

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 13 December 2023¹

AZERBAIJAN

ASCO CASPIAN SHIPPING

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

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ABBREVIATIONS / CURRENCY CONVERSIONS

ADB	Asian Development Bank
AIH	Azerbaijan Investment Holding
AIIB	Asian Infrastructure Investment Bank
AMI	Annual Mobilised Investment
ASCO	Azerbaijan Caspian Shipping Company
AZN	Azerbaijani manat
BIMCO	Baltic and International Maritime Council
CCG	Climate Corporate Governance
CII	Carbon Intensity Index
CJSC	Closed Joint-Stock Company
COGS	Cost of goods sold
CP	Condition Precedents
CRM	Concept Review
DSCR	Debt Service Coverage Ratio
DSRA	Debt Service Reserve Account
dwt	Deadweight tonnage
E&D	Exploration & Development
EBITDA	Earnings before interest, taxes, depreciation, and amortization
EFSD	Eurasian Fund for Stabilization and Development
EIB	European Investment Bank
EEXI / EEDI	Energy Efficiency Existing Ship Index / Energy Efficiency Design Index
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ETS	Emissions Trading System
ETC	Early Transition Countries
EU	European Union
E&D	Exploration and Development
E&S	Environmental and Social
FRM	Final Review
FX	Foreign Exchange
GET	Green Economy Transition
GHG	Greenhouse Gas
IFI	International Financial Institutions
IMO	International Maritime Organisation
KPI	Key Performance Indicators
KYC	Know-Your-Customer
LCP	Low-carbon Pathway
MARPOL	International Convention for the Prevention of Pollution from Ships
MDB	Multilateral Development Banks
NGFS	Network for Greening the Financial system
OCCO	Office of the Chief Compliance Officer
OECD	Organisation for Economic Cooperation and Development
OGC	Office of the General Counsel
OSV	Offshore support vessels

PPAD	Procurement Policy and Advisory Department
PPR	Procurement Policies and Rules
PR	Performance Requirements
RAROC	Risk-adjusted return on capital
SEEMP	Ship Energy Efficiency Management Plan
SOE	State Owned Entity
SOCAR	State Oil Company of Azerbaijan Republic
SOLAS	International Convention for the Safety of Life at Sea
SSF	EBRD Shareholder Special Fund
SLL	Sustainability-linked loans
TC	Technical Cooperation
TCE	Time Charter Equivalent
TEU	Twenty-foot Equivalent Unit
TFCD	Task Force on Climate-Related Financial Disclosures
TI	Transition Impact
URP	Unfunded Risk Participation
UK	United Kingdom
UN	United Nations
US	United States
USD	United States dollars

Currency rate (November 2023) USD 1 = AZN 1.70 EUR 1 = AZN 1.82

PRESIDENT’S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of CJSC Azerbaijan Caspian Shipping Company (the “Company” or the “ASCO”), a closed joint-stock company incorporated in Azerbaijan, are submitted for consideration by the Board of Directors. The Company is fully owned by the Republic of Azerbaijan.

The facility will consist of a senior secured EUR-denominated loan (the “Loan”) of up to USD 42 million (EUR 39.4 million equivalent), comprised of two tranches (committed and uncommitted), of up to USD 21 million each. The Loan will enable ASCO to acquire two mid-size (handy size), second-hand vessels to transport dry bulk goods in international waters (the “Project”). The Project will support ASCO in diversifying its merchant fleet operations outside the Caspian Sea and enhancing transport connectivity along the extended Trans-Caspian Route (Middle Corridor), where ASCO is one of the key players ensuring the transportation of goods across the Caspian and Black Seas.

The primary Transition Impact (“TI”) stems from the Competitive Quality, as the Project will contribute to the expansion of the Company’s merchant fleet size with larger capacity dry-bulk vessels that can operate on regional and global trade routes. The secondary TI quality is Well-Governed, whereby the Company will develop Climate Corporate Governance (“CCG”) and disclosure practices in accordance with the Task Force for Climate-related Disclosures (“TFCD”) framework, as well as policies and key performance indicators for sustainability-linked financial instruments to access international green finance markets. Technical Cooperation (“TC”) support for this operation is expected to be financed from the EBRD CCG Client Support Facility to be funded by an international donor and/or the Shareholder’s Special Fund.

I am satisfied that the operation is consistent with the Bank’s Country Strategy for Azerbaijan 2019-2024, the Bank’s Transport Sector Strategy and the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

AZERBAIJAN - ASCO CASPIAN SHIPPING - DTM 53765	
Transaction / Board Decision	<p>Board approval² is sought for a senior secured EUR-denominated loan of up to USD 42 million in (EUR 39.4 million equivalent) in favour of CJSC Azerbaijan Caspian Shipping Company (the “Company” or “ASCO”). The Loan consists of two tranches (i) a committed facility of up to USD 21 million (“Tranche 1”), and (ii) an uncommitted facility of up to USD 21 million (“Tranche 2”). Decision to approve the commitment of Tranche 2 shall be delegated to Management.</p> <p>The Loan will finance the acquisition of up to two vessels to facilitate the transportation of dry-bulk cargo on the extended Trans-Caspian Route in the Black Sea and further in international waters (the “Project”). The Loan will be denominated in EUR based on the USD/EUR rates available to the Bank at the time of disbursement.</p>
Client	<p>ASCO, incorporated in Azerbaijan, is a national fully state-owned shipping company. The Company owns and operates 248 vessels providing offshore support and cargo transportation services. In 2022, ASCO recorded revenue of USD 351.2 million (EUR 334.0 million) and EBITDA of USD 112.0 million (EUR 106.5 million).</p>
Main Elements of the Proposal	<p><u>Transition impact:</u> the expected Transition Impact of the Project relates to the <i>Competitive Quality</i>, supporting expansion of the Company’s shipment capacity as well as route and cargo flexibility. The secondary TI quality is <i>Well-Governed</i>, given the Company’s commitment to enhance its climate corporate governance and climate-related disclosure policies in line with the guidelines of the Task Force on Climate-related Financial Disclosures (TCFD).</p> <p><u>Additionality:</u> The Project’s additionality is associated with (i) <i>risk mitigation</i>, as the Bank will help the Company to mitigate carbon transition and climate governance risks and build climate corporate governance framework; (ii) <i>standard-setting</i>, as the Bank will help the Company to mitigate environmental compliance and climate transition risks, in line with the best industry standards. <u>Sound banking:</u> the Company has a recurring and diversified revenue base and consistent profitability. The Project will further improve the Company’s financial performance and enhance its global chartering capabilities.</p>
Key Risks	<p>[REDACTED]. <u>Market and fleet risk:</u> (i) increased operating and maintenance costs and loss of physical capacity due to aged fleet profile; (ii) downturn in offshore oil & gas market and merchant fleet operations. <u>Mitigating factors</u> include (i) low share in revenue of the vessels that are due to be de-commissioned during the Loan; (ii) stable baseload demand for oil & gas production and growing demand for import of energy resources from Azerbaijan (iii) substantial increase in the transportation of goods across the Caspian Sea along the Trans-Caspian Route.</p>
Strategic Fit Summary	<p>The Project is in line with the Bank’s Strategy for Azerbaijan which aims “to support the development of new capacity in the port and logistics sectors” as well as “to support SOE commercialisation (financial, operational and corporate governance improvements), through policy advice and investments with a focus on (...) transport”. The Project is in line with the Bank’s Transport Sector Strategy, which commits the Bank to support “Maritime Connectivity as the sector will require investment in the coming years in both fleet replacement and expansion in those regions which have shipping fleets”.</p>

² Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	A senior secured (corporate) loan of up to USD 42 million to acquire up to two mid-size (handy size) second-hand dry bulk vessels (the “Loan”), consisting of two tranches (committed and uncommitted) of up to USD 21 million each. The Loan will be denominated in EUR based on the USD/EUR rates available to the Bank at the time of disbursement. [REDACTED].
Existing Exposure	None
Maturity / Exit / Repayment	7 years [REDACTED].
Potential AMI eligible financing	[REDACTED]
Use of Proceeds - Description	Each tranche will finance the acquisition of one handy size (between 32,000 and 45,000 dwt), second-hand or ‘resale’ vessel (the “Project Vessel(s)”) of less than ten years old to transport dry bulk goods.
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • ASCO as the Borrower; • AIH as the representative of the Shareholder; • EBRD (the “Bank”) as the Lender.
Conditions to subscription / disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	[REDACTED]
Associated Donor Funded TC and Blended Concessional Finance	<p>A. Technical Cooperation (TC)</p> <p><i>Pre-signing:</i></p> <p>TC1: Project Due Diligence, including Climate Risk and Paris Alignment Assessment. The cost of the assignment is EUR 74,840, of which EUR 63,620 is financed by the EBRD Shareholder Special Fund (the “SSF”) and EUR 11,220 by the Company from its own resources.</p> <p><i>Post-signing:</i></p> <p>TC2: CCG Framework Development. The assignment will support the Company to develop and implement an action plan to better address climate-related financial risks by preparing disclosure policies in line with the guidelines of the TCFD and supporting the development of sustainability linked-loan framework to access international green finance markets. The expected cost of the assignment is up to EUR 200,000, of which EUR 180,000 is expected to be financed via the Bank’s CCG Client Support Facility to be funded by an international donor and/or the SSF and EUR 20,000 by the Company from its own resources.</p> <p>Cost sharing: The Company provides financial contribution to the Project in the amount of EUR 31,200 by co-financing the costs of the aforementioned TC assignments (TC1 and TC2). In addition to the cost sharing in TC, the Company has agreed to cover up to USD 190,000 in Project-related due diligence costs under the signed Mandate Letter.</p> <p>B. Blended Concessional Finance</p> <p>None.</p>

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

The Government of Azerbaijan is actively working to bolster the country's position as a crucial participant in the transit route linking Europe and Asia. Over the past decade, Azerbaijan has invested more than USD 20 billion to transport infrastructure projects spanning maritime, port, railway, and road developments. This strategic agenda has led to the creation of a number of major infrastructure assets, including the Baku International Trade Port, the Baku-Tbilisi-Kars Railway, as well as the East-West rail and road lines, which are essential for an uninterrupted flow of goods to and from Central Asia to Europe via the Caspian Sea as part of the Trans-Caspian Route. Following the start of the war on Ukraine in February 2022, the transit of goods through Azerbaijan, as part of the Trans-Caspian Route, has already surged by up to 65 per cent.

In response to the severe macroeconomic crisis suffered in 2016-2017 and the negative impact of the Covid-19 pandemic, the Government of Azerbaijan has undertaken extensive sectoral reforms and fiscal re-organisations, diversifying economy and prioritising non fossil fuel sectors, as well as closely engaged with IFIs and development agencies to address policy, governance, infrastructure needs and capacity gaps. As part of this strategy, the Government established the Azerbaijan Investment Holding (“AIH”) and initiated the reforms in the SOEs, reorganised ministries and government agencies, including the appointment of new ministers and management teams. The Government adopted new laws (for PPPs, renewables and energy sector, procurement, etc.) prepared in cooperation with EBRD and other IFIs. Under Azerbaijan 2030 strategy (approved by the Government in February 2021), the Government committed to achieving clean environment and green growth to bring a comprehensive solution to climate change brought on by global warming as well as economic and demographic changes.

The Project marks the first EBRD engagement with one of the portfolio companies under management of AIH, a public holding established in August 2020. AIH’s primary goal is to improve corporate governance and financial sustainability across 12 major SOEs in the AIH’s existing portfolio. Since its establishment, AIH has initiated major changes in several large SOEs, focusing, amongst other things, on establishing supervisory boards and transformation offices, replacing long-serving management teams, introducing additional reforms aimed at bolstering efficiency and accountability. To achieve these objectives, AIH collaborates with IFIs, namely EBRD, EIB, ADB, AIIB and the World Bank by undertaking new financing and technical cooperation projects. In line with its priorities, AIH has launched a study conducted by the OECD [REDACTED] which aims to identify shortcomings and formulate recommendations to improve corporate governance in Azerbaijani SOEs, including ASCO.

The proposed Project is an opportunity to engage with the Government of Azerbaijan and AIH on SOE reforms. It is also highly aligned with the Bank’s main strategic priorities in Azerbaijan, including the promotion of non-sovereign non-oil sector projects, as well as the support of key infrastructure and key players essential to enhance the transport connectivity of the Trans-Caspian Route.

As the owner of the largest fleet in the Caspian Sea, ASCO holds an important role in ensuring maritime connectivity along the Trans-Caspian Route. The Company operates the largest Ro-Ro/Ro-Pax (for trucks, wagons and passengers) and tanker fleet in the Caspian Sea, as well as accounts for 100 per cent of all rail wagons, around 75 per cent of trucks, approx. 40 per cent of containers and 20-25 per cent of general cargo moving across the Caspian Sea between Azerbaijan and Central Asia. ASCO also has its own shipyards, design bureau, maritime institutions, and a professional staff of more than 8,000 personnel, which together contribute to functioning of maritime transport ecosystem in the Caspian Sea.

ASCO management seeks to expand the Company's capabilities beyond the Caspian Sea by leveraging its established resource base and customer network. As a part of this strategy, ASCO plans to acquire new vessels that would enhance its role in transit flows on the Trans-Caspian Route. Operating out of the Black Sea basin, this expansion will link up with ASCO's existing shipping services in the Caspian Sea and allow to undertake the last leg of deliveries to outside water basins. At present, all trade movements from Central Asia across the Trans-Caspian Route converge in Georgia, from where they continue onwards via congested ports in Romania and Bulgaria or the rail crossings in Turkey. The Project will increase the shipping capacity for cargos from the Black Sea ports of Georgia, as well as will allow to deliver the goods closer to their destinations, bypassing the congested port and rail connections. Similarly, on return trips to the Black Sea, the Project Vessels will help with the import of bulk dry commodities (e.g. sugar, soya bean, oil seeds) that are transported to Central Asia and Caucasus from distant locations. Also, the Project will indirectly free up the vessel capacity for the operations on the Caspian Sea as ASCO will be able to return five smaller dry cargo vessels from the Black Sea/Mediterranean, where they currently operate, back to the Caspian Sea. The map of the Trans-Caspian Route is presented in Annex 6.

Handy size vessels represent a good entry point for ASCO to expand its fleet size and diversify revenue sources as it transitions from regional to global chartering capabilities. These ships, ranging between 25,000 and 45,000 dwt, play a pivotal role in the global transportation of bulk commodities. They offer a flexible and cost-effective solution for transporting cargo between ports worldwide. ASCO presently manages 14 dry bulk vessels operating in the Caspian, Black and Mediterranean seas. These vessels, with an average size of less than 10,000 dwt, primarily conduct shorter sea voyages carrying smaller cargo consignments and therefore are dependent on the regional market. In contrast, handy size vessels, to be acquired under the proposed Project, navigate deep seas on a global scale and are not confined to specific markets. Upon acquisition, ASCO can promptly integrate and operate these vessels under time charter or spot contracts, thus, optimizing commercial and technical opportunities as part of the ASCO's expansion strategy.

The Project will also aid ASCO in effectively adapting to evolving regulations within the shipping sector. The Bank has supported ASCO in assessing environmental compliance risks by evaluating cost-effectiveness of target vessels across various carbon intensity options. Based on these assessments, ASCO will prioritize vessels with the minimum 'C' CII category, aligning with the IMO's Net Zero 2050 Strategy aimed at reducing greenhouse gas (GHG) emissions from ships. Maintaining the vessels in the necessary CII trajectory will be covenanted in the loan documentation. Moreover, ASCO is committed to implementing the CCG Action Plan. The Company will publish reports in accordance with the guidelines set by the TFCDD. Additionally, the Bank will assist ASCO with developing a framework and KPIs to issue sustainability-linked financial instruments in global markets in the future. Detailed information on the Project's alignment with Paris Agreement and assessment of climate-related risks is presented in Annex 4 (Green Assessment Summary). [REDACTED].

The Project is in line with the Bank's Transport Sector Strategy, which commits the Bank to support "Maritime Connectivity as the sector will require investment in the coming years in both fleet replacement and expansion in those regions which have shipping fleets". Moreover, the Project is consistent with the Bank's Strategy for Azerbaijan which aims "to support the development of new capacity in the port and logistics sectors" as well as "to support SOE commercialisation (financial, operational and corporate governance improvements), through policy advice and investments with a focus on (...) transport". The Project is in line with Recommendation 3 – "...increase regional connectivity despite the challenging political economy in ETCs, such as through transport linkages..." – from the recent Evaluation study of the EBRD's approach to Early Transition Countries (2017–2022), performed by the EBRD Evaluation department.

1.2 TRANSITION IMPACT

Primary Quality: Competitive

Obj. No.	Objective	Details
1.1	<i>The project promotes significant cost efficiency improvements [REDACTED]</i>	The Project will increase shipment weight load, reduce the number of trips and improve flexibility in terms of route directions. This will allow the Company to increase its total revenue [REDACTED] and reduce operating costs [REDACTED]. As a result, the Company is expected to achieve a higher operating profit per vessel compared to its existing dry cargo fleet.

Secondary Quality: Well-Governed

Obj. No.	Objective	Details
2.1	<i>The client commits to implementing specific improvements across all four dimensions of Corporate Climate Governance (CCG).</i>	ASCO has committed to develop the CCG framework and introduce specific improvements across all four dimensions of CCG: governance, strategy, risk management and metrics & targets. As part of this exercise, the Company will also develop a sustainability-linked loan (“SLL”) framework with an aim to access international green finance market in near future.
2.2.	<i>The client will implement at least one benchmarked improvement for each targeted dimension of CCG.</i>	[REDACTED]
2.3	<i>The client will introduce new reporting disclosures covering all benchmarked improvements in CCG.</i>	ASCO will develop disclosure practices covering benchmarked improvements and publish regular TCFD-aligned reports on its website.

Please refer to Annex 1 (Transition Impact Scoring Chart).

Risks to TI delivery: The primary delivery risk associated with the Competitive TI quality pertains to ASCO's ability to effectively acquire and manage vessels larger than its current dry cargo fleet. However, this risk is mitigated by ASCO's successful history in exploring new vessel categories and routes, the presence of in-house crew and technical resources, and an established customer network. Similarly, the delivery risk for the Well-Governed TI is linked to the Company's capability to implement necessary corporate changes and establish disclosure policies that significantly surpass local standards. To mitigate this risk, the Company will work with an external consultant to develop measures aligned with international best practices for climate governance and TCFD-based disclosures.

1.3 ADDITIONALITY

Identified triggers	Description
No triggers identified	n/a

Additionality sources	Evidence of additionality sources
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<p>Financing Structure - EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, e.g. a longer grace period. Such financing is necessary to structure the project EBRD offers a tenor, which is longer than available to the client in the market on reasonable terms and conditions.</p>	[REDACTED]
<p>Risk mitigation</p> <p>EBRD helps the client to mitigate carbon transition risks and take climate action, such as to move along a low carbon transition pathway.</p> <p>EBRD helps the client to mitigate climate governance risks and take climate action, such as to improve its internal corporate governance for managing climate risks.</p> <p>Standard-setting: helping projects and clients achieve higher standards Client seeks/makes use of EBRD expertise on corporate governance improvements, including for climate risk management. Client seeks/makes use of EBRD expertise over energy and resource efficiency and climate resilience financing via provision of energy and climate audits, minimum performance standards of technologies, climate-related strategies and policies, monitoring, reporting and verification (MRV) systems etc. Client seeks/makes use of EBRD expertise on higher financial standards.</p>	<p>EBRD's expertise will enable ASCO to mitigate environmental compliance and climate transition risks by (i) following the net zero requirements for the Project and (ii) building the CCG and SSL frameworks to promote best industry sustainability and disclosure standards. The development of SLL framework will aid ASCO to tap international green finance markets in the future.</p> <p>ASCO has worked with external advisors to assess the regulatory landscape in the shipping sector and identify the technical criteria that are expected to optimize the payback period in terms of lifecycle costs of vessels and climate compliance needs. As part of the Project, EBRD introduces financial covenants to maintain acceptable risk profile of the Company. These covenants will strengthen financial compliance and reporting discipline.</p> <p>Considering ASCO's strategic plans to expand its operations internationally and improve its access to international capital markets, the EBRD's financing stands as a helpful step in fostering the Company's ability to access international capital markets in the future. EBRD's funding not only supplements the existing local financing but also serves as a catalyst for the Company's entrance into global financial markets. The EBRD's higher financial requirements will strengthen ASCO's financial compliance and reporting standards. EBRD's participation may also mitigate non-financial risks that may deter potential international investors or lenders, including country-specific, regulatory, and economic risks.</p>

1.4 SOUND BANKING - KEY RISKS

Risks	Probability/ Effect	Comments
Fleet risk	High/ Medium	<p>The aging of the fleet may result in increased operating and maintenance costs, [REDACTED] and/or higher dry docking/class repair costs [REDACTED].</p> <p>Mitigating factors: [REDACTED]. Given there is no apparent loss of functionality, these vessels remain in use and in demand by customers. All ASCO vessels have class society</p>

		certificates, which testify to their seaworthiness. Shrinking fleet will have negligible effect on the debt service capacity, as the new vessels that ASCO plans to purchase will be larger, faster and/or more efficient.
Demand risk (OSV)	Medium/High	<p>The offshore market has recently experienced a downturn and there is a risk that the Company will experience low fleet utilization and/or reduced rates during the Loan tenor.</p> <p>Mitigating factors: Offshore oil production in Azerbaijan is expected to increase by 16 per cent by 2025 (compared to 2020) and then fall by 28 per cent by 2030 (compared to 2025 output) due to field depletion and a shortage of major new development projects. On the other hand, offshore gas production is projected to increase by 34 per cent in 2025 and increase further at around 3 per cent until 2030. Therefore, a stable baseload demand for the offshore support vessels (“OSV”) fleet during the Loan tenor is expected.</p>
Traffic/demand risk (merchant fleet)	Medium/Medium	<p>Decline in demand for transport of goods across may cause challenges with employing vessels at their full capacities and/or at required rates.</p> <p>Mitigating factors: ASCO operates across three distinct cargo categories: trucks and wagons, oil and oil products, and general cargo/containers. Due to smaller deadweight, ASCO can move its tankers and general cargo vessels in and out of the Caspian Sea. Therefore, it is able to withstand potential declines in particular cargo categories and water basins. The Trans-Caspian Route is projected to grow by multiples if the relevant physical transport capacity is constructed. ASCO, as the owner of the largest merchant fleet in the Caspian, is well-placed to benefit from this favourable market condition.</p>
[REDACTED]	[REDACTED]	[REDACTED]
Customer concentration	Medium/Medium	<p>SOCAR is ASCO’s main customer, representing 56 per cent of OSV revenue. Together with merchant fleet operations, the combined exposure to SOCAR is around 35-40 per cent of ASCO’s total revenue.</p> <p>Mitigating factors: ASCO is the only operator that offers full spectrum OSV services. It accounts for 95 per cent of SOCAR’s offshore services, therefore is an important service provider for SOCAR. As one of the largest SOEs in Azerbaijan, SOCAR enjoys implicit and explicit government support, which is reflected in its external ratings (BB+ by Fitch and BB- by S&P).</p>

2. MEASURING / MONITORING SUCCESS

Overall objectives of project	Monitoring benchmarks	Implementation timing
- Good financial and operational performance	- Growth in revenue, profitability and cash flows	[REDACTED]

Primary Quality: Competitive

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	TC
1.1	Operational performance of the client: productivity	The Borrower will increase the share of revenue from merchant fleet vessels and thereby reduce dependence on offshore services oil & gas sector. [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Operational performance of the client: efficiency	The Borrower will reduce its operating costs in comparison to a available capacity. [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Well-Governed

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	TC
2.1	Recognised corporate climate governance (CCG) reporting framework adopted	The Borrower will adopt the corporate CCG framework, prepare the Action Plan and, [REDACTED], publish annual reports in accordance with TFCF guidelines.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Actions in the corporate climate governance action plan implemented	The Borrower will implement the actions identified in the CCG Action Plan, in line with the key sections: strategy, risk management, metrics & target, and others.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.3	Climate business practices improved: transparency and disclosure	[REDACTED] the Borrower will publish on its website the first TFCF aligned report on climate-related disclosures.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.4	Climate business practices improved: other	As part of the CCG Action Plan, the Company will develop a sustainability-linked loan ("SLL") framework.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date	TC
Advisory & Policy Indicators	Practices of the relevant stakeholder improved (anti-corruption action plan)	The Company will establish an independent compliance function [REDACTED].	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES**3.1 BORROWER**

ASCO is a national state-owned shipping company, established in 2013 following the merger of two state-owned companies, Azerbaijan State Caspian Sea Shipping Company (merchant fleet) and the Caspian Sea Oil Fleet of the State Oil Company of Azerbaijan Republic (offshore support fleet). ASCO is managed by AIH, the public authority established in 2020 to improve corporate governance and financial sustainability of the selected large SOEs in Azerbaijan. It is run by the Management Board under the overall supervision of the Supervisory Board chaired by the Minister of Finance of Azerbaijan Republic. The shareholding structure is presented in Annex 2.

ASCO plays a major role in offshore oil & gas industry of Azerbaijan and maritime connectivity across the Caspian Sea. In addition to its large fleet of 248 vessels, it also owns two shipyards, maritime education institution and other supporting facilities. It has an integrated commercial management structure responsible for all vessels, technical support and contracts. ASCO has around 8,000 employees, out of which around 4,300 are sailing personnel.

The OSV fleet is composed of 195 vessels across 17 categories for specialised offshore services. Revenue across different vessel types is diversified - the largest category (crane vessels) represents ca. 25 per cent of OSV services, followed by pipe-laying (15 per cent) and passenger vessels (12 per cent).

The fleet merchant is composed of 53 vessels in three major categories: 20 tankers for transport of oil and oil products (44 per cent of merchant fleet revenue), 14 general cargo/container vessels (18 per cent) and 17 ferry/Ro-Ro vessels for transport of trucks, wagons and passengers (38 per cent). Around

75-85 per cent of ASCO's merchant fleet revenue in 2019-2021 was generated in the Caspian Sea and the rest in the Black Sea and the Mediterranean.

ASCO also operates 17 liner ferries in the Caspian Sea between Azerbaijan, Kazakhstan and Turkmenistan with a semi-fixed timetable. It is the only wagon-carrying operator in the Caspian Sea. At such, it plays an important role in maintaining railway connections between Central Asia and Caucasus. It also transports trucks, containers and passengers with four Ro-Ro and Ro-pax type vessels.

Historical financials

The historical financial summary is based on ASCO's audited financial accounts for 2017-2022 and management accounts for the three quarters of 2022 and 2023.

Table 1. Summary of historical audited financials

USD 000s	2018 (A)	2019 (A)	2020 (A)	2021 (A)	2022 (A)	9M 2022	9M 2023
REVENUE	285,544	300,771	259,206	282,876	354,646	266,385	259,261
% change		5.3%	-13.8%	9.1%	25.4%		-2.7%
EBITDA	82,148	100,241	83,279	88,835	112,043	91,178	72,070
% margin	28.8%	33.3%	32.1%	31.4%	31.6%	34.2%	27.8%
NET PROFIT	30,861	37,572	26,496	30,466	38,495	37,843	22,710
Total Assets	703,554	713,098	743,135	759,534	785,539	903,908	996,761
Total Liabilities	120,620	138,207	135,866	119,388	95,133	102,828	181,825
Total Equity	582,934	574,891	607,269	640,146	690,406	720,550	743,261
Fin Debt / EBITDA	0.5x	0.5x	0.2x	0.1x	0.0x	-	1.1x
Total liabilities / Equity	0.2x	0.2x	0.2x	0.2x	0.1x	0.2x	0.3x
Cash conversion ratio	0.8x	0.3x	1.2x	0.9x	1.1x	0.6x	0.4x
Current ratio	2.3x	1.7x	1.7x	2.1x	2.9x	2.9x	3.9x
OpCf	69,700	28,535	96,629	84,047	118,103	55,651	31,783
InvCf	(106,139)	(57,076)	(72,791)	(72,366)	(102,426)	(40,625)	(133,821)
FinCf	37,598	25,029	(22,321)	(7,275)	7,222	(12,938)	103,284

[REDACTED]

4. MARKET CONTEXT

ASCO is subject to varying market conditions in the market segments it operates. The outlook for next decade is broadly positive due to growing demand for regional transit flows as well as the geographical barriers of the Caspian Sea, which limit the competitive pressure from non-Caspian shipping operators.

In the OSV segment, there is a large baseload demand for vessels from servicing current fields, and a variable demand linked to supporting new exploration and field development projects. [REDACTED] ASCO is the largest tanker operator in the Caspian (ca. 70 per cent share of Caspian tanker fleet). Following the recent disruptions in the traditional pipeline routes via Russia, Kazakhstan announced plans to increase oil traffic via Azerbaijan by around 1.5 million tons p.a. in 2023 and reach 6.5 million tons p.a. shortly afterwards. Therefore, ASCO's tanker fleet is projected to benefit from Kazakhstan's export route diversification efforts.

The total market size of Caspian dry cargo in 2021 was ca. 4.5 million tons per year. The volume has increased substantially in the last three years due to the growth of urea exports from Turkmenistan, petro-chemicals exports from Kazakhstan and Turkmenistan, and metals trade to/from Kazakhstan. The majority of the flows are between the Caspian countries themselves or transit traffic from the Caspian countries to Turkey and southeast Europe.

The market is growing due to (i) diversion of cargo from Northern Corridor via Russia to the Trans-Caspian Route after the start of the war on Ukraine, (ii) regional initiatives to remove regulatory barriers, and (iii) increase in trade relationships between the region countries themselves. Considering the physical transport constraints of ports, railways and vessels, total dry cargo traffic is estimated to amount to 8.7 million tons per year by 2030 (increase of 93 per cent compared to 2021).

The Black Sea's East-West route is part of the broader Trans-Caspian corridor that connects Europe and Asia, while bypassing Russia. Expected growth in the route's added volume will benefit the intra-regional trade in the Black Sea and transfer of cargo to/from Central Asia via the Trans-Caspian Route. To address this market demand, ASCO intends to secure charter contracts to transport dry bulk cargo with the Project Vessel(s) from/to other continents to/from Central Asia/ Caucasus.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (2019 ESP). The acquisition of second hand dry bulk vessels which comply with IMO requirements is not associated with any significant environmental and social impacts and can be readily identified and mitigated. The environmental and social due diligence of the Company's overall operations, policies, procedures and management systems was undertaken by the independent consultants on the basis of information on environmental, health and safety management, quality control, communication with stakeholders and human resource issues provided by the Company through the Bank's environmental and social due diligence ("ESDD") questionnaire and interviews. The due diligence showed that the Company is overall in compliance with national regulatory requirements, EBRD's Performance Requirements (PRs) and international (including IMO, MARPOL and SOLAS) standards of maritime safety and environment protection and that the Company has appropriate systems and controls in place to manage environmental, health and safety and labour risks. The Company also has in place adequate emergency response and preparedness procedures.

The Borrower has agreed to the technical and environmental specifications of the Project Vessel(s), which will comply with the Net Zero 2050 trajectory set by the IMO for environmental performance and compliance with GHG emissions, which will be covenanted in the legal agreement.

An Environmental and Social Action Plan (ESAP) has been developed and agreed in principle with the Company. ESAP will be included in the Loan Agreement to address the necessary mitigation measures and improvements which will allow the Company to further comply with national regulations and the Bank's PRs. The Bank will monitor the Project Vessels' and the Company's environmental and social performance and implementation of the ESAPs through annual environmental and social ("E&S") reports.

6.2 INTEGRITY

In conjunction with OCCO, integrity (including sanctions) due diligence was conducted on the Company, AIH and their senior management. [REDACTED].

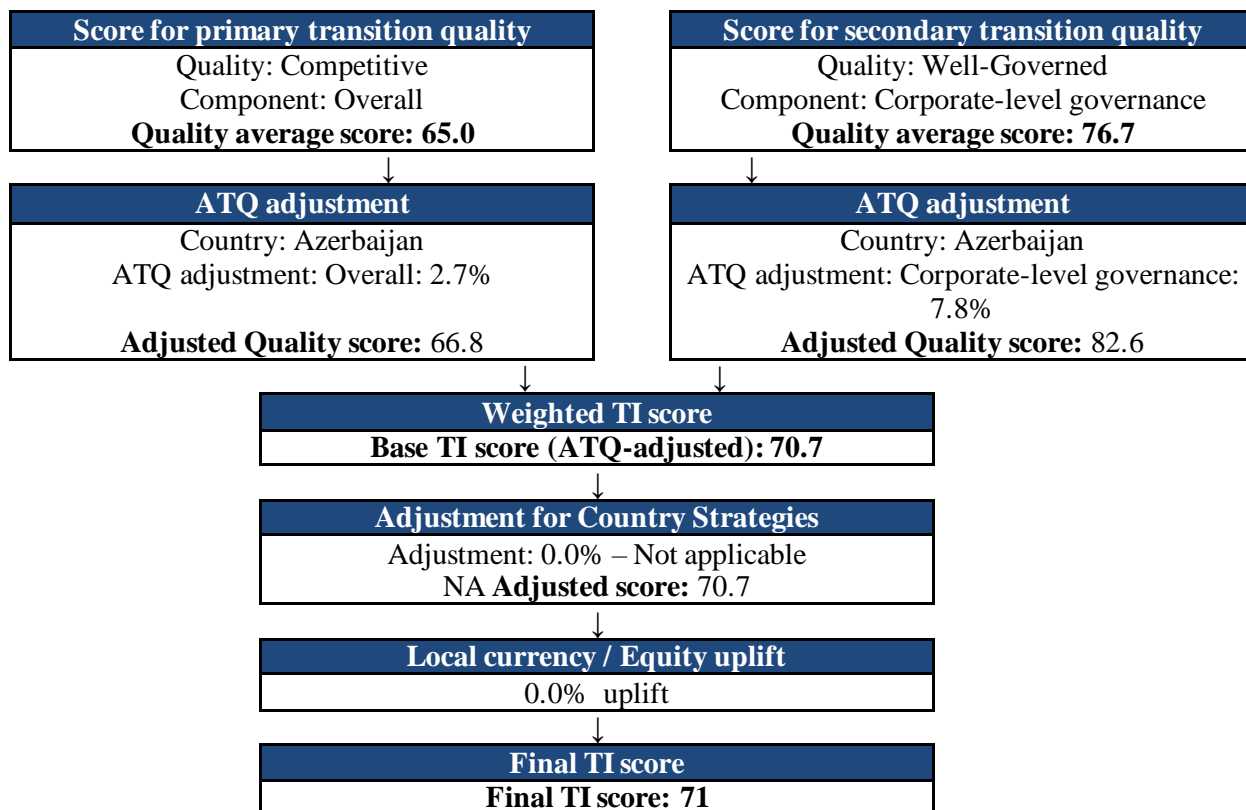
All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project, and the Project

files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Project.

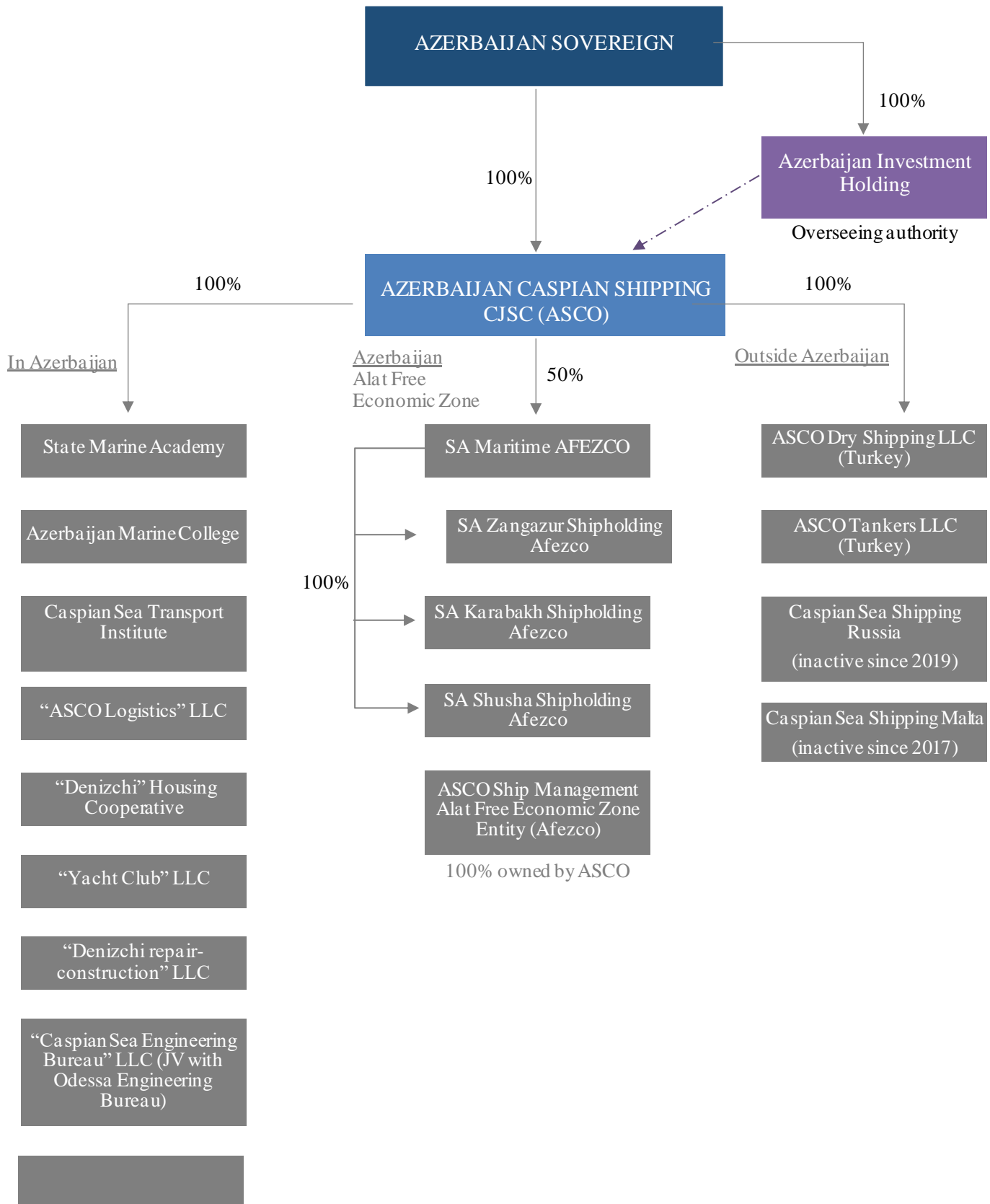
ANNEXES TO OPERATION REPORT

Annex 1	Transition Impact Scoring Chart
Annex 2	Shareholding Structure
Annex 3	Historical financials
Annex 4	Green Assessment Summary
Annex 5	Project Implementation
Annex 6	Map of the Trans-Caspian Route (Middle Corridor)

ANNEX 1. TRANSITION IMPACT SCORING CHART



ANNEX 2. SHAREHOLDING STRUCTURE



ANNEX 3. HISTORICAL FINANCIALS

INCOME STATEMENT

USD 000s	2018 (A)	2019 (A)	2020 (A)	2021 (A)	2022 (A)	Q3 2022	Q3 2023
REVENUE	285,544	300,771	259,206	282,876	354,646	266,385	259,261
COGS	(137,098)	(129,641)	(108,415)	(131,856)	(160,747)	(126,429)	(127,608)
SG & A costs	(30,859)	(30,285)	(24,035)	(23,507)	(30,682)	(21,389)	(28,097)
Social expenses	(7,136)	(7,267)	(7,378)	(4,191)	(5,044)	(680)	(624)
Other operating expenses	(28,302)	(33,336)	(36,099)	(34,487)	(46,130)	(26,708)	(30,862)
EBITDA	82,148	100,241	83,279	88,835	112,043	91,178	72,070
Depreciation & amortization	(35,985)	(46,868)	(44,266)	(48,184)	(56,573)	(38,624)	(37,914)
Finance cost	(1,126)	(758)	(1,576)	(1,021)	(719)	(819)	(3,711)
Non-cash charges	(525)	51	(1,435)	(481)	(591)	(562)	(1,711)
PROFIT BEFORE TAX	44,512	52,666	36,001	39,150	54,161	51,174	28,735
Tax expense	(13,651)	(15,094)	(9,505)	(8,684)	(15,666)	(6,240)	(12,672)
NET PROFIT	30,861	37,572	26,496	30,466	38,495	44,934	16,063

BALANCE SHEET

USD 000s	2018 (A)	2019 (A)	2020 (A)	2021 (A)	2022 (A)	Q3 2022	Q3 2023
Cash and cash equivalents	5,879	1,816	2,790	3,713	20,208	5,425	19,498
Trade receivables	105,176	146,007	141,961	143,042	136,822	156,195	155,196
Taxes receivable	12,962	6,206	8,849	8,629	5,992	9,377	6,416
Short-term prepayments	6,709	7,841	4,242	5,647	3,858	6,985	1,201
Inventories	48,596	24,362	26,806	27,008	21,419	31,915	23,749
CURRENT ASSETS	179,501	186,264	184,706	188,097	188,538	209,950	206,581
Vessels, PPE	450,887	519,929	554,022	559,485	567,214	562,004	568,502
Intangible assets	2,404	3,354	3,062	2,868	2,686	2,775	2,809
Right-of-use assets	-	1,451	1,345	6,730	5,384	6,119	-
Long-term prepayments	70,762	2,100	-	2,354	21,717	2,354	21,717
NON-CURRENT ASSETS	524,053	526,834	558,429	571,437	597,001	573,251	693,154
TOTAL ASSETS	703,554	713,098	743,135	759,534	785,539	783,201	899,735
Trade and other payables	52,204	56,910	66,699	40,833	22,294	36,529	14,327
Taxes payable	2,627	12,118	21,733	33,161	28,889	27,372	25,122
ST loans and CPLT loans	14,895	35,736	11,368	2,678	2,646	187	2,594
Lease liability	-	6,182	7,767	8,132	1,526	2,391	-
Contract liabilities	10,021	1,232	2,009	5,118	9,801	5,118	10,612
CURRENT LIABILITIES	79,747	112,178	109,576	89,921	65,157	71,596	52,654
Deferred tax liabilities	8,322	12,451	15,079	15,793	20,071	17,558	25,844
Long-term loans	29,871	10,101	7,486	4,982	2,491	4,982	100,500
Lease liability	-	-	-	5,412	4,586	5,412	-
Other non-current liability	2,679	3,477	3,725	3,280	2,827	3,280	2,827
NON-CURRENT LIABILITIES	40,873	26,029	26,290	29,466	29,976	31,231	129,171
TOTAL LIABILITIES	120,620	138,207	135,866	119,388	95,133	102,828	181,825
Share capital	258,854	258,854	258,854	258,854	258,854	258,853	258,854
Additional paid-in capital	21,176	47,059	52,941	58,294	75,941	58,294	77,693
Retained earnings	302,904	268,978	295,474	322,999	355,611	363,226	381,363
EQUITY	582,934	574,891	607,269	640,146	690,406	680,374	717,909
TOTAL LIAB & EQUITY	703,554	713,098	743,135	759,534	785,539	783,201	899,735

CASH FLOW STATEMENT

USD 000s	2018 (A)	2019 (A)	2020 (A)	2021 (A)	2022 (A)	Q3 2022	Q3 2023
PBT	44,512	52,666	36,001	39,150	54,161	51,174	28,735
Operating CF before WC	81,258	102,399	81,826	88,308	116,632	91,178	72,070
Total change in WC	(5,770)	(65,882)	25,530	(491)	9,194	(28,469)	(23,904)
CF FROM OPERATIONS	68,574	26,611	95,647	83,527	117,601	55,651	31,783
CF FROM INVESTING	(106,139)	(57,076)	(72,791)	(72,366)	(102,426)	(40,625)	(133,821)
CF FROM FINANCING	38,724	26,954	(21,339)	(9,696)	1,842	(12,938)	103,284
Net change in cash	1,743	(4,064)	974	923	16,495	1,712	(710)
Beginning cash balance	4,136	5,879	1,816	2,790	3,713	3,713	20,208
Cash and cash equivalents	5,879	1,816	2,790	3,713	20,208	5,425	19,497

ANNEX 4. GREEN ASSESSMENT SUMMARY

Introduction

The Project involves the acquisition of second hand handy size vessels for ASCO merchant fleet operations in international waters. The Project is assessed as positively aligned for both mitigation and adaptation goals of the Paris Agreement. There is no GET attribution for the Project. ASCO has been assessed for climate-related financial risk over the tenor of the Loan.

Paris Agreement alignment

Alignment with the mitigation goals of Paris Agreement

The Project was subject to a specific assessment for alignment with the mitigation goals of the Paris Agreement. The key findings from this assessment are as follows:

The Project is consistent with International Maritime Organisation framework for decarbonisation. As the vessels will operate in international waters, Nationally Determined Contributions are not applicable and the IMO decarbonisation framework applies. IMO has a net zero GHG strategy aimed at reducing annual greenhouse gas emissions from international shipping to net-zero by 2050. On 1 January 2023 three decarbonisation regulations from IMO entered into force: CII, Ship Energy Efficiency Management Plan (“SEEMP”) Part III, and Energy Efficiency Existing Ship Index (“EEXI”) / Energy Efficiency Design Index (“EEDI”). As the Project Vessel(s) are expected to operate in international waters, they will be subject to these regulations – this is also incorporated in the loan documentation as an affirmative covenant.

The Project is consistent with a low-carbon pathway (“LCP”). The Project Vessels will be subject to IMO regulations as outlined above. For CII, the trajectory is defined until 2026. Beyond 2026, the EBRD has defined in the loan documentation a bespoke CII trajectory, with a linear reduction to net-zero by 2050 consistent with the recent IMO GHG strategy revision. Technical due diligence has confirmed that the Project Vessels will be able to follow such a trajectory over the remaining asset life.

The Project demonstrates a low-risk of carbon lock-in. The lifespan of a vessel is approximately 20-25 years. As second hand vessels they will be already 5-10 years old. An assessment was made as to whether over the next 10-15 years the vessels could operate in line with CII regime that would be in place. With necessary capex measures, as well as operating costs measures (including reducing speed), the Project Vessels will be able to operate in line with requirements. At the end of the useful life, the Project Vessels will either be scrapped, or be overhauled with new propulsion systems.

The Project is not subject to economic viability tests. The two handy size vessels result in approximately 24k tns co2/year absolute emissions.

Based on the assessments undertaken above, the Project is considered aligned with the mitigation goals of the Paris Agreement.

Alignment with the adaptation goals of Paris Agreement

The Project Vessels were screened as not being exposed to any physical climate hazards. The Project Vessels do not have a wider impact on the system in which it operates. As such, the Project is considered aligned with the adaptation goals of the Paris Agreement.

Climate-related financial risk

- Final physical climate risk score for the key counterparty of risk: 3/5
- Evaluation of the physical climate risk for the key counterparty of risk (if different from the borrower): N/A
- Final carbon transition risk score for the key counterparty of risk: 4/5
- Evaluation of carbon transition risks for the key counterparty of risk: [REDACTED]

ANNEX 5. PROJECT IMPLEMENTATION

Procurement classification – *Private*

The Project falls under the Bank's PPR 2022. The procurement rules for a private sector operation apply in line with Section III Article 4 of the PPR. This decision is based on PPR Article 3.3, since the following conditions are met:

- The Loan will be provided directly to ASCO without any form of sovereign involvement or guarantee.
- ASCO, although state owned, operates autonomously from its owner in a competitive market environment and is subject to national insolvency law³. In addition, it does not enjoy any legal/financial advantages in its competitive market due to the nature of its ownership.
- The requirements of the Public Procurement Law does not apply to ASCO as it does not receive public funds or sovereign guarantees.
- ASCO applies competitive procurement procedures in selection of suppliers.

The Bank's due diligence has assessed the Company's procurement methods and confirmed that they ensure a sound selection of goods and services at fair market prices, making their capital investments in a cost effective manner.

The Borrower will select second-hand vessels based on procurement procedures developed by ASCO; the main steps are described below. In addition, before the disbursement, the Bank will require an independent report for the selected vessels that should be satisfactory to EBRD. This report will help to confirm the use of proceeds and compliance with minimum environmental performance requirements.

1. ASCO identifies type and preliminary technical specifications of the vessels to purchase and the list of the most reputable brokers involved in sales and purchase operations;
2. ASCO approaches the short-listed brokers to share the list of the vessels that conform to the requirements. Based on the number and quality of offers, ASCO identifies one broker to represent it in future communications. The broker provides a market overview on the sale price of similar type of vessels as well as projections and trends of the price;
3. Out of available options, ASCO compiles a short-list of target vessels and asks the broker/owners to provide all available reports on those vessels, including the latest port state control and audit reports (internal and class) as well as available technical reports, etc. ASCO organizes a technical inspection of short-listed vessels by reputable third party surveyors. ASCO also conducts due diligence of shortlisted ship owners against possible sanctions and other risks;
4. Having reviewed the surveyor's report, ASCO starts commercial negotiations by making an offer through the broker. The negotiation continues until the offer/counteroffer is accepted and the vessels delivery terms are agreed;
5. To finalize transactions, the parties sign a Memorandum of Agreement on sale and purchase of the vessel; ASCO uses the industry-standard Norwegian Shipbrokers 2012 Form (adopted and published by Baltic and International Maritime Council (BIMCO), which can be amended on mutual agreement basis.

Based on the above description, the process is in line with requirements of Article 4 of the PPR. The Client uses appropriate procurement arrangements which ensure a sound selection of Goods, Works or Services at fair market prices and achieve value for money.

³ The insolvency law lists the types of entities that are outside of the law's coverage area. ASCO or CJCSS in general are not included in that list.

ANNEX 6. MAP OF THE TRANS-CASPIAN ROUTE (MIDDLE CORRIDOR)

Middle Corridor is marked in red.



Source: Sustainable transport connections between Europe and Central Asia, EBRD-EU report as of 16 June 2023