traditions. Some of the actions taken in this regard are presented below:

July 2019 – The book “Great Leader Heydar Aliyev and national shipping policy” was published. The book talks about the incomparable role and labour of the Great Leader in the history of the Azerbaijan Caspian Shipping.



August 2019 – Books published by the order of ASCO, “Shipping in Azerbaijan: Pages of the history”, “Azerbaijan Caspian Shipping-160 years”, “Great Leader Heydar Aliyev and national shipping policy” were presented to the National Library of Azerbaijan.



May 2020 – A short documentary about the role of the Caspian Sea transport in the Great Patriotic War was shot.



March 2021 – First ship-museum in the Caspian region and the first tanker-museum in the world "Surakhani" was commissioned. Various technological solutions are applied in the showrooms of this museum which was built with the labour of more than 2000 local ship repairers. The museum was awarded the first place in the list of 220 touristic-attractive places of our country based on the opinions of the users of internationally popular tourism and trip platform "TripAdvisor".





March 2021 – The opening of the sculptural composition erected in the memory of selfless Azerbaijani sailors took place. The authors of the work, which was created by the order ASCO, are folk artists Salkhab Mammadov and Ali Ibadullayev, and the architect is honored architect Elkhan Asadov.



October 2022 – Within the framework of the "Erasmus+" initiative, 100 young foreigners representing 18 countries of Europe and Asia got acquainted with our shipping history in the "Surakhani" ship-museum.



January 2023 – Presentation of the feature-documentary film "Born in January 20" took place by the initiative of ASCO, about the events of January 20 – chronicles of heroism of our people, and our sailors showing bravery during these events.



March 2023 – A unique underwater archeology exhibition named "Heritage of the Caspian" is conducted in in the "Surakhani" ship-museum.



June 2023 – The book "Nautical alphabet" is published by the initiative of ASCO on the International Day for Protection of Children.

July 2023 – The book "Nautical alphabet" is presented to the children of martyrs by ASCO representatives in "YASHAT" camp organized in Shamakhi.



September 2023 – A social project named "Bridge to silence" on the occasion of the International Day of Sign Languages is organized in the "Surakhani" ship-museum.





October 2023 – A short feature-documentary film named "The Witness to Three Centuries", dedicated to the 165th anniversary of the establishment of national shipping in our country, was filmed by the initiative of ASCO. Director of the film is Honored Art Worker Elkhan Jafarov. The rich history and traditions of the national shipping, its development in modern times are reflected in the film.

October 2023 – An album consisting of songs about sea and shipping and named "On the coast of the Caspian" is released by the initiative of ASCO.



November 2023 – Within the "Cultural Bridge" project co-organized by the "Surakhani" ship-museum and the Embassy of Romania in Azerbaijan, an international art exhibition is conducted with the participation of representatives of various foreign embassies operating in our country, artists, seafarers, media and society members.



QARABAĞ AZƏRBAYCANDIR!



During the 44 days between September 27 and November 9, 2020, Azerbaijan Army enters the justice war under the commandment of the Commander-in-Chief Ilham Aliyev and restores the historical justice. During this period and the period after, ASCO family, as the whole Azerbaijan nation, stays beside the Azerbaijan Army.

- October 2020 – ASCO staff voluntarily donates 1,064,022 manats to the Azerbaijani Armed Forces Assistance Fund. This amount is allocated from the ASCO payroll.
- June 2021, August 2021, November 2021 – Excursions are organized in the "Surakhani" ship-museum for the children of martyrs of the Patriotic War who sacrificed their lives for liberation of our lands.



- November 2021 – A shooting competition is held among the young employees of ASCO on the occasion of the Victory Day, 8 November.
- November 2021 – The book named "Each one is a Hero" and dedicated to the seafarers participating in the Patriotic War is published with the initiative of ASCO.

- November 2021 – An event dedicated to the Victory Day, 8 November, is organized in ASCO with the participation of the employees engaging in the war, parents employed in ASCO of our heroes rising to the peak of martyrdom and ASCO staff.
- January 2022 – The book "Each one is a Hero" reflecting the life and battle deeds of the seafarer martyrs, seafarer disabled war veterans and seafarer war participants is presented to Azerbaijan National Library.
- March 2022, March 2023, November 2023 – ASCO employees whose children have risen to the peak of martyrdom are visited.
- June 2022 – ASCO organizes an event in "Yacht Club" with the participation of the children of martyrs who sacrificed their lives for liberation of our lands in the Patriotic War and their parents, on the occasion of International Day for Protection of Children, June 1.
- August 2022 – ASCO representatives exhibit interesting presentations reflecting detailed information on the shipping history and traditions of our country, seafarer profession and ASCO operations to the children of martyrs in the "YASHAT" camp.
- November 2022 – ASCO's Public Relations Department prepares a documentary named "Unforgettable Victory" on the occasion of the second anniversary of the Victory obtained in the Patriotic War. The details of the Patriotic War, as well as the role of the multi-thousand ASCO family in the common victory are reflected in the film.
- November 2023 – A video about the Patriotic War in Azerbaijani, Russian and English languages is exhibited on the 360 degree screen of the "Spirit of the Caspian" hall of the "Surakhani" ship-museum.

- Today "Aframax" type tankers put into operation in 2023 as part of the joint project with SOCAR, are named after our historical lands of huge significance to the Azerbaijan nation as "Karabakh", "Shusha" and "Zangezur" with the decision of the country leader for embodiment of our victory in the Patriotic War, and sail with pride in the world oceans under the flag of Azerbaijan.
- During the period after the Patriotic War 160 persons get employed in ASCO, 8 of which are members of martyr families, 12 First Karabakh War and 140 Second Karabakh War participants.
- ASCO makes monthly additional payments in the amount of 300 AZN to the employees whose families have martyrs in the First Karabakh or the Second Karabakh Wars, 200 AZN to disabled war veterans and 150 AZN to war participants.
- 8 students of ASMA who participated in the Second Karabakh War, in addition to being exempt from tuition fees and payments on the use of Academy's dormitory, were awarded a study scholarship by ASCO.



Forever in our hearts...



In honor of the 100th anniversary of the Nationwide Leader Heydar Aliyev and his life partner distinguished ophthalmologist, Academician Zarifa Aliyeva, series of events to show the everlasting esteem of the seafarers in their dear memory.

April 2023 – Eye examination event with the motto "Healthy glance at the world" with the partnership of "Pasha Insurance" OJSC and Dunyagoz Hospital, covering all the structural units of ASCO



April 2023 – With the initiative of ASCO, a postmark reflecting the image of Ro-Pax type vessel named after Academician Zarifa Aliyeva is prepared by "Azerpost" LLC, a subsidiary of Ministry of Digital Development and Transport.



May 2023 – In honor of the 100th anniversary of the Nationwide Leader Heydar Aliyev, 18th International scientific-technical conference with the topic of "Challenges around water transportation" is held in Azerbaijan State Maritime Academy.

May 2023 – A music video was shot, for one of the favorite songs of the Great Leader Heydar Aliyev, the folk song "Kuchalara su sapmisham", which was performed by People's Artist Nazakat Teymurova on the decks of "President Heydar Aliyev" tanker and RO-Pax type ferry "Zarifa Aliyeva" brought together in the waters of beloved Caspian.

May 2023 – In honor of the 100th anniversary of the founder of modern Azerbaijan, the Nationwide Leader Heydar Aliyev and distinguished scientist, ophthalmologist, Academician Zarifa Aliyeva, a concert program called "Eternal Love" was organized in the International Mugham Center with the initiative of ASCO.



May 2023 – A block of 2 postmarks reflecting the images of "President Heydar Aliyev" tanker and RO-Pax type ferry "Zarifa Aliyeva" are issued with the initiative of ASCO.



May 2023 – Seafarers are pleased with 487 renovated apartments in a modern residential complex on the day of the 100th anniversary of the Great Leader Heydar Aliyev.



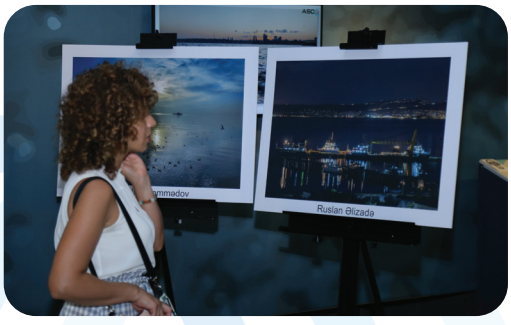
May 2023 – "Baku Sailing Regatta-2023" is held in honor of the 100th anniversary of the Nationwide Leader Heydar Aliyev with the support of the Ministry of Youth and Sports and with the joint organization of the Sailing Federation of Azerbaijan and "Khazar" Sailing Boats Sports Club.



June 2023 – The veterans of the Patriotic War employed in ASCO organize a march to "Heydar Peak" located at an altitude of 3751 meters above sea level on the Greater Caucasus.



August 2023 – An exhibition is organized in "Surakhani" ship-museum as part of "Khazarim" photo contest in honor of the 100th anniversary of the Great Leader Heydar Aliyev.



September 2023 – With the initiative of ASCO and within the framwork of "Heydar Aliyev Year", a "Ship modelling" contest is held in order to improve the stimulus of those who are interested in ship modelling.





October 2023 – An event on the theme of “Great Leader Heydar Aliyev and national shipping policy” was held in honor of the 100th anniversary of the Nationwide Leader Heydar Aliyev, as well as the 165th anniversary of the founding of the national shipping industry, in the development of which the Great Leader played a significant role, and the 10th anniversary of the creation of the "Azerbaijan Caspian Shipping Company" CJSC (ASCO), formed by merging two large shipping companies by the Decree of President Ilham Aliyev in 2013.

October 2023 – On the carpet woven by the order of ASCO and with the depiction of "Aframax" type vessel "Karabakh" on its center, numbers 100 and 1923 symbolize birth date of the Great Leader Heydar Aliyev, numbers 165 and 1858 reflect foundation date of the national shipping, and number 10 refers to the 10th anniversary of ASCO.



December 2023 – The film "Leader-Savior" prepared by ASCO in the framework of "Heydar Aliyev Year" tells about the life and work of the great personality, his contribution to the shipping and endless care for seafarers.







CORPORATE GOVERNANCE

Graphic description of ASCO's corporate governance structure

ASCO was transferred to Azerbaijan Investment Holding's management by the Order #2293 of the President of the Republic of Azerbaijan dated November 6, 2020. Segregation of duties between the General Assembly and the Supervisory Board of ASCO was determined by the Order #2495 of the President of the Republic of Azerbaijan dated February 11, 2021, and the composition of the Supervisory Board of ASCO by the Order #2516 of the President of the Republic of Azerbaijan dated February 22, 2021. Currently, Strategy and investments committee, Appointment and renumeration committee and Audit committee are operating under the Supervisory Board of ASCO.



Strategic management

- ASCO's Strategy for the period covering 2022-2030 was updated in collaboration with the internationally renowned consulting company KPMG in 2022.
- A short-term investment plan following this Strategy was approved.
- In 2023, in accordance with the relevant Decree of the President of the Republic of Azerbaijan, an internationally renowned consulting company, Boston Consulting Group (BCG), was engaged to assess ASCO's readiness to attract private investments and to identify the most suitable mechanism for this purpose and Deloitte & Touche, as the legal advisor. Key points intended within the frame of the mentioned project:

  o Conducting relevant analysis in ASCO

  o Determining possible directions for attracting private investments

  o Implementation of relevant preparatory work for attracting private investments under the direction deemed appropriate

Transparency, accountability and disclosure of information

- International Financial Reporting Standards (IFRS) have been implemented in ASCO since its inception.
- Consolidated financial statements prepared in accordance with these standards are annually audited by a reputable international audit company and published on the official website of ASCO.
- Sustainability Reports of ASCO covering two-year period are prepared since its inception.
- ASCO is the first shipping company in the Caspian basin to publish a corporate social responsibility report.
- Sustainability Reports are audited by a reputable international audit company and published on the official website of ASCO.
- Policy on disclosure of information conditioning the disclosure of financial and operational results is implemented in ASCO.
- ASCO's achievements and operational results, innovations and significant events happening in the Copmany, information on work performed are transparently communicated to the public through ASCO's official website and social network accounts, as well as other well-known mass media channels.

Remuneration system

- Annual performance-based remuneration system has been implemented in ASCO since 2017.
- Within this framework, 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.
- An Assigned Group on Remuneration System has been set up at ASCO with the aim of ensuring regulation and coordination of the remuneration process.
- KPI results and bonus amounts are automatically calculated through electronic system.
- The implemented remuneration system includes the following criteria, principles, and goals:
    - To achieve the strategic goals and objectives set by the Company;
    - To ensure the profitability and commercial viability of 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 transparency, fairness and objectiveness in the assessment of activities and remuneration.

Procurement system

- Procurement procedures for supplier selection in ASCO are conducted in conformance with the Procurement Guidelines approved by the Supervisory Board of ASCO and other internal documents in accordance with the current legislation of the Republic of Azerbaijan, as well as advanced principles of procurement in the field of international shipping.
- These procedures are implemented under the control of collegial body Procurement Commission.
- The reliability, financial stability and positive business reputation of suppliers are evaluated as part of the selection process.
- All bidding processes are publicly published 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.

Internal audit and internal control system / Risk management

- The implementation of the “three-tier protectin model” to ensure the effectiveness of the corporate governance system
- Key focus areas of the internal control function delivered through effectively applying the internationally practised 5 main components (control environment, risk assessment, control activities, information and communication, monitoring) of the model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO model):
    - Overseeing the compliance of the head office and structural units of the Company with the legislation of the Republic of Azerbaijan, internal documents and regulations
    - Evaluation of the efficiency of the business processes and control mechanisms
- Focus areas of the internal audit function organized in accordance with the Law of the Republic of Azerbaijan on Internal Audit, the Regulation of the Internal Audit Department of ASCO and Internal Audit Standards of the Institute of Internal Auditors:
    - Assurance (audit) services
    - Consulting services
- Risk management system organized in conformance with COSO’s Enterprise Risk Management methodology based on the leading international practice
- Insurance on “Civil liability for bunker oil pollution damage” and “Civil liability for oil pollution damage” in accordance with the requirements of international conventions, as well as hull and machinery of the vessel

Business ethics and compliance

- Code of Conduct and Internal Disciplinary Rules are applied in ASCO which constitute the main requirements on behavioral ethics of employees, conformity to the norms of ethics, and principles of ethics in professional activities.
- To ensure the adherence to the requirements in this direction, there are “Hotline” contact center operating in 24/7 mode, electronic application section on the official website of ASCO and a dedicated complaint reporting feature in “My ASCO” mobile application which functions as a corporate social network.
- Continuous training 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.
- 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.
- 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.



Anti-bribery measures

- The certificate for compliance with the international standard ISO 37001 – “Anti-bribery management systems” was awarded to ASCO based on the results of the audit conducted by the reputable international classification society LRQA (Lloyd's Register) in 2022.
- Anti-bribery measures by ASCO are regulated by the “Instructions on Combating Bribery”, “Anti-Bribery Policy” and “Anti-Bribery Guidelines”.
- Main purposes of the mentioned documents are folowing:
    - 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 tolerate corruption in any form;
    - mitigating bribery risks associated with ASCO, increasing transparency in operations;
    - formation of basic rules and norms of anti-bribery action.

Other actions taken towards improvement of the corporate governance system

- Currently ASCO holds the following certificates and meets the requirements of the relevant conventions:
    - ISO 9001: Quality Management Systems
    - ISO 14001: Environmental Management Systems
    - ISO 50001: Energy Management
    - ISO 45001: Occupational Health and Safety Management Systems
    - ISO 37001: Anti-bribery Management Systems
    - ISM code 2010: International Safety Management
    - SOLAS: The International Convention for the Safety of Life at Sea
    - MARPOL: The International Convention for the Prevention of Pollution from Ships
    - STCW: The International Convention on Standards of Training, Certification and Watchkeeping for Seafarers

- A credit rating was provided to ASCO by Moody's in 2019, Fitch Ratings in 2022 and it was determined that ASCO's ability to meet its credit obligations is sustainable.
- In order to achieve automation of business processes and application of innovative electronic systems and software, SAP ERP system and its relevant modules, as well as various systems and software in the fields of fleet operation, ship repair and design, human resources management and general administrative work are implemented in ASCO.
- The following services are enabled in "My ASCO" mobile application – an electronic cabinet for ASCO employees:

  - to check up-to-date information about ASCO;
  - functioning of corporate social network within the mobile application for facilitating communication among employees;
  - to request various references and documents from the workplace;
  - to receive collective and individual notifications, announcements, and reminders about the expiration dates of documents and certificates and other important information;
  - to obtain a detailed online statement on monthly salary in real time;
  - to examine vacation days and electronical application for vacation;
  - to retrieve the results of the performance appraisals of recent years;
  - to access the internal online training platform;
  - to gain information on available bus routes to and from ASCO's head office and structural units at the end of the business day, as well as meals served daily at lunchtime in both the head office and structural units;
  - to view information about available vacancies and apply for a suitable vacancy.







FINANCIAL STATEMENTS

"AZERBAIJAN CASPIAN SHIPPING" CJSC

Consolidated financial statements

For the year ended 31 December 2023
with independent auditor's report

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Independent auditor's report

To Management and Supervisory Board of
"Azerbaijan Caspian Shipping" Closed Joint-Stock Company

Opinion

We have audited the consolidated financial statements of "Azerbaijan Caspian Shipping" Closed Joint-Stock Company and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policies.

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

Basis for opinion

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

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
We identified revenue recognition as one of the matters of most significance in our audit because the amount of revenue is significant to the consolidated financial statements. In addition, revenue recognition is a complex process given significant volume of transactions and a number of different revenue streams. Information regarding revenue is disclosed in Notes 2 and 16 to the consolidated financial statements.	We analysed the Group's accounting policy in respect of revenue recognition and obtained understanding of the Group's revenue streams. For time charters, on a sample basis, we recalculated the revenue by multiplying the number of days indicated in acts of acceptance by rates indicated in service agreements and compared to the amount of revenue recognized by the Group. For voyage charters, on a sample basis, we recalculated the revenue by multiplying freight rates and tons of cargo indicated in bills of lading and compared the results to the amount of revenue recognized by the Group. On a sample basis, we obtained confirmations of accounts receivable balances from customers. We analysed disclosure of revenue in the notes to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Assessment of indications of impairment of non-current assets	
We considered this matter as one of the matters of the most significance in our audit due to the significance of non-current assets as at 31 December 2023 and the subjectivity of judgements and estimates made by Management in respect of assumptions used in the impairment indications analysis. Significant assumptions used in impairment indications analysis include future capital requirements, operating performance as well as estimated discount rate. Management analyzed indications of impairment and did not identify any external or internal factors triggering impairment of non-current assets as of 31 December 2023.	We analysed management's assessment of whether there was any indication of potential impairment of non-current assets. We analysed the available information and assessed whether there were observable indications that the assets value may have declined significantly. We assessed whether there were significant changes with adverse effect on the Group during the year. Particularly, we compared the Group's actual performance to the planned operating performance to identify any significant deviations. We assessed whether the market interest rates and the Group's current weighted average cost of capital increased during the period.

Information regarding analysis of indications of impairment of non-current assets is disclosed in Note 3 to the consolidated financial statements.	We searched for any available evidence of physical damage of the assets. We compared actual capital expenditures incurred by the Group to the planned capital expenditure to identify any significant delays or deviations. We also assessed the disclosure in the consolidated financial statements about the Group's impairment analysis.

Other information included in the Group's 2023 Annual Report

Other information consists of the information included in the Group's 2023 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2023 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and the Audit Committee for the consolidated financial statements

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

Building a better working world

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

The partner in charge of the audit resulting in this independent auditor's report is Nargiz Karimova.

Ernst & Young Holdings (CIS) B.V.

15 May 2024

Baku, Azerbaijan

Consolidated statement of financial position

As at 31 December 2023

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

	Notes	31 December 2023	31 December 2022
Assets			
Current assets			
Cash and cash equivalents	6	278,314	34,353
Restricted cash	6	259	406
Trade and other receivables	7	93,766	232,597
Taxes receivable	8	9,543	10,187
Corporate income tax receivable	20	5,221	–
Short-term prepayments	9	8,000	6,558
Inventories	10	43,588	36,413
Total current assets		**438,691**	**320,514**
Non-current assets			
Vessels, property, plant and equipment	13	965,287	964,264
Investments in joint venture	22	190,055	–
Intangible assets		5,004	4,566
Right-of-use asset	14	–	9,153
Long-term portion of trade and other receivables	7	110,591	–
Long-term prepayments	9	33,911	36,919
Total non-current assets		**1,304,848**	**1,014,902**
Total assets		**1,743,539**	**1,335,416**
Equity			
Share capital	15	440,051	440,051
Additional paid-in capital	15	361,100	129,100
Retained earnings		635,281	604,539
Total equity		**1,436,432**	**1,173,690**
Liabilities			
Current liabilities			
Trade and other payables	11	28,910	37,900
Other taxes payable	19	44,931	38,008
Corporate income tax payable	20	–	11,102
Short-term and current portion of long-term borrowings	12	7,848	4,499
Lease liabilities	14	–	2,594
Contract liabilities		17,616	16,662
Total current liabilities		**99,305**	**110,765**
Non-current liabilities			
Deferred tax liabilities	20	33,407	34,123
Non-current portion of long-term borrowings	12	169,490	4,235
Lease liabilities	14	–	7,797
Other non-current liabilities	11	4,905	4,806
Total non-current liabilities		**207,802**	**50,961**
Total liabilities		**307,107**	**161,726**
Total equity and liabilities		**1,743,539**	**1,335,416**

Signed and authorized for release on behalf of the Group on 15 May 2024.

Mr. Rauf Valiyev
Chairman

Mr. Jalal Farajli
Deputy Chairman on Economic Issues

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

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2023

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

	Notes	2023	2022
Revenue	16	524,195	570,071
Cost of sales	17	(375,113)	(369,444)
Gross profit		**149,082**	**200,627**
General and administrative expenses	17	(60,921)	(52,159)
Social expenses	17	(9,506)	(8,575)
Other operating income	21	50,490	32,827
Other operating expenses	17	(67,259)	(70,172)
Expected credit losses ("ECL")	17	(1,050)	(8,249)
Gain/(loss) on disposal of vessels, property, plant and equipment and intangible assets		74	(175)
Foreign exchange loss		(1,688)	(829)
Operating profit		**59,222**	**93,295**
Finance costs		(9,621)	(1,222)
Share of result of joint ventures		6,761	–
Profit before income tax		**56,362**	**92,073**
Income tax expense	20	(12,677)	(26,632)
Profit for the year		**43,685**	**65,441**
Other comprehensive income for the year		–	–
Total comprehensive income for the year		**43,685**	**65,441**

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

Consolidated statement of changes in equity

For the year ended 31 December 2023

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

	Share capital	Additional paid-in capital	Retained earnings	Total
Balance at 1 January 2022	**440,051**	**99,100**	**549,098**	**1,088,249**
Total comprehensive income for the year	–	–	65,441	**65,441**
Increase in additional paid-in capital (Note 15)	–	30,000	–	**30,000**
Dividends (Note 15)	–	–	(10,000)	**(10,000)**
Balance at 31 December 2022	**440,051**	**129,100**	**604,539**	**1,173,690**
Total comprehensive income for the year	–	–	43,685	**43,685**
Increase in additional paid-in capital (Note 15)	–	232,000	–	**232,000**
Effect of modification of trade receivables from the entity under common control (Note 7)	–	–	(12,943)	**(12,943)**
Balance at 31 December 2023	**440,051**	**361,100**	**635,281**	**1,436,432**

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

Consolidated statement of cash flows

For the year ended 31 December 2023

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

	Notes	2023	2022
Cash flows from operating activities			
Profit before income tax		56,362	92,073
Adjustments for:			
Depreciation of vessels, property, plant and equipment and right-of-use assets	13	87,275	96,174
Amortisation of intangible assets	17	899	887
ECL	17	1,050	8,249
Reversal of allowance for inventories	17	(2,086)	(1,282)
Foreign exchange differences		781	776
Loss on disposal of vessels, property, plant and equipment and intangible assets		73	175
Bargain purchase gain	22	(13,294)	–
Gain on termination of lease	14	(1,238)	–
Finance costs		9,621	1,222
Share of result in joint venture		(6,761)	–
Write-off of trade and other receivables		885	–
Operating cash flows before working capital changes		**133,567**	**198,274**
Decrease in trade and other receivables		10,233	2,435
Decrease/(increase) in inventories		(5,089)	10,783
Decrease/(increase) in prepayments		(1,442)	7,044
Decrease in taxes receivable		644	4,483
Decrease/(increase) in restricted cash		147	(308)
Decrease in trade and other payables		(8,956)	(2,510)
(Decrease)/increase in other non-current liabilities		99	(770)
Increase in contract liabilities		953	7,964
(Decrease)/increase in taxes payable		6,923	(13,492)
Cash generated from operations		**137,079**	**213,903**
Income taxes paid	19, 20	(26,480)	(13,128)
Interest paid		(310)	(854)
Net cash flows from operating activities		**110,289**	**199,921**
Cash flows from investing activities			
Purchase of vessels, property, plant and equipment		(87,104)	(173,548)
Purchase of intangible assets		(1,005)	(577)
Investments in joint venture	22	(170,000)	–
Net cash flows used in investing activities		**(258,109)**	**(174,125)**
Cash flows from financing activities			
Repayment of long-term loans	12	(4,235)	(4,235)
Dividend paid to shareholder		–	(10,000)
Repayment of interest on bonds		(5,100)	–
Proceeds from bonds		170,000	–
Increase in additional paid-in capital	15	232,000	30,000
Payment of lease liability		–	(12,633)
Net cash flow from financing activities		**392,665**	**3,132**
Net increase in cash and cash equivalents		**244,845**	**28,928**
Net foreign exchange difference		(884)	(887)
Cash and cash equivalents at the beginning of the year	6	34,353	6,312
Cash and cash equivalents at the end of the year		**278,314**	**34,353**

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

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

1. The Group and its operations

"Azerbaijan Caspian Shipping" Closed Joint Stock Company (the "Company") was established by merging the Azerbaijan State Caspian Sea Shipping Company ("ASCSC") and the Caspian Sea Oil Fleet ("CSOF") of the State Oil Company of Azerbaijan Republic ("SOCAR"), in accordance with the Decree No. 6 of the President of Azerbaijan Republic, dated 22 October 2013 *On Establishment of "Azerbaijan Caspian Shipping" Closed Joint-Stock Company* and Decree No. 213, dated 10 January 2014, *On Organization of Activity of "Azerbaijan Caspian Shipping" Closed Joint-Stock Company*. Two companies were merged in order to continue fundamental structural reforms in the economy, increase domestic and international transportation in maritime industry, enhance competitiveness and transit potential of Azerbaijan and get synergies from centralized management of the state-owned shipping companies.

The Company and its subsidiaries are together referred to as "the Group" in these consolidated financial statements and the consolidated financial statements of the Group include the following subsidiaries:

	% equity interest	
Name	**2023**	**2022**
Azerbaijan Caspian Shipping CJSC	100	100
Azerbaijan State Marine Academy	100	100
Caspian Sea Transport Project Research and Scientific Investigation Institute	100	100
Azerbaijan Marine College	100	100
Danizchi Housing Cooperative	96	96
ASCO Logistics LLC	100	100
ASCO Turkey Ship Management Inc.	100	100
Yacht Club LLC	100	100
ASCO Security LLC	100	100
Caspian Shipping Ltd LLC	100	100
Caspian Sea Engineering Bureau LLC	51	51
ASCO Transportation LLC	100	100
Danizchi Repair-Construction LLC	100	100
ASCO Ship Management AFEZCO	100	0
SA Maritime AFEZCO	50	0

The Group comprises the offshore support and merchant fleets, two shipyards, production support entities providing logistics services, maritime education, implementation of repair, construction, installation and design works with near to 6,846 of full-time employees. The Group is 100% owned by the Government of the Republic of Azerbaijan (the "Government").

On 22 February 2021 the President of the Republic of Azerbaijan signed a decree approving composition of the Supervisory Board of the Company consisting of a Chairman and four members.

On May 3, 2023 and May 22, 2023 new entities were established - SA Maritime AFEZCO and ASCO Ship Management AFEZCO, respectively.

SA Maritime AFEZCO is joint venture owned by the Group and SOCAR, each party has 50% control over the company. The Group invested USD 100 millions in charter capital of the joint venture. The joint venture was formed in order to engage in commercial activities abroad and acquired 3 Aframax vessels with the purpose of operating in non-Caspian basins.

ASCO Ship Management AFEZCO is a wholly-owned subsidiary of the Group with a charter capital of USD 100 thousands. This entity is engaged in management activities over the operations of 3 new vessels acquired by SA Maritime AFEZCO.

The registered address of the Group is Neftchilar Avenue 2, Baku, Azerbaijan.

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

2. Basis of preparation and material accounting policies

Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented. All amounts in these consolidated financial statements are presented in thousands of Azerbaijani Manats ("AZN"), except when otherwise stated.

The Group has prepared the financial statements on the basis that it will continue to operate as a going concern.

Basis for consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2023.

Subsidiaries are all entities over which the Group has control, being the power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

The Group re-assesses whether or not it controls investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/ non-current classification. An asset as current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

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

2. Basis of preparation and material accounting policies (continued)

Current versus non-current classification (continued)

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Business combinations with entities under common control

The Group applies acquisition method of accounting for business combinations with entities under the common control.

Investment in joint venture

A joint venture ("JV") is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its and joint ventures are accounted for using the equity method. Under the equity method, the investment in joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The consolidated statement of profit or loss reflects the Group's share of the results of operations of the joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. Any gain or loss on sale of share that was recognised directly in the equity of the joint venture is reflected as a gain or loss within the Group share of joint venture's profit or loss. Gains and losses resulting from transactions between the Group and the joint venture are recognised to the extent of the unrelated investors' interest in the joint venture. The Group's share of profit or loss of the joint ventures is shown on the face of the consolidated statement of profit or loss and other comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

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

2. Basis of preparation and material accounting policies (continued)

Investment in joint venture (continued)

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment charge on its investment in its joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognises the loss as 'other operating expenses' in the consolidated statement of profit or loss and other comprehensive income. Upon loss of joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Foreign currency translation

The functional currency of the Company and its subsidiaries is the national currency of the Azerbaijan Republic, AZN as the majority of the Group's revenues, costs, inventory purchased, and trade liabilities are either priced, incurred, payable or otherwise measured in AZN.

The operations in the Group entities of which currency differ from the functional currency of the Group and not already measured in the Group's functional currency are translated by following the below steps:

- Monetary assets and liabilities not already measured in the functional currency of respective Group entity are translated into the functional currency at the closing rate at the date of that statement of financial position;
- Income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

Foreign exchange gains and losses resulting from the re-measurement into the functional currencies of respective Group's entities are recognized in the consolidated statement of profit or loss or other comprehensive income.

At 31 December 2023 the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 1.7000, EUR 1 = AZN 1.8766, RUB 1 = AZN 0.0188, TRY 1 = AZN 0.0576 (31 December 2022: USD 1 = AZN 1.7000, EUR 1 = AZN 1.8114, RUB 1 = AZN 0.0230, TRY 1 = AZN 0.0909).

Financial instruments − key measurement terms

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Depending on their classification financial instruments are carried at fair value, or amortized cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

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

2. Basis of preparation and material accounting policies (continued)

Financial instruments − key measurement terms (continued)

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the consolidated statement of financial position.

2. Basis of preparation and material accounting policies (continued)

Financial instruments − key measurement terms (continued)

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

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

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

2. Basis of preparation and material accounting policies (continued)

Financial assets (continued)

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables.

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statement of profit or loss and other comprehensive income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group has no debt instruments at fair value through OCI.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the consolidated statement of profit or loss and other comprehensive income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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

2. Basis of preparation and material accounting policies (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss and other comprehensive income.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for ECL for all debt instruments not held at fair value through profit or loss. ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

ECL is recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECL is provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

2. Basis of preparation and material accounting policies (continued)

Financial assets (continued)

For financial assets other than trade receivables, the Group applies general approach in calculating ECL. For trade receivables, the Group applies a simplified approach in calculating ECL. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group’s financial liabilities include trade and other payables, loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss and other comprehensive income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans, borrowings and payables

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss and other comprehensive income. This category generally applies to interest-bearing loans and borrowings.

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

2. Basis of preparation and material accounting policies (continued)

Financial liabilities (continued)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss and other comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for expected credit losses. A receivable represents the Group's right to an amount of consideration that is unconditional.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Restricted cash

Restricted cash is presented separately from cash and cash equivalents. Restricted balances represent amount available on VAT deposit account and are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flow.

Trade payables

Trade payables are accrued when the counterparty performed its obligations under the contract. Trade payables are recognised initially at fair and subsequently measured at amortised cost using the effective interest rate method.

Loans

All loans are initially recognised at fair value of the proceeds received net of issue costs associated with the loan. Loans are carried at amortised cost using the effective interest rate method.

Interest costs on loans to finance the construction of vessels, property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Vessels, property, plant and equipment

Construction in progress, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

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

2. Basis of preparation and material accounting policies (continued)

Vessels, property, plant and equipment

Significant renovation and overhaul expenses over vessels arising at a later date are included in each asset's book value. They can be recognised as a separate asset only if it is likely that the future economic benefits associated with the item will be beneficial to the Group and if the acquisition cost of the asset can be reliably determined. Ordinary repair and maintenance expenses are recognised as expenses for the reporting period during which they were incurred.

Vessels are depreciated over their estimated useful lives. The estimated useful lives and the residual values of assets are revised at each end of the reporting period and, when necessary, adjusted to reflect changes that have taken place in the expected future economic benefits.

Depreciation

Vessels, property, plant and equipment related to shipping industry are depreciated using a straight-line depreciation method. Land is not depreciated. Assets under construction are not depreciated.

The estimated useful lives of the Group's vessels, property, plant and equipment are as follows:

Buildings and constructions	15 to 30 years
Machinery and equipment	3 to 25 years
Vessels and port facilities	3 to 30 years

The expected useful lives of vessels, property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life unless scrap value is significant. The assets' residual values are reviewed, and adjusted if appropriate, at each reporting date.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Buildings and constructions	3 to 15 years
Machinery and equipment	3 to 15 years
Vessels and port facilities	3 to 15 years
Vehicles, furniture and other	3 to 5 years

2. Basis of preparation and material accounting policies (continued)

Leases (continued)

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. Intangible assets include rights and computer software, patents, licences, customer relationships, trade name, water rights and development projects.

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

2. Basis of preparation and material accounting policies (continued)

Intangible assets (continued)

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognised.

Inventories

Inventories are stated at the lower of cost and net realizable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to sell.

Cost is assigned by the weighted average method. Cost comprises direct purchase costs of materials for vessels repair and maintenance and cost of production (based on normal operating capacity).

Dividends

The Group recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Group. As per the corporate laws of Republic of Azerbaijan, a distribution is authorised when it is approved by the shareholder. A corresponding amount is recognised directly in equity.

Distribution to the Government

Distribution to the Government represent cash distributions or financing which the Group may be required to make to the state budget, various government agencies and projects administered by the Government based on the particular decisions of the Government. Such distributions are recorded as a reduction of equity. Distributions in the form of transfers of non-monetary assets are recognised at the carrying value of transferred assets.

Contributions by the Government

Contributions by the Government acting in a role of shareholder are made in the form of cash contributions or transfer of non-monetary assets. When the Government's contributions are made in the form of non-monetary assets, the Group recognizes such assets at fair value of consideration given; thus, these assets are recognized at no cost.

Value-added tax

The tax authorities permit the settlement of sales and purchases value-added tax ("VAT") on a net basis.

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

2. Basis of preparation and material accounting policies (continued)

Value-added tax (continued)

VAT payable

VAT payable represents VAT related to sales net of VAT on purchases which have been settled at the reporting date. VAT related to sales is payable to tax authorities recognised upon receipt of payment. VAT related to sales which have not been settled at the consolidated statement of financial position date is also included in VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT where applicable. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

VAT recoverable

VAT recoverable relates to purchases which have not been settled at the reporting date. VAT recoverable is reclaimable against VAT on sales upon payment for the purchases.

Revenue recognition

The Group's revenue is mainly generated through sales of offshore services (mainly, time-charters) and transportation of cargo and passengers (mainly, voyage charters). Revenue is recognised when control of the services or goods are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services or goods. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

Revenue from voyage charters

Revenues from voyage charters are earned for the carriage of cargo on behalf of the charterer, in the spot market and on contracts of affreightment, from one or more locations of cargo loading to one or more locations of cargo discharge in return for payment of an agreed upon freight rate per ton of cargo. Freight contracts contain conditions regarding the amount of time available for loading and discharging of the vessel. If these conditions are breached the Group is compensated for the additional time incurred in the form of demurrage revenue. Demurrage is a variable consideration which is recognised, from the time it becomes probable, over the remaining time of the voyage. In applying its revenue recognition method, management believes that satisfaction of a performance obligation for a voyage charter begins when the vessel arrives at the loading port and ends at the time the discharge of cargo is completed at the discharge port (load to discharge, which is when the contract with the customer expires).The Group uses the output method for measuring the progress towards satisfaction of a performance obligation, i.e. voyage revenue is recognised pro-rata based on time elapsed from loading to the expected date of completion of the discharge.

Revenue from time charters

Revenues from time charters are earned for use of the services of the vessel and the crew by the charterer for an agreed period of time. The time-charter contracts continues to be accounted for as a service contract. The performance obligation is satisfied over time, given that the charterers simultaneously receive and consume the benefits provided by the Group.

Other revenues

Other revenues from non-core operating activities usually contain one distinct performance obligation, which is satisfied over time as the customer simultaneously receives and consumes the benefit from the Group's performance, using the output method. Whereas, there are also other revenues from contracts related to sales of goods and services of the Group not directly related to core business, which are satisfied at the point of time.

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

2. Basis of preparation and material accounting policies (continued)

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs, by transferring goods or services to a customer, before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Related parties

Related parties are disclosed in accordance with IAS 24 *Related Party Disclosures*.

Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

Related parties may enter into transactions which unrelated parties might not and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. It is the nature of transactions with related parties that they cannot be presumed to be carried out on an arms-length basis.

Corporate income taxes

Corporate income taxes have been provided for in the consolidated financial statements in accordance with the applicable legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised on the profit or loss unless it relates to transactions that are recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than income, are recorded within operating expenses.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for: all deductible temporary differences: the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences. The carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2. Basis of preparation and material accounting policies (continued)

Corporate income taxes (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Employee benefits

Wages, salaries, contributions to the Social Protection Fund of the Republic of Azerbaijan, paid annual leave and sick leave, bonuses, obligations for disability benefits and non-monetary benefits (e.g. health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

Expenses

Expenses are presented by function in the consolidated statement of profit or loss and other comprehensive income. Categorization of the nature of expenses is based on operational functions of the Group's entities and subsidiaries.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief decision-makers. The Group reports separate information about an operating segment that meets any of the following quantitative thresholds:

- Its reported revenue, including both sales to external customers and intersegment sales or transfers,is 10 per cent or more of the combined revenue, internal and external, of all operating segments.
- The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of the combined reported profit of all operating segments that did not report a loss and the combined reported loss of all operating segments that reported a loss.
- Its assets are 10 per cent or more of the combined assets of all operating segments.

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

3. Critical accounting estimates and judgements

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Provision for expected credit losses

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 7.

Recognition of deferred income tax assets

The net deferred tax assets represent income taxes recoverable through future deductions from taxable profits and is recorded on the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits whose realisation is probable in the future management makes judgments and applies estimation based on expectations of future income that are believed to be reasonable under the circumstances.

Obligation for disability benefits

The Group records liability in accordance with Azerbaijan Labour Code and has an obligation to pay compensation for employees damaged at work. The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current applicable legislation and regulations, and is also subject to changes because of modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Considering subjectivity of these provisions, there is uncertainty regarding both the amount and estimated timing of incurring such costs. The key assumptions used to measure the amount of the estimated disability benefit obligations and sensitivity analysis, are disclosed in Note 11.

3. Critical accounting estimates and judgements (continued)

Allowance for impaired or obsolete inventory

The Group reviews and if required reduces the carrying value of inventories for the amount of obsolete, impaired and slow-moving inventories at each reporting date. Such amount is estimated individually and in aggregate based on the percentage thresholds applied to obsolete or slow-moving inventories depending on the level of damage and frequency of use.

Other provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss and other comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost

Impairment of non-financial assets

Management assesses whether there are any indicators of possible impairment of all non-financial assets at each reporting date based on events or circumstances that indicate the carrying value of assets may not be recoverable. Such indicators include changes in the Group's business plans, changes in commodity prices leading to unprofitable performances, changes in product mixes. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when impairment indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

The recoverable amount is the higher of the asset's fair value less costs to sell and value-in-use. The Group generally estimates value-in-use using a discounted cash flow model from financial budgets approved by management. If the recoverable amount is estimated based on fair value less costs to sell, the Group involves independent valuators to estimate recoverable amount of its non-financial assets.

As at 31 December 2023 the Group performed impairment trigger analysis and did not identify any impairment trigger. (31 December 2022: no impairment trigger was identified)

Useful lives of vessels, property, plant and equipment and intangible assets

Management determines the estimated useful lives and related depreciation and amortization charges for its vessels, property, plant and equipment and intangible assets. This estimate is based on projected period over which the Group expects to consume economic benefits from the asset. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete assets that have been abandoned or sold. The useful lives are reviewed at least at each reporting date. Changes in any of the above conditions or estimates may result in adjustments to future depreciation rates.

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

3. Critical accounting estimates and judgements (continued)

Leases

Significant judgement in determining the lease term of contracts with renewal options

The lessee and lessor need to determine whether a contract is a lease at inception of the lease. The inception date is the earlier of the date of a lease agreement and the date of commitment by the parties to the principal terms and conditions of the lease. The underlying asset is the asset that is subject to a lease, for which the right to use that asset has been provided by a lessor to a lessee. The commencement date of the lease is the date on which the lessor makes an underlying asset available for use by a lessee.

The lease term begins at the commencement date and includes any rent-free periods provided to the lessee by the lessor.

The Group determines the lease term as the non-cancellable period of the lease, together with both:

- Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Purchase options are assessed in the same way as options to extend or terminate the lease. An option to purchase an underlying asset is economically similar to an option to extend the lease term for the remaining economic life of the underlying asset.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option.

Incremental borrowing rate (IBR)

The Group cannot readily determine the interest rate implicit in lease, therefore it uses incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and makes certain entity-specific estimates.

4. Adoption of new or revised standards and interpretations and new accounting pronouncements

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023 (unless otherwise stated). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 Insurance Contracts.

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

4. Adoption of new or revised standards and interpretations and new accounting pronouncements (continued)

IFRS 17 Insurance Contracts (continued)

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them as well as to certain guarantees and financial instruments with discretionary participation features; a few scope exceptions will apply. The overall objective of IFRS 17 is to provide a comprehensive accounting model for insurance contracts that is more useful and consistent for insurers, covering all relevant accounting aspects. IFRS 17 is based on a general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The new standard had no impact on the Group's consolidated financial statements.

Definition of Accounting Estimates - Amendments to IAS 8

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments had no impact on the Group's consolidated financial statements.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments had no impact on the Group's consolidated financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12 Income Tax narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities. The amendments had no impact on the Group's consolidated financial statements.

International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The mandatory temporary exception – the use of which is required to be disclosed – applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023. The amendments had no impact on the Group's consolidated financial statements.

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

4. Adoption of new or revised standards and interpretations and new accounting pronouncements (continued)

Standards issued, but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted and that fact must be disclosed.

The amendments are not expected to have a material impact on the Group's financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted, but will need to be disclosed. The amendments are not expected to have a material impact on the Group's financial statements.

Amendments to IAS 21: Lack of exchangeability

The IASB has amended IAS 21 The Effects of Changes in Foreign Exchange Rates to specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments require disclosure of information that enables users of financial statements to understand the impact of a currency not being exchangeable.

The amendments apply to annual reporting periods beginning on or after 1 January 2025 and can be applied earlier. However, an entity cannot restate comparative information. The amendments are not expected to have a material impact on the Group's financial statements.

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

5. Segment information

Operating segment is component that engage in business activities that may earn revenue or incur expenses, whose operating results are regularly reviewed by management of the Group and for which discrete financial information is available.

The Group treats its business within a single segment and management evaluates performance of its business based on profit after tax reported in the IFRS consolidated financial statements. The Group has 1 customer that each one individually comprises more than 10% of the total revenue of generated during the year ended 31 December 2023 (2022: 2 customers).

Geographical information

Azerbaijan Caspian Shipping CJSC plays a connecting role in the Transport Corridor Europe-Caucasus-Asia (TRACECA), provides marine transportation of goods and passengers, as well as offshore support services for oil and gas operations. Another factor that can influence the Company's operations is "Baku-Tbilisi-Qars New Railroad" Project which is a new corridor that connects Azerbaijan, Georgian and Turkish railways. This project effectively opens a new rail-only corridor from the Caspian Sea to Europe via Turkey. Management believes that increasing trade between Turkey and Central Asia provides it with a significant opportunity to capture trade flows, particularly raw materials imported into Turkey from Central Asia and finished goods exported by Turkey. Management treats services rendered in the Caspian Sea and Black Sea regions as a whole shuttle that is directly depend on each other. Therefore, management prefer to analyse financial information as whole regardless any regional division.

6. Cash and cash equivalents and restricted cash

Cash and cash equivalents and restricted cash comprised the following as at:

	31 December 2023	31 December 2022
AZN denominated bank balances	3,847	4,371
USD denominated bank balances	274,119	29,043
Other currencies	348	939
Total cash and cash equivalents	**278,314**	**34,353**
VAT deposit account, AZN	259	406
Total cash and cash equivalents and restricted cash	**278,573**	**34,759**

Effective 1 January 2008 the state tax authorities introduced VAT deposit accounts and enforced payments of input and output VAT via these accounts. In order to comply with new tax regulation, the Group opened a VAT deposit account. In accordance with this regulation, the balance on VAT deposit account may only be withdrawn with a 45 days notice to the tax authorities.

7. Trade and other receivables

Trade and other receivables comprised the following as at:

	31 December 2023	31 December 2022
Trade receivables	104,073	247,973
Long-term trade receivables	116,684	–
Less: ECL	(16,565)	(15,515)
Total trade receivables	**204,192**	**232,458**
Other receivables	165	139
Total trade and other receivables	**204,357**	**232,597**

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

7. Trade and other receivables (continued)

Trade receivables are mainly represented by amounts due from customers for shipping, transportation of cargoes and other services provided by the Group.

Trade and other receivables in the amount of AZN 70,351 (31 December 2022: AZN 86,140) are denominated in foreign currencies, mainly in USD and EUR.

Following the decision of the Group's Supervisory Board on 25 December 2023 the Group and Azneft PU decided to amend the collection schedule for trade receivables from Azneft PU which amounts to AZN 194,636. Under the revised schedule, the total amount of receivables will be collected over the course of 2024 through 2026. Due to both entities being under common control, a loss of AZN 16,178 was recognized in 2023 as a result of the modification of this financial asset, which was directly recorded through equity. As of 31 December 2023, the present value of collections to be received after 2024 is accounted for as long-term trade receivables in the Group's financial position statement.

Set out below is the movement in the allowance for ECL of trade receivables:

	2023	2022
At 1 January	**(15,515)**	**(7,266)**
ECL	(1,050)	(8,249)
At 31 December	**(16,565)**	**(15,515)**

8. Taxes receivable

Taxes receivable is recoverable by means of an offset against future tax liabilities or as a direct cash refund from the tax authorities.

Taxes receivable comprised the followings as at:

	31 December 2023	31 December 2022
Receivable from state budget	896	1,465
VAT recoverable	8,647	8,722
Total taxes receivable	**9,543**	**10,187**

Receivable from state budget is related to prepayments made for taxes throughout the year. VAT recoverable is related to payables for purchases outstanding at reporting period and to be claimed upon settlement of respective payable and prepayment on construction works to be claimed after delivery of associated services.

9. Prepayments

Prepayments comprised the following as at:

	31 December 2023	31 December 2022
Short-term prepayments for trade and services	8,000	6,558
Long-term prepayments for construction of vessels	33,911	36,919
Total prepayments	**41,911**	**43,477**

Prepayments as at 31 December 2023 and 2022 are primarily represented by prepayments made to suppliers for construction of vessels, raw materials, spare parts and equipment and repair and maintenance services for vessels.

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

10. Inventories

Inventories comprised the followings as at:

	31 December 2023	31 December 2022
Raw materials and spare parts	22,803	16,711
Fuel	6,901	8,955
Other	13,884	10,747
Total inventories	**43,588**	**36,413**

11. Trade and other payables and other non-current liabilities

Trade and other payables as at 31 December 2023 and 2022 represent amounts mainly due to suppliers for raw materials, spare parts and equipment and repair and maintenance services for vessels.

	31 December 2023	31 December 2022
Trade payables	14,645	20,311
Total financial payables	**14,645**	**20,311**
Payable to employees	14,265	17,589
Total trade and other payables	**28,910**	**37,900**

Financial payables in the amount of AZN 5,174 (31 December 2022: AZN 4,769) are denominated in foreign currencies, mainly in USD and EUR.

As at 31 December 2023, current portion of liabilities for disability benefit payments in the amount of AZN 976 (31 December 2022: AZN 1,023) was included in payables to employees. Non-current portion of liabilities for disability benefit payments in the amount of AZN 4,905 (31 December 2022: AZN 4,806) was included in other non-current liability.

Liabilities for disability benefit payments:

	2023	2022
Carrying amount at 1 January	**5,829**	**6,594**
Utilisation	(2,240)	(2,490)
Unwinding of present value discount	589	423
Additions	1,500	2,924
Effect of change in estimates (discount rate)	203	(1,622)
Carrying amount at 31 December	**5,881**	**5,829**
Of which:		
Current	976	1,023
Non-current	4,905	4,806

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

11 Trade and other payables and other non-current liabilities (continued)

The Group has an obligation to compensate its employees for the damage caused to their health during their employment, as well as to compensate the families of the employees died at work. The Group calculated the present value of the injury payments to employees using a discount rate of 10.03% and 10.1% as at 31 December 2023 and 2022, respectively. For the purpose of calculation of the lifetime payments to injured employees, the Group estimated a life expectancy as 71 and 76 for men and women, respectively. If the estimated discount rate used in the calculation had been 1% higher/lower than management's estimate, the carrying amount of the obligation for employee disability would have been AZN 298 lower / AZN 419 higher, respectively.

12. Borrowings

At 31 December 2023 and 31 December 2022, current portion of long-term and short-term borrowings of the Group were represented by the following facilities:

Facilities	Interest rate	Maturity date	Balance as at 31 December 2023	Balance as at 31 December 2022
Short-term loans	3.65%	August 2024	213	264
Current portion of long-term loans			4,235	4,235
Current portion of long-term bonds	6%	March 2028	3,400	–
Total short-term and current portion of long-term borrowings			**7,848**	**4,499**

In March 2023, The Group has issued bonds in the amount of USD 100 millions with a maturity of 5 years, which were publicly available and traded on local stock exchanges. The nominal value of each bond was equal to USD 1 thousand with a fixed coupon rate of 6% which is paid semi-annually to bondholders. As at 31 December 2023 and 2022 long-term borrowings of the Group were represented by the following facilities:

			Balance as at 31 December 2023		Balance as at 31 December 2022	
Facilities	Interest rate	Maturity date	Non-current portion	Current portion	Non-current portion	Current portion
AZN 42 million	3.65%	August 2024	–	4,235	4,235	4,235
AZN 170 million	6%	March 2028	169,490	3,400	–	–
Total long-term borrowings			**169,490**	**7,635**	**4,235**	**4,235**

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

13. Vessels, property, plant and equipment

Movements in the carrying amount of vessels, property, plant and equipment (“PPE”) were as follows:

	Buildings and constructions	Machinery and equipment	Vessels and port facilities	Vehicles, furniture and other	Construction in progress	Total
Cost						
At 1 January 2022	**146,558**	**33,637**	**1,473,687**	**36,129**	**192,140**	**1,882,151**
Additions	3	1,844	27	1,641	103,685	**107,200**
Disposals	(1)	(1,802)	–	(526)	–	**(2,329)**
Transfers	–	–	167,656	–	(167,656)	**–**
At 31 December 2022	**146,560**	**33,679**	**1,641,370**	**37,244**	**128,169**	**1,987,022**
Additions	1,508	2,280	72	2,176	82,335	**88,371**
Disposals	(1,521)	(258)	–	(399)	–	**(2,178)**
Transfers	119	2	46,008	1	(46,130)	**–**
At 31 December 2023	**146,666**	**35,703**	**1,687,450**	**39,022**	**164,374**	**2,073,215**
Depreciation						
At 1 January 2022	**(36,132)**	**(25,656)**	**(845,324)**	**(23,914)**	**–**	**(931,026)**
Depreciation charge for the year	(5,791)	(2,978)	(82,373)	(2,744)	–	**(93,886)**
Disposals	–	1,653	–	501	–	**2,154**
At 31 December 2022	**(41,923)**	**(26,981)**	**(927,697)**	**(26,157)**	**–**	**(1,022,758)**
Depreciation charge for the year	(5,823)	(2,744)	(76,128)	(2,580)	–	**(87,275)**
Disposals	1,569	241	–	295	–	**2,105**
At 31 December 2023	**(46,177)**	**(29,484)**	**(1,003,825)**	**(28,442)**	**–**	**(1,107,928)**
Net book value						
At 1 January 2022	**110,426**	**7,981**	**628,363**	**12,215**	**192,140**	**951,125**
At 31 December 2022	**104,637**	**6,698**	**713,673**	**11,087**	**128,169**	**964,264**
At 31 December 2023	**100,489**	**6,219**	**683,625**	**10,580**	**164,374**	**965,287**

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

14. Right-of-use asset and lease liability

Group as a lessee

During the year ended 31 December 2022, the Group had lease contracts for 2 tankers operating in the Blac Sea region leased under bareboat-charter agreements. In 2023, the Group decided to discontinue the leasir of two vessels from Caspian Marine Services. The Company derecognised respective lease liabilities ar right-of-use asset related to these lease agreements and recognised gain in the amount of AZN 1,238.

15. Share capital and additional paid-in capital

Share capital

As at 31 December 2023 and 2022 the Company had authorized and issued 440,050,998 shares at p 1 Azerbaijani Manat to the Government of the Republic of Azerbaijan, which is the sole and ultima shareholder of the Group.

Additional paid-in capital

In 2023 the Group’s additional paid-in capital increased by AZN 232,000 (2022: AZN 30,000) which wa contributed as cash. This amount represents the contribution from the Government which is not registered charter capital.

16. Analysis of revenue by categories

	2023	2022
Revenue	424,234	508,341
Rent income	99,961	61,730
Total	**524,195**	**570,071**

Rent income is comprised of income generated from bareboat and time-charter contracts. Revenue include freight and passenger transportation, offshore support services and logistics services. For the year ended 3 December 2023 and 2022 revenue comprised the followings:

	2023	2022
Offshore support services	177,734	249,120
Freight and passenger transportation	239,766	250,336
Logistics services	108	1,147
Other revenue	6,626	7,738
Total	**424,234**	**508,341**

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

17. Analysis of expenses by nature

For the year ended 31 December 2023 and 31 December 2022 cost of sales, social, general and administrative expenses and other operating expenses comprised the followings:

	2023	2022*
Wages, salaries and social security costs	193,976	168,471
Depreciation of vessels, property, plant and equipment, leased assets (Note 13)	86,543	95,609
Raw materials and consumables used	66,264	81,890
Repairs and maintenance expenses	34,292	32,306
Port charges	24,930	33,209
Food expenses	16,027	16,132
Reimbursable expenses	13,467	6,927
Daily travelling expenses of the crew of marine transports	13,455	10,393
Transportation expenses	8,516	7,284
Taxes other than on income	6,357	6,423
Insurance expenses	5,902	5,868
Utilities expenses	4,514	4,893
Vessels registration costs	4,106	3,818
Provision of social housing	4,063	3,754
Agency and brokerage costs	2,949	4,740
Security expenses	2,493	2,987
Rent expenses	2,883	257
ECL	1,050	8,249
Amortisation of intangible assets	899	887
Business trip expenses	773	310
Logistics expenses	117	1,276
Change in allowance for inventories	(2,087)	(1,282)
Other	22,360	14,198
Total cost of sales, social, general, administrative and other operating expenses	**513,849**	**508,599**

* *Certain reclassifications were made to comparative information to conform with current year presentation.*

In current year, the cost of audit services amounted to AZN 364 (excluding VAT).

18. Balances and transactions with related parties

Key management compensation

Key management of the Group includes the Chairman of the Group and its eight Deputies. All of the Group's key management are appointed by the President of the Azerbaijan Republic. Key management individuals are entitled to salaries and benefits of the Group in accordance with the approved payroll matrix. During 2023 compensation of key management personnel totalled to AZN 874 (2022: AZN 685).

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

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

18. Balances and transactions with related parties (continued)

Significant balances and transactions with related parties

At 31 December 2023 and 2022 the outstanding balances with related parties were as follows:

	Government and entities under government control 31 December 2023	Government and entities under government control 31 December 2022
Trade and other receivables	191,241	203,539
ECL	(7,022)	(10,038)
Short-term prepayments	773	462
Long-term prepayment	33,223	31,895
Cash and cash equivalents and restricted cash	277,141	32,264
Long-term loan	–	(4,235)
Short-term loan and current portion of long-term loan	(4,448)	(4,499)
Trade and other payables	(5,815)	(13,103)
Long-term bonds	(85,000)	–

The transactions with related parties for the year ended 31 December 2023 and 2022 were as follows:

	Government and entities under government control 2023	Government and entities under government control 2022
Freight and passenger transportation services	73,309	82,694
Offshore support services	177,682	226,754
Other operating income	4,301	5,976
Repairs and maintenance expenses	(3,498)	(1,706)
Utilities expenses	(2,791)	(3,221)
Port charges	(8,332)	(12,430)
Finance cost	(259)	(448)
Other expenses	(13,146)	(13,711)

Terms and conditions of transactions with related parties

Main sales to and purchases from the related parties are made at market prices. Outstanding balances at the year-end are unsecured and settlement occurs in cash. There have been no guarantees provided for any related party receivables or payables.

In 2023, an asset was transferred to the Group from related party free of charge. The transferred asset was recognised at consideration amount, which is zero, in accordance with the Group's accounting policy.

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

19. Taxes payable

Taxes payable comprises the following at:

	31 December 2023	31 December 2022
VAT payable	423	49
Accrued VAT	34,734	31,756
Social security contributions	4,251	4,454
Tax penalties and charges	298	298
Other	5,225	1,451
Total other taxes payable	**44,931**	**38,008**

According to the Tax Code of the Republic of Azerbaijan, effective 1 January 2022, sale of goods, works and services is recognized upon receipt of payments from customers, for the purpose of VAT recognition. Accrued VAT relates to receivables for sold goods, works, services outstanding at reporting period.

20. Income taxes

Income tax expense comprises the following:

	2023	2022
Current income tax expense	10,157	19,357
Deferred tax charge	2,520	7,275
Income tax expense for the year ended 31 December	**12,677**	**26,632**

The reconciliation between the expected and the actual taxation charge is provided below:

	2023	2022
Profit before tax	**(56,362)**	**(92,073)**
Theoretical tax charge at statutory rate of 20 per cent	**11,272**	**18,415**
Tax effect of non-deductible expenses	6,955	8,789
Unrecognised temporary differences	(198)	825
Non-taxable income	(1,352)	–
Unrecognised temporary difference in respect of joint venture	(2,659)	–
Other	(1,341)	(1,397)
Income tax expense reported in profit or loss	**12,677**	**26,632**

Non-deductible expenses are mainly comprised of the social and employee-related expenses as well as 60% of depreciation expenses of assets financed by government, in accordance with Tax Code of the Republic of Azerbaijan. Unrecognised temporary difference in respect of the joint venture consists of bargain purchase gain on initial recognition of investment in joint venture. The Group can control reversal of this gain and believe reversal in form of sale is not probable in the foreseeable future. The Group will annually reassess the probability of this reversal.

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

20. Income taxes (continued)

Differences between IFRS and applicable domestic tax regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below:

	31 December 2022	Origination and reverse of temporary differences in the consolidated statement of profit or loss and other comprehensive income	Origination and reverse of temporary differences recognized directly in equity	31 December 2023
Tax effect of deductible/(taxable) temporary differences				
Right-of-use asset	1,831	(1,831)	–	–
Vessels, property, plant and equipment	41,300	2,715	–	44,015
Inventories	(995)	273	–	(722)
Trade and other receivables	(3,185)	(763)	(3,236)	(7,184)
Current lease liabilities	(519)	519	–	–
Trade and other payables	(2,737)	(78)	–	(2,815)
Short-term and long-term prepayments	(13)	–	–	(13)
Non-current portion of long-term bonds	–	102	–	102
Long-term and short-term provisions	–	24	–	24
Non-current lease liabilities	(1,559)	1,559	–	–
Deferred tax liabilities	**34,123**	**2,520**	**(3,236)**	**33,407**

	31 December 2021	Origination and reverse of temporary differences in the consolidated statement of profit or loss and other comprehensive income	31 December 2022
Tax effect of deductible/(taxable) temporary differences			
Right-of-use asset	2,288	(457)	1,831
Vessels, property, plant and equipment	34,147	7,153	41,300
Inventories	(1,244)	249	(995)
Trade and other receivables	(2,225)	(960)	(3,185)
Current lease liabilities	(2,765)	2,246	(519)
Trade and other payables	(1,726)	(1,011)	(2,737)
Short-term and long-term prepayments	(13)	–	(13)
Long-term loan	226	(226)	–
Non-current lease liabilities	(1,840)	281	(1,559)
Deferred tax liabilities	**26,848**	**7,275**	**34,123**

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

20. Income taxes (continued)

Corporate income tax receivable and payable comprises the following:

	31 December 2023	31 December 2022
Corporate income tax receivable	5,221	–
Total corporate income tax receivable	**5,221**	**–**

	31 December 2023	31 December 2022
Corporate income tax payable	–	11,102
Total corporate income tax payable	**–**	**11,102**

21. Other operating income

Other operating income comprised of the following:

	2023	2022
Sales of other goods and services rendered	14,908	12,363
Income from alliance agreement	10,443	10,480
Other	25,139	9,984
Total other operating income from contracts	**50,490**	**32,827**

Income from alliance agreement comprises income from provision of offshore support services to oil companies operating in the Republic of Azerbaijan and the Caspian Sea region. Other income includes bargain purchase gain in the amount of AZN 13,294 recognized upon initial recognition of joint venture, as stated in Note 22.

22. Investment in a joint venture

As stated in Note 1, SA Maritime AFEZCO is a newly established joint venture owned by the Group and SOCAR, each party holding 50% control over the company. The table below summarises movements in the carrying amount of the Group's investment in joint venture:

	2023
Carrying amount at 1 January	**–**
Additions to investment in joint venture	170,000
Bargain purchase gain	13,294
Share of after-tax results of joint venture	6,761
Carrying amount at 31 December	**190,055**

In accordance with the establishment of SA Maritime AFEZCO in 2023, capital contribution in the form of an asset was made. The Group recognised 50% of excess of the fair value of net assets of SA Maritime AFEZCO over their cost as bargain purchase gain under other operating income.

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

22. Investment in a joint venture (continued)

Summarised statement of financial position of SA MARITIME AFEZCO:

	31 December 2023
Current assets	79,240
including cash and cash equivalents	67,046
Non-current assets	301,490
Current liabilities	(620)
Net assets	**380,110**
Proportion of the Group's ownership	50%
Interest in the net assets	**190,055**
Dividends received	–
Group's carrying amount of the investment	**190,055**

Summarised statement of profit or loss of SA MARITIME AFEZCO:

	2023
Revenue	28,279
Cost of sales	(15,335)
Gross profit	**12,944**
General and administrative expenses	(278)
Other operating income	885
Other operating expenses	(32)
Foreign exchange loss	4
Operating profit	**13,523**
Income tax expense	–
Profit for the year	**13,523**
Other comprehensive income for the year	–
Total comprehensive income for the year	**13,523**
Group's share of profit for the year	**6,762**

23. Risk management

Financial risk factors

The Group's management that has the appropriate skills, experience and supervision oversees management of risks and monitors the Group's overall position on a regular basis. This process of risk management is critical to the Group and key individuals within the Group are accountable for the risk exposures relating to their responsibilities.

The Group's principal financial liabilities comprise trade payables, short-term and long-term loans. Cash and cash equivalents, restricted cash and trade and other receivables represent the Group's principal financial assets. Both principal financial liabilities and financial assets arise directly from the Group's operations.

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

23. Risk management (continued)

Financial risk factors (continued)

In the ordinary course of business, the Group is exposed to credit, liquidity and market risks. Market risk arises from fluctuating prices on commodities purchased and sold, prices of other raw materials, currency exchange rates and interest rates. Depending on degree of price volatility, such fluctuations in market prices may create volatility in the Group's financial position. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. To effectively manage the variety of exposures that may impact financial results, the Group's overriding strategy is to maintain a strong financial position. Based on structured formal management procedures, management of the Group identifies and evaluates financial risks with reference to the current market position.

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in (i) foreign currencies, (ii) interest bearing assets and liabilities, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various exposures in the normal course of business, primarily with respect to USD. Foreign exchange risk arises primarily from future commercial transactions, recognised assets and liabilities when assets and liabilities are denominated in a currency other than the functional currency.

The majority of the Group's payables and receivables from foreign vendors and customers are denominated in USD. There has been no significant devaluation of AZN against USD and other major currencies during the year ended 31 December 2023 and 2022.

Management does not hedge the Group's foreign exchange risk.

The following table demonstrates the sensitivity to a reasonably possible change in the USD, EUR exchange rates, with all other variables held constant, of the Group's post-tax profit. There is no material impact on the Group's equity:

	Change in rates (+/-)	Effect on 2023 post-tax profit	Change in rates (+/-)	Effect on 2022 post-tax profit
USD/AZN	20.00%/-3.00%	33,574/(5,036)	20.00%/-3.00%	22,107/(3,316)
EUR/AZN	21.00%/-9.00%	142/(61)	21.00%/-9.00%	85/(36)

(ii) Interest rate risk

The Group is subject to interest rate risk on financial liabilities and assets with variable interest rates. To mitigate this risk, the Group's management performs periodic analysis of the current interest rate environment and depending on that analysis management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In case where the change in the current market fixed or variable interest rates is considered significant management may consider refinancing a particular debt on more favourable interest rate terms.

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

23. Risk management (continued)

Market risk (continued)

Changes in interest rates impact primarily debt by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new debts management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable over the expected period until maturity. As at 31 December 2023 and 2022 the Group's interest-bearing liabilities are not significantly affected by fluctuating interest rate.

Credit risk and concentration of credit risk

Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if counterparty defaults on its contractual obligations.

The Group's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and trade receivables.

The Group places its cash with reputable financial institutions in the Azerbaijan Republic. The Group's cash is mainly placed with the International Bank of Azerbaijan ("IBA") which is controlled by the Azerbaijani Government. The balance of cash and cash equivalents held with the IBA at 31 December 2023 was AZN 275,572 (31 December 2022: AZN 31,992). The Group continually monitors the status of the banks where its accounts are maintained.

The Group's maximum exposure to credit risk is represented by carrying amounts of financial assets on the consolidated statement of financial position and is presented by class of assets as shown in the table below:

	31 December 2023	31 December 2022
Cash and cash equivalents (Note 6)	278,314	34,353
Trade and other receivables, net (Note 7)	204,357	232,597
Total maximum exposure to credit risk	**482,671**	**266,950**

Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in above table.

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

23. Risk management (continued)

Trade receivables (continued)

The expected loss allowance as at 31 December 2023 and 2022 was determined as follows for trade receivables from customers:

31 December 2023	Less than 30 days past due	30-60 days past due	61-90 days past due	91-360 days past due	More than 360 days past due	Total
Gross carrying amount of trade receivables	44,115	15,696	16,790	56,038	88,118	**220,757**
Less: ECL	(908)	(255)	(108)	(2,023)	(13,271)	**(16,565)**
Net trade receivables	**43,207**	**15,441**	**16,682**	**54,015**	**74,847**	**204,192**

31 December 2022	Less than 30 days past due	30-60 days past due	61-90 days past due	91-360 days past due	More than 360 days past due	Total
Gross carrying amount of trade receivables	72,176	19,095	19,058	131,612	6,032	**247,973**
Less provision for ECL	(4,234)	(887)	(1,096)	(7,189)	(2,109)	**(15,515)**
Net trade receivables	**67,942**	**18,208**	**17,962**	**124,423**	**3,923**	**232,458**

The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category are approved annually by management.

In assessing the credit quality of financial assets the Group considers the nature of counterparty, historical information about counterparty, default rates and any other available information which can be used to assess credit quality.

Trade receivables consist mainly of receivables from offshore and transportation services rendered to top customers operating on the local market in oil and gas industry. The Group's credit risk arising from its trade receivables is further mitigated by continuous monitoring of the creditworthiness of customers.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In managing liquidity risk, the Group maintains adequate cash reserves and debt facilities, continuously monitors forecast and actual cash flows.

Prudent liquidity risk management includes maintaining sufficient working capital and the ability to close out market positions. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows.

All of the Group's financial liabilities represent non-derivative financial instruments. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the consolidated statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months approximate their carrying values, as the impact of discounting is not significant.

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

23. Risk management (continued)

Liquidity risk (continued)

The maturity analysis of financial liabilities as at 31 December 2023 and 31 December 2022 was as follows:

At 31 December 2023	Notes	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade payables	11	14,645	–	–	–	**14,645**
Borrowings		5,744	2,156	169,490	–	**177,390**
Total undiscounted financial liabilities		**20,389**	**2,156**	**169,490**		**192,035**

At 31 December 2022	Notes	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade payables	11	20,311	–	–	–	**20,311**
Borrowings		2,276	2,233	4,351	–	**8,860**
Total undiscounted financial liabilities		**22,587**	**2,233**	**4,351**	–	**29,171**

Fair value of financial instruments

The fair value of the financial assets and liabilities is included at the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

Set out below is a comparison by class of the carrying amounts and fair value of the Group’s financial instruments that are carried in the consolidated financial statements.

	31 December 2023	
	Carrying amounts	Fair values
Cash and cash equivalents (Note 6)	278,314	278,314
Total financial receivables (Note 7)	204,357	204,357
Total financial assets	**482,671**	**482,671**
Total financial payables (Note 11)	14,645	14,645
Current portion of long-term bonds (Note 12)	3,400	3,400
Short-terms loans and current portion of long-term loan (Note 12)	4,448	4,448
Non-current portion of long-term bonds (Note 12)	169,490	171,424
Total financial liabilities	**191,983**	**193,917**

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

23. Risk management (continued)

Fair value of financial instruments (continued)

	31 December 2022	
	Carrying amounts	Fair values
Cash and cash equivalents (Note 6)	34,353	34,353
Total financial receivables (Note 7)	232,458	232,458
Total financial assets	**266,811**	**266,811**
Total financial payables (Note 11)	20,311	20,311
Short-term loans and current portion of long-term loan (Note 12)	4,499	4,499
Long-term loan (Note 12)	4,235	4,029
Total financial liabilities	**29,045**	**28,839**

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

(i) Short-term financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments;

(ii) Long-term fixed-rate and variable-rate receivables/loans are evaluated by the Group using Level 3 inputs based on parameters such as interest rates, specific country risk factors, individual creditworthiness of customers and the risk characteristics of the financed project.

Capital management

The primary objective of the Group's capital management policy is to ensure a strong capital base to fund and sustain its business operations through prudent investment decisions and to maintain shareholders and creditor confidence to support its business activities.

The Group is 100% owned by the Government and periodically receives funds in the form of the Government investments for purchase of new vessels.

The Group considers total capital under management to be as follows:

	Notes	31 December 2023	31 December 2022
Long-term loan	12	–	4,235
Short-term loans and current portion of long-term loan	12	4,448	4,499
Trade and other payables and accrued liabilities	11	28,910	37,900
Current portion of long-term bonds	12	3,400	–
Non-current portion of long-term bonds	12	169,490	–
Less: cash and cash equivalents	6	(278,314)	(34,353)
Net debt		**(72,066)**	**12,281**
Equity		1,436,432	1,173,690
Capital and net debt		**1,364,366**	**1,185,971**
Gearing ratio		-5%	1%

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

24. Changes in liabilities arising from financing activities

	1 January 2023	Cash flows	Finance cost	Foreign exchange movement	Other	31 December 2023
Short-term loans and current portion of long-term loans	**4,499**	(4,286)	–	–	4,235	**4,448**
Long-term loans	**4,235**	(259)	259	–	(4,235)	**–**
Lease liabilities	**10,391**	–	–	–	(10,391)	**–**
Current portion of long-term bonds	**–**	(5,100)	8,500	–	–	**3,400**
Non-current portion of long-term bonds	**–**	(510)			170,000	**169,490**
Total liabilities from financing activities	**19,125**	**(10,155)**	**8,759**	**–**	**159,609**	**177,338**

	1 January 2022	Cash flows	Finance cost	Foreign exchange movement	Other	31 December 2022
Short-term loans and current portion of long-term loans	**4,553**	(4,320)	31	–	4,235	**4,499**
Long-term loans	**8,469**	(416)	417	–	(4,235)	**4,235**
Lease liabilities	**23,024**	(12,984)	351	–	–	**10,391**
Total liabilities from financing activities	**36,046**	**(17,720)**	**799**	**–**	**–**	**19,125**

The “Other” column of short-term and long-term loans is represented by classification of current portion of AZN 4,235 (2022: AZN 4,235) of long-term loans as short-term, derecognition of lease liabilities in the amount of AZN 10,391 and proceeds from bond issuance in the amount of AZN 170,000.

25. Contingencies, commitments and operating risks

Operating environment

The Group’s operations are mainly conducted in the Caspian Sea region. Besides this, 36% of dry cargo transportation and 20% of liquid cargo transportation during 2023 comprised of operations in Black Sea region.

As an emerging market, at the present time the Republic of Azerbaijan does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy.

Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Azerbaijan economy is largely dependent upon these reforms and the effectiveness of economic, financial and monetary measures undertaken by the government as well as crude oil prices and stability of Azerbaijani Manat.

The Azerbaijan economy has been negatively impacted by decline of oil prices and devaluation of Azerbaijani Manat during 2015. This resulted in reduced access to capital, a higher cost of capital, inflation and uncertainty regarding economic growth.

In response to these challenges, Azerbaijani government announced plans to accelerate reforms and support financial system. On 6 December 2016 President of the Republic of Azerbaijan approved *Strategic Road Maps for the National Economy and Main Economic Sectors of Azerbaijan*. The road maps cover 2016-2020 development strategy, long-term outlook up to 2025 and vision beyond.

25. Contingencies, commitments and operating risks (continued)

Operating environment (continued)

GDP of Azerbaijan grew by 4.6% in 2022, driven by strong growth in the oil and non-oil sector, which is largely due to increased foreign currency inflows as the high global prices of hydrocarbons boosted export revenues. Increased money supply, as a result of these factors, led to surplus liquidity and record high profits in banking sector during 2023, coupled with considerable decrease in default rates.

Global hydrocarbon prices experienced decline during the second half of 2022 and most of 2023, before slightly rebounding during September – October period of 2023. The country's GDP grew by only 1.8% in 2023.

The high average hydrocarbon prices during 2022 and 2023 added additional stability to the local currency.

The disruption of the global supply chains, conflict between the Russian Federation and Ukraine as well as rising consumer demand for goods led to significant inflationary pressures to the global economy in 2023, including soaring commodity prices.

During 2023 global rating agencies assessed Azerbaijani Government`s credit rating as "Ba1". Assessment reflects the effectiveness of economic policy in recent years, expressed in better fiscal management and greater ability to absorb future shocks despite the post pandemic period. Fiscal performance remains strong and is improving faster than expected, thanks to prudent fiscal management amid economic recovery and high hydrocarbon prices.

During 2022 and 2023, the CBAR continued to maintain stability of the Azerbaijani manat, which was kept flat at 1.7000 for 1 USD throughout the period. During 2023, the CBAR continued to tighten its monetary policy, and, as a result, refinancing rate reached 8% as at 31 December 2023 (31 December 2022: 8.25%).

The Group's management is monitoring economic developments in the current environment and taking precautionary measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future.

While Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

The accompanying consolidated financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the period when they become known and estimable.

Legal proceedings

On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Tax legislation

Azerbaijan tax, currency and customs legislation is subject to varying interpretations, and changes, which may occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained and potential tax liabilities of the Group will not exceed the amounts recorded in these consolidated financial statements.

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

25. Contingencies, commitments and operating risks (continued)

Environmental matters

The enforcement of environmental regulation in the Azerbaijan Republic is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damages.

The Group is subject to numerous national and local environmental laws and regulations concerning its products, operations and other activities. These laws and regulations may require the Group to take future action to remediate the effects on the environment of the Group’s operations. Such contingencies may exist for various waste disposal sites. In addition, the Group may have obligations relating to prior asset sales or closed facilities. The ultimate requirement for remediation and its cost are inherently difficult to estimate. While the amounts of future costs could be significant and could be material to the Group’s results of operations in the period in which they are recognised, it is not practical to estimate the amounts involved. The Group does not expect these costs to have a material effect on the Group’s financial position or liquidity.

Conflict between the Russia and Ukraine

In February 2022, due to the conflict between the Russia and Ukraine, numerous sanctions have been announced by majority of western countries against the Russia. As of 31 December 2023, the Group’s total receivable from Russian companies amounted to AZN 7,125 and ECL recognized for receivables outstanding from Russian companies was equal to AZN 6,403.

The Group’s management is monitoring the economic situation in the current environment and taking precautionary measures it considers necessary in order to support the liquidity of the Group’s assets in the foreseeable future.

26. Events after the reporting date

In February 2024 the Company issued USD 50 million domestic bonds (“Bonds”) with a maturity of 5 years. The Bonds bear interest rate of 6 % per annum payable semi-annually each year until maturity. The Bonds mature on February 2029 and are listed in domestic stock exchange. The Company will use proceeds from the Bonds for acquisition of 1 new Aframax type vessel which will be operated in the Black Sea region.

In March 2024, by the decision of the Supervisory Board, the Group has acquired 4% bonds of Baku Shipyard valued at USD 92 millions.

FIVE-YEAR REPORT
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