Corporate Climate Governance ("CCG"): Action Plan and IFRS S2 Disclosure for Azerbaijan Caspian Shipping CJSC.
Preparation of a CCG Action Plan

Final report, Task 3 – draft version

February 10, 2025

Building a better working world

Acronyms

ASCO – Azerbaijan Caspian Shipping Company

CCG – Climate Corporate Governance

COSO – The Committee of Sponsoring Organizations of the Treadway Commission

CSO - Chief Sustainability Officer

EBRD – European Bank for Reconstruction and Development

EEDI – Energy Efficiency Design Index

ESG – Environmental, Social, Governance

ERAP – Emissions Reduction Action Plan

ERM – Enterprise Risk Management

EU ETS – European Union Emissions Trading System

FSO – Floating Storage and Off-take

GHG – Greenhouse Gases

GWP – Global Warming Potential

HFO – Heavy Fuel Oil

IFRS – International Financial Reporting Standards

IMO – International Maritime Organization

IPCC – Intergovernmental Panel on Climate Change

KPI – Key Performance Indicator

LNG – Liquefied Natural Gas

QHSE – Quality, Health, Safety, and Environment

VLCC – Very large Crude Carrier

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Objectives of this report

As the maritime transport industry plays a crucial role in global trade, companies within this sector, such as Azerbaijan Caspian Shipping CJSC (hereafter referred to as "ASCO" or the "Company"), are also increasingly recognizing the need to contribute to the global efforts of reducing greenhouse gas emissions. Maritime transport is integral to the economy, facilitating the movement of goods across continents, yet it is also a significant source of carbon emissions. In response to this environmental impact, and in line with evolving regulatory and stakeholder expectations, ASCO is taking proactive steps to align its operations with sustainable practices and enhance its corporate climate governance.

The maritime industry faces unique challenges in decarbonization due to the technical and operational complexities of shipping. Nonetheless, ASCO is committed to being a part of this transition by improving its Corporate Climate Governance (CCG) and aligning its reporting with the requirements of the IFRS S2. To assist ASCO in this endeavor, technical assistance is being provided to help the company implement internal reforms that will facilitate a climate-related reporting process.

This Final Report serves as a roadmap for ASCO to refine its climate governance strategies and practices. It consolidates the findings from the initial phases of the project and provides actionable recommendations to close any identified gaps in the Company's current approach. The goal is to enable ASCO to not only increase compliance with IFRS S2 requirements but to also be one of the leaders in the region's maritime sector, enhancing its risk management processes, and improving transparency in its climate-related disclosures. By doing so, ASCO aims to strengthen its credibility among investors, customers, and other key stakeholders who are increasingly attentive to environmental, social, and governance (ESG) criteria.

The report is structured to reflect the nature of this task and will include the following key sections:

1. **Recommendations for improving the CCG Practices and Disclosures in accordance with the Gap Analysis of ASCO's CCG Practices and Disclosures in (Section 1):** This section will assess the current state of ASCO's climate governance and reporting practices, identifying areas where improvements can be made to align with the IFRS S2 requirements. It will provide a detailed examination of the existing frameworks and highlight opportunities for ASCO to enhance its strategic approach to managing climate-related risks and opportunities.
2. **Corporate Climate Governance Action Plan for ASCO (Section 2):** Based on the insights gained from the gap analysis, this section will outline a strategic action plan tailored for ASCO. The plan will include specific, time-bound objectives and initiatives that the company can undertake to strengthen its governance structures, risk management processes, and disclosure practices. The action plan will also consider the needs and capabilities of the maritime transport sector, ensuring that the recommendations are both ambitious and achievable.

By addressing these sections with a focus on ASCO's unique position in the maritime transport industry, the report will facilitate the company's journey towards sustainable shipping and robust climate governance, contributing to the global efforts in combating climate change.

Executive summary

Corporate Climate Governance Action Plan is the third phase of the engagement, building upon the insights and findings from the inception and interim reports to develop a comprehensive strategy for enhancing ASCO's climate governance and sustainability practices.

In the Inception report, the gaps between ASCO's reporting practice and the IFRS S2 requirements were identified, along with the definition of a list of climate risks and opportunities that ASCO is exposed to. Additionally, a scoring of the current practices was conducted to assess the extent to which ASCO aligns with the IFRS S2 framework.

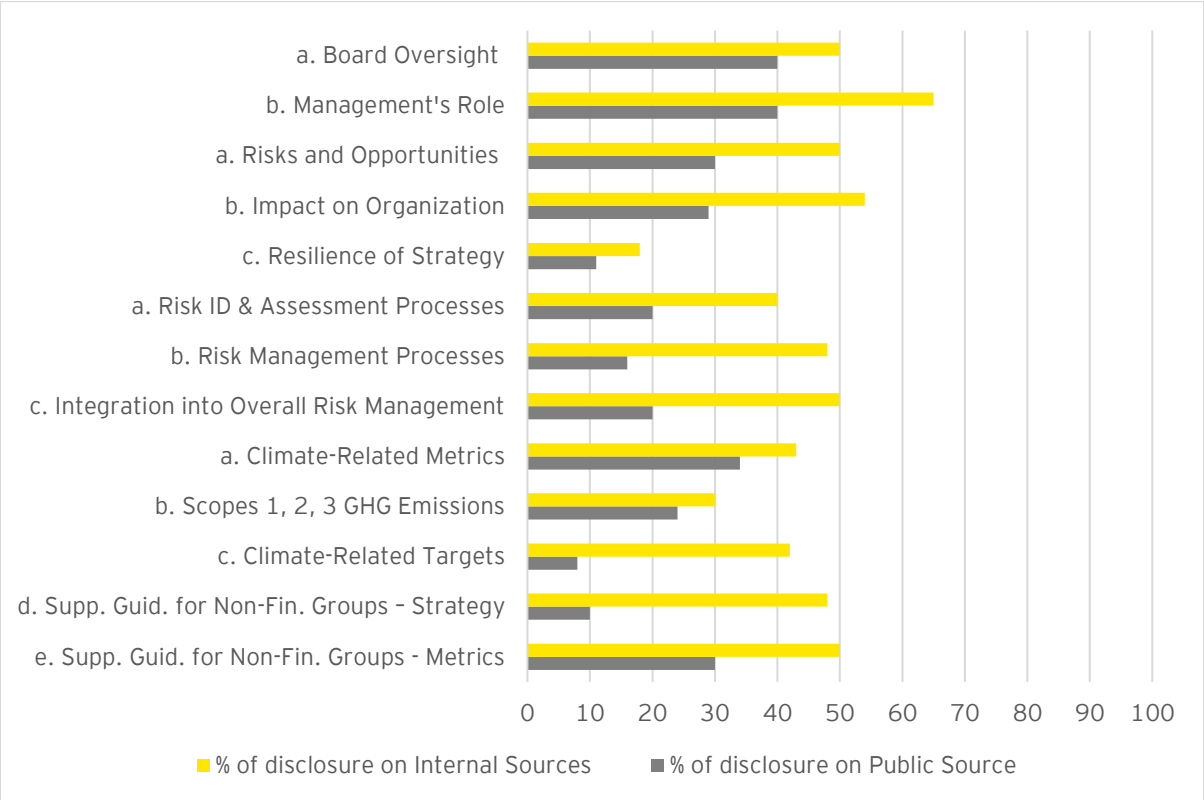
The report highlighted areas where ASCO's current practices fall short in terms of meeting the IFRS S2 requirements. These gaps serve as indicators for areas that may require improvement to enhance ASCO's climate-related financial disclosures. By identifying these gaps, ASCO can develop strategies and enact measures to address them.

Furthermore, the report emphasized a comprehensive assessment of the risks that ASCO may face due to climate change. These risks can range from physical risks, such as extreme weather events impacting infrastructure, to transition risks, such as changing regulations or shifts in market demand for fossil fuels. Understanding these risks is crucial for ASCO to develop robust resilience strategies and ensure long-term sustainability.

The report involved a scoring of ASCO's current practices related to climate disclosure. This scoring exercise evaluated the organization's adherence to the IFRS S2 requirements, considering factors such as the clarity and completeness of disclosures, governance structures, risk management processes, and target setting mechanisms. This scoring provides a benchmark for ASCO to monitor its progress and prioritize areas of improvement to align with global best practices.

The Company's maturity with respect to each of the IFRS S2 requirements is set out below:

Figure 1. Scoring results in terms of Quality of disclosed information



The Interim report provided an important advancement in aligning ASCOs objectives and reporting with international standards. By incorporating additional targets, ASCO can further refine its goal-setting process, improve its performance, and more effectively tackle critical sustainability challenges in its operations.

The final report presents a comprehensive, actionable plan to enhance ASCO's practices by addressing the gaps identified in the initial stage. It outlines targeted steps and initiatives ASCO can implement to bridge these gaps and improve performance in key areas.

The Action Plan prioritizes the most critical areas for improvement, based on the identified gaps and their potential impact on the Company's climate resilience and financial outcomes. It provides comprehensive suggestions and strategies for each priority area, considering industry best practices (see Appendix A), regulatory standards, and stakeholder expectations.

Furthermore, the Plan recommends establishing robust governance structures, engaging stakeholders, enhancing monitoring and reporting frameworks, and investing in staff training and capacity-building to ensure the effective execution of the proposed initiatives.

Through the implementation of the Action Plan, ASCO can methodically tackle the identified gaps, enhance climate resilience, reduce climate-related risks, and improve both sustainability and financial performance. This final report serves as a strategic roadmap for ASCO's continuous efforts to achieve alignment with international standards, meet stakeholder expectations, and position itself as a leader in climate-conscious and sustainable business practices.

Table 1. Actions to be aligned with IFRS S2

Time horizon	To be aligned with IFRS S2 (Please refer to Table 2. CCG Action Plan for more details)
Phase 1: Short-Term (0-12 months).	▸ General
	▸ **Action 1:** Include disclosure of all climate-related information in ASCO's public documents
	▸ Governance
	▸ **Action 2:** It is recommended to clearly assign climate-related responsibilities for ASCO's governing bodies. ▸ **Action 3:** It is recommended to formally establish processes for governing bodies' oversight of climate-related risks and opportunities. Describe the controls and procedures to address climate-related risks and opportunities in internal documents.
	▸ Strategy
	▸ **Action 4:** Map out value chain for climate impact and analyze risk exposure for each segment.
	▸ Risk management
	▸ **Action 5:** Integrate climate-related risks and opportunities into ASCO's Risk Management Framework.
	▸ Metrics and targets
	▸ **Action 6**: Define specific quantitative metrics for climate targets in accordance with SBTi requirements (including baseline year and interim milestones). ▸ **Action 7:** Disclose the methodology for measuring GHG emissions using standards like the GHG Protocol. Implement internal controls and audits using IPCC emission factors. Develop and disclose a Scope 3 emissions methodology with category breakdowns.
Phase 2: Medium-Term (12-24 months)	▸ Governance
	▸ **Action 8:** Establish a Management Board level Committee (Committee on Sustainable Development) responsible for oversight of sustainability-related issues, including climate-related risks and opportunities management.
	▸ Strategy

	▸ **Action 9:** Ensure cross-reference between ASCO's next revision of the Strategy and Emissions Reduction Action Plan ("hereafter referred to as ERAP").
	▸ Metrics and targets
	▸ **Action 10:** Update the Emissions Reduction Action Plan to include detailed quantification of capital expenditures, sources of funding, responsible parties, and absolute climate-related targets, reviewed by a third-party for credibility and alignment with best practices.
Phase 3: Long-Term (24 months+)	▸ Strategy
	▸ **Action 11:** Disclose resource allocation, indirect climate strategies, and anticipated changes in financial performance and cash flows.
	▸ **Action 12:** Develop and disclose internal carbon pricing and develop remuneration policies linked to climate-related performance targets.

1 CCG Action Plan Development

This chapter provides a comprehensive roadmap to address the key gaps identified across ASCO's governance, strategy, risk management, and metrics & targets, in alignment with the TCFD/ IFRS S2 standards. The roadmap adopts a phased and prioritized approach, leveraging the Visual Roadmap for a high-level overview of key actions and timelines. This is further supported by clear, measurable objectives that offer defined targets for each phase, a Responsibility Assignment Framework to delineate roles and accountability, and an Impact/Effort Matrix to prioritize initiatives based on their potential impact and resource requirements. The proposed Actions are based on recommendations on how to resolve identified gaps in ASCO's CCG practices. Please refer to *Appendix A: Gap analysis of ASCO's CCG practices and disclosures with regards to IFRS S2 requirements* for a more detailed description of recommendations.

1.1 CCG Action Plan for ASCO

Table 2. CCG Action Plan

Action #	Effort	Responsible function and oversight	Comments
Phase 1: Short-Term (0-12 months). In the short term, the focus will be on establishing formal governance structures and integrating climate-related considerations into existing frameworks.			
General			
Action 1: Include disclosure of all climate-related information in ASCO's public documents	**Low**	ESG Working Group, Management Board	Climate-related information includes but is not limited to: climate-related risks and opportunities and their management, climate-related metrics and targets and their methodology, climate-related responsibilities, the results of climate scenario analysis, etc.
Governance			
Action 2: It is recommended to clearly assign climate-related responsibilities for ASCO's governing bodies.	**Low**	ESG Working Group, Management Board	Consolidate the climate-related responsibilities of the Management Board and its Committees in terms of reference, mandates, rules, or other corporate documents. rmally include climate-related issues management in the terms of reference, mandates, and role descriptions of the ESG Working Group. Include climate-related responsibilities in the official position description of the Sustainability

Action #	Effort	Responsible function and oversight	Comments
			and Emissions Director.
Action 3: It is recommended to formally establish processes for governing bodies' oversight of climate-related risks and opportunities. Describe the controls and procedures to address climate-related risks and opportunities in internal documents.	**Low**	ESG Working Group, Management Board	Include the description of the process of assessing members' skills and competencies to oversee climate-related strategies in policies, mandates, and/or terms of reference of the Management Board and its Committees. Include the description of the process and frequency of informing the members about climate-related risks and opportunities in policies, mandates, and/or terms of reference of the Management Board and its Committees. Formally integrate climate-related considerations into governing bodies' strategic oversight procedures. Include in the Emissions Reduction Action Plan the procedure for the Management Board's and its Committees' oversight of climate-related targets and monitoring progress against them, including the frequency of their review.
Strategy			
Action 4: Map out value chain for climate impact and analyze risk exposure for each segment.	**Medium**	ESG Working Group, Management Board	Quantify the percentage of assets and business activities exposed to climate-related risks.
Risk Management			
Action 5: Integrate climate-related risks and opportunities into ASCO's Risk Management Framework.	**Low**	ESG Working Group, Risk Management Committee	Integrate detailed analysis of climate-related risks, previously identified by ASCO, into the Risk Register. Climate-related opportunities can also be included in ASCO's Risk Register. Formalize climate-related risk and opportunity management processes (identification, monitoring, assessment) into ASCO's internal

Action #	Effort	Responsible function and oversight	Comments
			documents describing risk assessment procedures. This should include the consideration of scenario analysis results in the procedures/methodology for identifying and assessing climate-related risks and opportunities. Align climate-related risk and opportunity management with COSO Enterprise Risk Management methodology, including appropriate risk terminology.
Metrics and Targets			
Action 6: Define specific quantitative metrics for climate targets in accordance with SBTi requirements (including baseline year and interim milestones).	**High**	QHSE Department, ESG Working Group	Establish regular monitoring processes, such as quarterly reviews, and KPIs to track progress on climate targets. Additionally, establish a process for the annual review and revision of climate targets, considering new regulations, technological advancements, and industry trends.
Action 7: Disclose the methodology for measuring GHG emissions using standards like the GHG Protocol. Implement internal controls and audits using IPCC emission factors. Develop and disclose a Scope 3 emissions methodology with category breakdowns.	**Medium/ High**	QHSE Department, ESG Working Group	Obtain third-party verification and benchmark against industry peers to validate progress and identify improvements.
Phase 2: Medium-Term (12-24 months). Strategic Integration and Reporting. In the medium term, the focus will be on integrating climate considerations into strategic planning and establishing robust reporting mechanisms.			
Governance			
Action 8: Establish a Management Board level Committee (Committee on Sustainable Development) responsible for oversight of	**High**	ESG Working Group, Management Board	Alternatively, ASCO can add these responsibilities to the Risk Committee's mandate.

Action #	Effort	Responsible function and oversight	Comments
sustainability-related issues, including climate-related risks and opportunities management.			
Strategy			
Action 9: Ensure cross-reference between ASCO's next revision of the Strategy and Emissions Reduction Action Plan.	**Medium**	ESG Working Group, Management Board	
Metrics and Targets			
Action 10: Update the Emissions Reduction Action Plan to include detailed quantification of capital expenditures, sources of funding, responsible parties, and absolute climate-related targets, reviewed by a third-party for credibility and alignment with best practices.	**Medium**	ESG Working Group, Strategy Department	
Phase 3: Long-Term (24 months+) – Continuous Improvement and Adaptation. In the long term, the focus will be on continuous improvement, adaptation, and achieving climate-related targets.			
Strategy			
Action 11: Disclose resource allocation, indirect climate strategies, and anticipated changes in financial performance and cash flows.	**High**	Finance Department, ESG Working Group	
Action 12: Develop and disclose internal carbon pricing strategy and develop remuneration policies linked to climate-related performance targets	**Medium**	Finance Department, ESG Working Group	

2 Reporting System and Compliance with TCFD/IFRS S2 Requirements

IFRS S1: General Principles for Sustainability-related Financial Disclosures

The IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information establishes the foundational principles for reporting on sustainability-related financial risks and opportunities. These disclosures are intended to provide useful information to primary users, assisting them in evaluating an entity's prospects, financial performance, and sustainability-related strategies. IFRS S1 is grounded in the principles of relevance and faithful representation, ensuring that the information disclosed is both meaningful and accurate for decision-making. Additionally, enhancing qualitative characteristics—such as comparability, verifiability, timeliness, and understandability—allow stakeholders to better assess the entity's sustainability practices and overall performance.

A key concept within IFRS S1 is *materiality*, which is both entity-specific and dynamic, relating to the magnitude or nature of information that, if omitted or misstated, could influence stakeholders' decisions. Entities are required to disclose all material sustainability-related risks and opportunities that could reasonably affect cash flows, access to financing, or the cost of capital in the short, medium, or long term. Determining materiality involves a combination of quantitative and qualitative assessments, including potential future risks and opportunities. The standard mandates that entities should provide comprehensive disclosures regarding governance, strategy, risk management, and metrics/targets related to sustainability. These disclosures should be presented in conjunction with financial statements, ensuring consistency and preventing discrepancies across reported information. Additionally, IFRS S1 emphasizes the need for sustainability disclosures to be clearly distinguishable, avoiding any obscuring by immaterial information, and highlights the importance of connecting sustainability-related and financial disclosures.

In the process of preparing sustainability-related disclosures, entities must exercise sound judgment, particularly in identifying risks and opportunities, selecting appropriate metrics, and determining materiality thresholds. There is often measurement uncertainty in cases where estimates are based on future events or subjective judgments. IFRS S1 requires entities to disclose any significant uncertainties impacting reported amounts and mandates the correction of errors from previous periods, as necessary. This rigorous framework ensures that sustainability-related disclosures are transparent, reliable, and aligned with financial reporting, ultimately providing a holistic view of the entity's risks and opportunities.

Climate Disclosures for ASCO under IFRS S2 in the Marine Transportation Sector

The implementation of IFRS S2 standards requires marine transportation entities to incorporate comprehensive climate-related disclosures into their financial and sustainability reporting. The marine sector, given its substantial reliance on fossil fuels and its contribution to global greenhouse gas emissions, faces significant regulatory expectations. The following information outlines the key components that marine companies must consider ensuring full compliance with **IFRS S2**, with a focus on structured reporting, detailed metric disclosure, and alignment with international best practices.

1. Greenhouse Gas (GHG) Emissions Reporting

In compliance with IFRS S2, marine transportation companies must disclose their gross global Scope 1 emissions, which primarily result from the combustion of diesel and bunker fuels used in ship engines. Scope 1 emissions encompass the seven greenhouse gases identified under the Kyoto Protocol, including carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6), and nitrogen trifluoride (NF_3).

Key requirements for GHG reporting include:

- **Calculation and Disclosure:** Emissions are to be reported in metric tons of CO_2 equivalents (CO_2-e), calculated based on the Global Warming Potential (GWP) values as set forth in the Intergovernmental Panel on Climate Change (IPCC) Fifth Assessment Report (2014). The methodology must adhere to the Greenhouse Gas Protocol framework, ensuring consistent and transparent reporting.

- **Performance Analysis:** Companies must provide a detailed analysis of any changes in emissions compared to previous reporting periods, including whether reductions are the result of strategic initiatives, operational changes, or external factors such as mergers, acquisitions, or divestments.

- **Reduction Targets:** Entities are required to outline both their long-term and short-term strategies for managing Scope 1 emissions. This includes specifying emission reduction targets, whether absolute or intensity-based, with clear timelines, mechanisms for achieving the targets, and performance assessments against these benchmarks.

2. Energy Consumption and Fuel Mix

Energy consumption is a significant factor in the operational efficiency and environmental impact of marine transportation. Under IFRS S2, marine companies must disclose comprehensive data on energy usage, with a particular focus on the types of fuel consumed and the proportion of energy derived from renewable sources.

The required disclosures include:

- **Total Energy Consumption:** Companies must report the total energy consumed during the reporting period, expressed in gigajoules (GJ). This encompasses all energy used, including that derived from both self-generated sources and external purchases.

- **Fuel Consumption:** A detailed breakdown of fuel consumption is required, highlighting the percentage of energy derived from heavy fuel oil (HFO), a particularly carbon-intensive fuel. Companies are also required to disclose the percentage of energy consumption sourced from renewable energy, including wind, solar, and biofuels.

- **Energy Efficiency Design Index (EEDI):** For new ships added to the fleet, entities must disclose the average Energy Efficiency Design Index (EEDI), which measures the CO_2 emissions per ton-nautical mile. This metric reflects the efficiency of vessel design and propulsion systems, providing a benchmark for emissions performance within the sector.

- **Scenario Analysis:** The use of climate-related scenario analysis is a crucial tool for assessing potential future impacts under various climate trajectories, such as global warming scenarios of 1.5°C or 2°C. Entities are expected to report on the assumptions and methodologies used in these analyses, as well as the outcomes and their implications for busine

- **Opportunities for Innovation and Efficiency:** Beyond risks, companies must identify and disclose opportunities to enhance operational efficiency and reduce emissions, such as through investments in fuel-efficient technologies, route optimization, and the adoption of alternative fuels like liquefied natural gas (LNG) or hydrogen.

3. Compliance with Regulatory and Market-Based Mechanisms

Given the global scope of marine transportation, entities must navigate a complex regulatory environment that includes both national and international frameworks. IFRS S2 mandates that companies disclose their participation in, and compliance with, relevant climate-related regulatory programs and market-based mechanisms.

Marine companies must ensure alignment with international regulations, such as the International Maritime Organization's (IMO) decarbonization strategy, as well as regional mechanisms like the European Union Emissions Trading Scheme (EU ETS) and the California Cap-and-Trade Program

Conclusion

In the maritime transport sector, climate change has become a critical factor influencing the long-term sustainability and competitiveness of companies, particularly those with expansive regional and international operations like ASCO. The increasing recognition of climate-related risks and opportunities necessitates integrating climate considerations into the company's management systems, strategic planning, and decision-making processes. The maritime sector faces significant restructuring, technological advancements, and potential disruptions in supply chains due to the impacts of climate change. Companies like ASCO are likely to encounter heightened regulatory and financial pressures, and those that fail to adapt may struggle to secure external funding and investment. Conversely, companies that embrace climate-driven innovation and sustainability could tap into new opportunities, especially by responding to the growing demand for low-carbon maritime transport solutions.

Therefore, when considering ASCO's medium- and long-term growth, it is essential to acknowledge the complex and cross-sectoral nature of climate-related challenges. Addressing these challenges requires modifications to management decision-making, operational implementation, and performance monitoring across all organizational levels, facilitating the smooth integration of climate concerns into ASCO's core activities.

The successful execution of this transformative approach demands a well-defined climate strategy, active leadership engagement, cross-functional collaboration, and significant capital investment. Implementing the recommendations of the IFRS S2 will take time and careful planning, potentially spanning several years. While some gaps identified in ASCO's current practices may be addressed in the short term, others will require longer-term efforts and structural changes. These identified gaps and recommendations can be organized into three phases with approximate timeframes.

During the ***Initial phase***, ASCO will focus on establishing a robust climate governance framework by formalizing roles, responsibilities, and processes across all levels. Key actions include disclosing climate-related information, integrating oversight of risks and opportunities into governance structures, and embedding responsibilities in the ESG Working Group, Management Board, and key executive roles. ASCO will align its Risk Management Framework with COSO standards, map its value chain for climate impact, and define quantitative targets with regular monitoring. Climate-related initiatives will be integrated into the ASCO's next revision of the Strategy, ensuring alignment with emissions reduction goals and industry best practices. Key actions to be taken during the first phase can include:

- **Action 1: Include disclosure of all climate-related information in ASCO's public documents.**
- **Action 2: It is recommended to clearly assign climate-related responsibilities for ASCO's governing bodies;**
  - Consolidate the climate-related responsibilities of the Management Board and its Committees in terms of reference, mandates, rules, or other corporate documents.
  - Formally include climate-related issues management in the terms of reference, mandates, and role descriptions of the ESG Working Group.
  - Include climate-related responsibilities in the official position description of the Sustainability and Emissions Director.
- **Action 3: It is recommended to formally establish processes for governing bodies' oversight of climate-related risks and opportunities;**
  - Include the description of the process of assessing members' skills and competencies to oversee climate-related strategies in policies, mandates, and/or terms of reference of the Management Board and its Committees.
  - Include the description of the process and frequency of informing the members about climate-related risks and opportunities in policies, mandates, and/or terms of reference of the Management Board and its Committees.
  - Formally integrate climate-related considerations into governing bodies' strategic oversight procedures.

Include in the Emissions Reduction Action Plan the procedure for the Management Board's and its Committees' oversight of climate-related targets and monitoring progress against them, including the frequency of their review.

Describe the controls and procedures to address climate-related risks and opportunities in internal documents

- **Action 4: Map out value chain for climate impact and analyze risk exposure for each segment.** Quantify the percentage of assets and business activities exposed to climate-related risks.
- **Action 5: Integrate climate-related risks and opportunities into ASCO's Risk Management Framework:**

  Integrate detailed analysis of climate-related risks, previously identified by ASCO, into the Risk Register. Climate-related opportunities can also be included in ASCO's Risk Register.

  Formalize climate-related risk management processes (identification, monitoring, assessment) into ASCO's internal documents describing risk assessment procedures. Include considerations of scenario analysis results.

  Formalize climate-related risk and opportunity management processes (identification, monitoring, assessment) into ASCO's internal documents describing risk assessment procedures. This should include the consideration of scenario analysis results in the procedures/methodology for identifying and assessing climate-related risks and opportunities.

  Align climate-related risk and opportunity management with COSO Enterprise Risk Management methodology, including appropriate risk terminology.
- **Action 6: Define specific quantitative metrics for climate targets in accordance with SBTi requirements (including baseline year and interim milestones).** Establish regular monitoring processes, such as quarterly reviews, and KPIs to track progress on climate targets. Additionally, establish a process for the annual review and revision of climate targets, considering new regulations, technological advancements, and industry trends.
- **Action 7: Disclose the methodology for measuring GHG emissions using standards like the GHG Protocol. Implement internal controls and audits using IPCC emission factors. Develop and disclose a Scope 3 emissions methodology with category breakdowns.** Obtain third-party verification and benchmark against industry peers to validate progress and identify improvements.

In the ***second phase***, ASCO will prioritize the strategic integration of climate-related considerations into core planning and governance processes. This phase will establish a Management Board-level Committee on Sustainable Development to oversee sustainability issues, including climate risks and opportunities. Additionally, ASCO will update its Emissions Reduction Action Plan to include quantified capital expenditures, funding sources, responsible parties, and absolute climate targets, ensuring alignment with best practices through third-party review. These steps aim to embed climate governance into decision-making and enhance transparency and accountability.

- **Action 8: Establish a Management Board level Committee (Committee on Sustainable Development) responsible for oversight of sustainability-related issues, including climate-related risks and opportunities management.** Alternatively, ASCO can add these responsibilities to the Risk Committee's mandate.
- **Action 9: Ensure cross-reference between ASCO's next revision of the Strategy and Emissions Reduction Action Plan.**
- **Action 10: Update the Emissions Reduction Action Plan to include detailed quantification of capital expenditures, sources of funding, responsible parties, and absolute climate-related targets, reviewed by a third-party for credibility and alignment with best practices.**

In the **third and final phase,** ASCO will focus on systematic implementation, monitoring, and reporting of climate-related measures. Key actions include disclosing resource allocation, indirect climate strategies, and anticipated financial impacts, as well as developing and disclosing internal carbon pricing. Progress will be tracked through Key Performance Indicators (KPIs), with regular evaluations ensuring alignment with long-term climate goals, IFRS S2 recommendations, and evolving industry standards. Continuous improvement and adaptation will remain central to ASCO's approach.

Furthermore, it is important to:

- **Action 11: Disclose resource allocation, indirect climate strategies, and anticipated changes in financial performance and cash flows.**
- **Action 12: Develop and disclose internal carbon pricing and develop remuneration policies linked to climate-related performance targets.**

Table *3*. List of documents that need to be updated and developed

Documents to be updated:	Document to be developed:
▸ The terms of reference/mandates/role descriptions of the Management Board and its Committees ▸ ASCO's Strategy, Policy on the corporate risk management system, budget policy, etc. ▸ Update the description of the organizational structure. ▸ Update the goals and KPIs of the Management Board. ▸ Update the current action plan for reducing greenhouse gas emissions. ▸ Update internal regulations or develop a document on the impact of climate-related risks on the organization's business, strategy, and financial planning, covering the various categories of IFRS S2 climate risks.	▸ A comprehensive report that details the methodology, inputs, and assumptions used in the climate-related scenario analysis, and ensure this information is disclosed in financial and sustainability reports. ▸ A document covering clear metrics and indicators for reporting on climate-related risks and opportunities ▸ Remuneration policies that link executive and employee compensation to climate-related performance targets. ▸ A methodology for measuring Scope 3 emissions. ▸ Remuneration policies linked to climate-related performance targets.

Appendix A: Gap analysis of ASCO's CCG practices and disclosures with regards to IFRS S2 requirements

Overview

This chapter provides a comprehensive gap analysis of ASCO's disclosures in comparison to IFRS S2 requirements, structured around key pillars: Governance, Strategy, Risk Management, and Metrics and Targets. Each sub-chapter delves into specific areas, identifying current practices and highlighting opportunities for improvement to align with international standards. The impact-effort metrics had been used to prioritize recommendations by assessing their potential benefits and the resources required for implementation. High-impact recommendations are those that significantly improve ASCO's climate governance and compliance, while high-effort recommendations require substantial time, resources and changes. This approach ensured that the most beneficial actions were identified and the necessary effort for each was clearly understood, facilitating informed decision-making and efficient resource allocation. This analysis aims to enhance ASCO's climate governance and ensure effective management of climate-related risks and opportunities across all organizational levels.

1. Analysis of ASCO's Climate Governance practice

The purpose of ASCO's Climate Governance practice analysis is to provide an overview of the organization's current climate governance related operating model and identify aspects that require improvement. Facilitating climate-related communication between ASCO's governing bodies and efficient distribution of climate-related responsibilities allows to set a foundation for effective corporate governance practices, ensuring that climate-related risks and opportunities management is considered at all levels. Examples of climate-related responsibilities can be found in a **Error! Reference source not found.** below. It outlines the proposed division of climate-related responsibilities among ASCO's governing bodies, reflecting their current governance structure. This distribution ensures that climate-related issues are integrated into decision-making processes at all organizational levels. The responsibilities are strategically allocated to leverage the existing expertise and roles of each governing body, enhancing efficiency and accountability. This approach facilitates clear communication, effective risk management, and alignment with ASCO's strategic goals, ultimately supporting organization's efforts to address climate-related challenges and opportunities comprehensively.

Figure 2. Proposed division of climate-related responsibilities among governing bodies



Building on the analysis of ASCO's current climate governance framework and the proposed division of climate-related responsibilities among its governing bodies, the following table outlines the alignment of the Company's practices with the relevant IFRS S2 requirements. It highlights key observations regarding the current state of climate governance within ASCO, identifies gaps in governance structures and processes, and provides specific recommendations to strengthen ASCO's approach to managing climate-related governance practices.

Table 4. Climate-related governance gap analysis

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
Entities shall disclose information about **how responsibilities for climate-related risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies** applicable to that body(s) or individual(s) ***(IFRS S2, Paragraph 6a)***	The Management Board, ASCO's highest executive body, and its Committees (Procurement, Risk Management, Personnel Management) have established sustainability-related responsibilities, but to align with IFRS S2 requirements, it is important to formally establish climate-related responsibilities in their rules, terms of reference, mandates, and role descriptions	▸ Formally establish the climate-related responsibilities of the **Management Board** in the terms of reference, mandates, rules or other corporate documents. It is recommended to include the following aspects: - Overseeing ASCO's integration of climate-related issues into strategic planning and risk management. - Reviewing and approving policies and strategies related to climate issues and emissions. - Monitoring ASCO's performance against climate-related targets. - Formally establish the climate-related responsibilities of the Management Board's Committees in their mandates, policies, role descriptions and terms of reference. The Management Board's climate-related responsibilities are recommended to reflect: - Embedding climate-related risks and opportunities into ASCO's overall Strategy, ensuring alignment with set climate-related targets. - Identifying, assessing and monitoring	▸ **Low**

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
		climate-related risks across ASCO, integrating them into overall risk management framework. It is also recommended that the Committees of the Management Board are formally assigned the climate-related responsibilities. For example: **Risk Management Committee:** - Identifying and assessing climate-related risks to ASCO's operations and assets - Developing and implementing risk mitigation and adaptation strategies - Ensuring compliance with environmental regulations and standards **Procurement Committee:** - Integrating climate-related risk management criteria into procurement policies. - Work with suppliers to manage climate-related risks in the supply chain. **Personnel Management Committee:** - Fostering a company culture that values sustainability and environmental responsibility. - Implementing training programs on climate-related issues for employees, including specialists on site. - Managing workforce implications of	

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
		the transition to a low-carbon economy. ▸ It is recommended to establish a Management Board level Committee responsible for oversight of sustainability-related issues, including climate-related risks and opportunities management. It can be named a **Committee on Sustainable Development**, as was proposed in ASCO's Sustainability Policy. Climate-related responsibilities of members of this Committee are to be formally consolidated in internal documents (terms of reference, mandates, role descriptions, etc.). Alternatively, the mentioned responsibilities can be added to the mandates and terms of reference of the **Risk Committee.**	
Entities shall disclose information about **how the body(s) or individual(s) determines whether appropriate skills and competencies are available or will be developed to oversee strategies** designed to respond to climate related risks and opportunities; ***(IFRS S2, Paragraph 6a)***	While the members of the Management Board and its Committees can have expertise necessary to manage climate-related strategies, the formal process for assessing or developing the skills of the members is not established in internal documents.	▸ It is recommended to include the description of the process of assessing members' skills and competencies to oversee climate-related strategies in policies, mandates and/or terms of reference of the Management Board, Procurement Committee, Risk Management Committee, and Personnel Management Committee ▸ It is recommended to conduct a series of training seminars for the members of the Management Board regarding	▸ **Low**

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
		climate-related risks and opportunities management and reflect their competencies in internal and public documents	
Entities shall disclose information about **how and how often the body(s) or individual(s) is informed** about climate-related risks and opportunities; ***(IFRS S2, Paragraph 6a)***	The process and frequency of informing the Management Board and its Committees about climate-related risks and opportunities are not formally defined in corporate documents of ASCO.	▸ In policies, mandates and/or terms of reference include the description of the process and frequency of informing governing bodies about climate-related risks and opportunities. For example, the members of the Board are to be informed regarding climate-related issues at least once a year, which can be reflected in meeting minutes and agenda.	▸ **Low**
Entities shall disclose information about **how the body(s) or individual(s) takes into account climate related risks and opportunities when overseeing the entity's strategy**, its **decisions on major transactions and its risk management processes and related policies**, including whether the body(s) or individual(s) has considered **trade-offs associated with those risks and opportunities**; ***(IFRS S2, Paragraph 6a).***	While it was reported that the Management Board and its Committees at ASCO consider climate-related risks and opportunities while overseeing the Company's Strategy, major decisions, risk management, and related policies, it is not yet reflected in internal documentation.	▸ It is recommended to formally integrate the climate-related considerations into governing bodies' strategic oversight procedures. For example: ▸ For Risk Management Committee, it is recommended to formally establish and describe the process of considering climate-related risks while overseeing ASCO's Strategy and risk management processes. ▸ For Procurement Committee, it is recommended to formally establish and describe the process of considering climate-related risks while overseeing	▸ **Low**

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
		ASCO's decisions on major transactions and its strategy. ▸ For Personnel Management Committee, it is recommended to formally establish and describe the process of considering climate-related risks while overseeing personnel management. ▸ For all Management Board's Committees, it is important to formally establish the clear reporting lines and communication channels regarding climate-related issues. This is recommended to include mechanisms for how these issues are reported up to the Management Board and disclosed to stakeholders, as well as how feedback is incorporated into ASCO's strategic planning and risk management processes.	
Entities shall disclose information about **how the body(s) or individual(s) oversees the setting of targets related to climate-related risks and opportunities, and monitors progress towards those targets** including whether and how related performance metrics are included in remuneration policies ***(IFRS S2, Paragraph 6a).***	Corporate documents currently reflect a broader scope of responsibilities for the Management Board and its Committees, with opportunities to formally include oversight of climate-related target setting, progress monitoring, and integration of relevant metrics in remuneration policies.	▸ Include into the Emissions Reduction Action Plan the procedure for Management Board's and its Committees' oversight of climate-related targets and monitoring progress against them, including the frequency of their review. ▸ Add climate-related performance metrics into ASCO's remuneration policies.	▸ **Medium**

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
Entities shall disclose **information whether the role is delegated to a specific management-level position or management-level committee and how oversight is exercised** over that position or committee ***(IFRS S2, Paragraph 6b).***	In 2023, ASCO formed an ESG Working Group under the leadership of the Director of Sustainability and Emissions Management. However, the Group's scope does not include the monitoring, management, or oversight of climate-related risks and opportunities, only emission reduction efforts.	▸ Formally include climate-related issues management in the terms of reference, mandates of ASCO's **ESG Working Group**, including the role descriptions of its members, which are recommended to include heads of various relevant departments. ▸ In addition, it is recommended to include climate-related responsibilities to the official position description of the **Sustainability and Emissions Director**. For example, the responsibilities can cover the assessment, prioritization, monitoring, and overall management of climate-related risks and reporting to the Management Board regarding the progress against Emissions Reduction Action Plan.	▸ **Low**
Entities shall disclose **information whether management uses controls and procedures to support the oversight** of climate-related risks and opportunities and, **if so, how these controls and procedures are integrated with other internal functions** ***(IFRS S2, Paragraph 6b).***	Emissions management policies, plans, and programs are reviewed and approved by the Chairman twice a year, but there is no evidence in internal documents that climate-related risks and opportunities are considered in the review process.	▸ In internal documents, it is recommended to describe the controls and procedures to address climate-related risks and opportunities. For example, in the terms of reference, mandates, and rules of the ESG Working Group and Sustainability and Emissions Director. The frequent reporting requirement can be included in related documents.	▸ **Low**

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
		▸ In addition, ASCO can develop an internal document "Climate change engagement policy". The document needs to establish a particular coordinating process between the governing bodies of ASCO (e.g., in what case the issues become cross-functional, how and when the issues will be transferred to other functions, how the responsibility is divided among them, who will report about the result, a frequency or reporting, calculation and monitoring of GHG emission Scope 2 and 3). The document needs to describe the climate governance on the management level.	

2. Analysis of ASCO's Climate Strategy practice

ASCO needs to ensure its internal and external stakeholders are well-informed about the climate-related challenges that could influence its business and financial strategies in the short, mid, and long-term horizons. This evaluation complements the climate-related strategy gap analysis in section 5.3 of the Inception Report and focuses on how well ASCO's Strategy align with the IFRS S2 climate strategy requirements. It offers additional suggestions for integrating climate considerations into ASCO's strategic planning.

Grounded in IFRS S2 standards, the evaluation covers the identification of climate-related risks and opportunities for ASCO across different time frames. It examines how these factors affect ASCO's operations, strategic direction, and financial planning. Additionally, it assesses the robustness of ASCO's Strategy under various climate-related scenarios, including those aiming for a 2°C or lower temperature increase.

Table 5. Climate-related strategy gap analysis

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
Entities shall disclose information on climate-related risks and opportunities that could impact their prospects. ▸ Specifically on climate-related risks and opportunities that may affect the entity's future. ▸ Categories for each identified risk (physical/ transition) with further indication of the expected time horizons (short, medium, long term) for these risks and opportunities have to be provided. ▸ Additional explanations have to be provided for the time horizons and their alignment with the entity's strategic planning.	▸ ASCO briefly discloses certain climate-related risks, such as stricter IMO emission requirements, challenging navigation due to lower Caspian Sea levels, risks from investment in new technologies, oil and gas revenue dependency, and windy weather. This general description of potential risks does not include categorization by type (physical or transition) ▸ These risks are not formally documented in ASCO's Risk Register or other risk management documents.	Clearly define and categorize climate-related risks as either physical risks, such as extreme weather events, or transition risks, such as regulatory changes. Create risk matrices to visualize and prioritize these risks based on their likelihood and impact. Categorize identified climate risks into short-term (1-3 years) for immediate operational impacts, medium-term (3-10 years) for evolving regulatory and market changes, and long-term (10+ years) for significant shifts in global trade routes and infrastructure needs, ensuring a comprehensive integration of these risks into strategic planning and decision-making processes. An example of this would be, integration of short-term risks into the annual operational planning and budgeting	▸ **Low**

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
(IFRS S2, Paragraph 10)	▸ While ASCO references certain time horizons, such as those related to international maritime objectives and fleet-specific emissions reduction targets, there is no comprehensive disclosure of time horizons for other key initiatives, as well as risk categories, and alignment with strategic planning.	processes. Adjustment of maintenance schedules, crew training, and emergency response plans accordingly. Medium-term risks can be incorporated into the company's capital investment decisions and business development strategies, like setting aside funds for future technology upgrades or exploring new markets less affected by climate risks. Long-term risks to be factored into the company's vision and long-range planning.	
Entities shall disclose **a description of the current and anticipated effects of climate-relate risks and opportunities on the entity's business model and value chain and where** in the entity's business model and value chain climate-related risks and opportunities **are concentrated** (for example, geographical areas, facilities and types of assets) *(IFRS S2, Paragraph 13).*	ASCO has identified climate-related risks and opportunities, but formal establishment and assessment of their impact on the business model and value chain, including concentration, have not yet been conducted	Create a visual map of the ASCO's business model and values chain, marking the locations of key assets like ports, offshore constructions and highlighting areas with high greenhouse gas emissions or potential for supply chain disruptions due to climate change. ▸ Carry out an analysis to identify where climate-related risks and opportunities are concentrated within the business and value chain, including differentiation by geography if relevant. ▸ Provide the descriptions of anticipated effects of climate-related risks and opportunities.	▸ **High**
The entity shall disclose information about **how the entity has responded to, and plans to respond to, climate-related risks and opportunities in its strategy and decision-making**, including **how the entity plans to achieve** any climate-related **targets it**	ASCO discloses climate initiatives, including plans to reduce GHG emissions by 6.2% by 2030 through fleet modernization and a phased plan to reach net-zero emissions by 2050, including transitioning to alternative fuels and constructing	▸ Ensure that all climate-related initiatives including existing GHG emission reduction initiative, are explicitly connected to identified climate-related risks and opportunities. ▸ Establish and communicate a comprehensive plan that details the	▸ **Medium**

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
has set and any targets it is required to meet by law or regulation. Specifically, the entity shall disclose information about: ▸ Current and anticipated changes to the entity's business model, including its resource allocation, to address climate-related risks and opportunities, ▸ Current and anticipated direct mitigation and adaptation efforts, ▸ Current and anticipated indirect mitigation and adaptation efforts, ▸ Any climate-related transition plan the entity has, how the entity plans to achieve any climate-related targets. ***(IFRS S2, Paragraph 14a)***	new, more efficient vessels. However, there is no evidence that these initiatives directly respond to identified climate-related risks or opportunities.	specific measures it will take to meet ASCO's climate-related targets. This includes the 6.2% reduction in greenhouse gas (GHG) emissions by 2030 and the ambition to achieve net-zero emissions by 2050. The plan is recommended to clearly outline the interim milestones, resource allocation, and initiatives such as fleet modernization, transition to alternative fuels, and operational efficiency improvements. Additionally, ASCO must ensure that its efforts are in compliance with legal and regulatory requirements, including those set by the International Maritime Organization (IMO). ▸ Disclose on indirect climate mitigation and adaptation strategies, such as supply chain engagement and collaborative projects with stakeholders to reduce overall climate impact.	
The entity shall disclose **information about how the entity is resourcing, and plans to resource, the activities disclosed** ***(IFRS S2, Paragraph 14b)***	ASCO initiated collaboration with EBRD in 2023 for financing green energy projects, but no specific details on funding amounts, conditions, or timelines are provided.[1]	▸ Revise the emissions reduction action plan to incorporate a comprehensive report that lists all funding sources for climate-related initiatives, detailing the amounts and specific conditions attached to each source of funding. It is recommended to integrate this report into ASCO's regular sustainability	▸ **Medium**

[1] International Maritime Organization's strategy and action plan for ASCO to achieve the goal of zero emissions by 2050

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
		disclosures to provide transparency on how financial resources are being allocated to support the company's climate strategy. ▸ Disclosure of resources allocation is recommended cover both capital expenditures and operational expenses like personnel dedicated to sustainability initiatives, and technological resources.	
The entity shall disclose **quantitative and qualitative information about the progress of plans disclosed in previous reporting** periods ***(IFRS S2, Paragraph 14c)***	Due to recent nature of climate-related initiatives at ASCO, there is no disclosure of progress of plans disclosed in previous reporting periods.	▸ Provide both quantitative and qualitative updates on the progress of climate-related plans previously reported. This is recommended to include specific metrics such as the percentage reduction in GHG emissions achieved, the number of vessels upgraded with energy-efficient technology, or the share of upgraded vessels in the total fleet. Additionally, include qualitative assessments such as the effectiveness of new operational procedures or the impact of employee training programs on sustainability practices. Examples of such disclosures might include the completion rate of fleet modernization projects, the actual versus projected fuel savings from new technologies.	▸ **Medium**

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
The entity **shall disclose quantitative and qualitative information about how climate-related risks and opportunities have affected its financial position, financial performance and cash flows** for the reporting period ***(IFRS S2, Paragraph 15)***	ASCO has not provided evidence that climate-related risks and opportunities have impacted its financial position, performance, or cash flows during the reporting period.	▸ Disclose both quantitative and qualitative information that illustrates the impact of climate-related risks and opportunities on ASCO's financial position, performance, and cash flows during the reporting period. This includes specifying changes in revenue due to shifts in market demand, costs incurred from implementing mitigation strategies, capital investments in low-carbon technologies, and any savings or financial benefits realized from improved operational efficiencies. Qualitatively, discuss the implications of climate-related risks on ASCO's business model and the potential financial impacts of transitioning to a low-carbon economy. Examples might include the effect of carbon pricing on operating costs, the financial implications of regulatory changes, and the valuation impact of stranded assets due to climate policies.	▸ **High**
The entity **shall disclose quantitative and qualitative information about the climate-related risks and opportunities for which there is a significant risk of a material adjustment** within the next annual reporting period **to the carrying amounts of assets and liabilities** reported in the related financial statements	ASCO's Strategy and Emission Reduction Action Plan indicates plans to phase out obsolete ships by 2024 (Phase I). However, the established climate-related risks and opportunities for which there is a significant risk of material adjustment to ASCO's assets within the next reporting period is not disclosed.	▸ Clearly report the potential impacts that climate-related risks and opportunities might have on the value of its assets and liabilities in the upcoming year. This includes estimating any increases or decreases in asset values or changes to debts that could happen due to climate change. For example, estimating the financial impact of retiring 40 obsolete ships by 2024 as part of Phase I of ASCO's next revision of the Strategy and	▸ **Medium**

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
(IFRS S2, Paragraph 16a-b)		Action Plan, additionally ASCO might need to consider if new environmental laws could reduce the value of certain ships or if investing in green technology might increase the value of its assets. It's important to share both the numbers and the reasons behind these potential changes in the next annual report.	
The entity **shall disclose quantitative and qualitative information about how the entity expects its financial position to change over the short, medium and long term**, given its strategy to manage climate-related risks and opportunities, **taking into consideration its investment and disposal plans and its planned sources of funding** to implement its strategy *(IFRS S2, Paragraph 16c)*	▸ ASCO has not formally established or assessed climate-related risks, opportunities, or a management strategy, preventing predictions on financial position changes over different time horizons. ▸ Financial plans are not detailed, but ASCO considers green bonds and resource optimization for ESG initiatives in its strategy. ▸ ASCO's Action Plan estimates funding needs of approximately $347.2 million for Phase II and $697.5 million for Phase III but does not specify sources of funding.	▸ Disclose anticipation of how ASCO's financial position may evolve in the short, medium, and long term as it develops and implements a strategy to manage climate-related risks and opportunities. This is recommended to include a clear outline of investment and disposal plans related to ESG initiatives, such as the potential use of green bonds. Although ASCO has not yet fully assessed climate-related risks or established a comprehensive management strategy, it is recommended to begin to integrate these considerations into its financial planning. The disclosure is recommended to also aim to provide more detail on the estimated funding requirements for upcoming phases of its Strategy and Action Plan, including identifying potential sources of funding and the financial impact of these strategic decisions. For example, ASCO could outline the expected financial benefits of fleet modernization and the	▸ **High**

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
		anticipated returns on investment from energy efficiency improvements.	
The **entity shall disclose quantitative and qualitative information about how the entity expects its financial performance and cash flows to change over the short, medium and long term, given its strategy** to manage climate-related risks and opportunities ***(IFRS S2, Paragraph 16d)***	ASCO's Strategy includes climate considerations but does not cover an assessment of potential changes in financial performance and cash flows, because established climate-related risks are not reflected in the Strategy either.	▸ It is recommended that ASCO begin to disclose expected changes in financial performance and cash flows across short, medium, and long-term horizons as it progresses in identifying, assessing, and managing climate-related risks and opportunities. This includes estimating the impact of potential operational changes, such as fuel shifts or efficiency improvements, on revenue and expenses, as well as the effects of climate-related regulatory changes on cash flows. The disclosure is recommended to provide a qualitative narrative on how ASCO's future Strategy might influence financial performance, with quantitative estimates where possible. For instance, ASCO could discuss the anticipated cost savings from reduced fuel consumption due to fleet upgrades or the potential revenue impact from changes in market demand for greener shipping services.	▸ **High**

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
The entity **shall disclose the entity's assessment of its climate resilience** as at the reporting date, which shall enable users of general purpose financial reports to understand: ▸ The implications, if any, of the entity's assessment for its strategy and business model, including how the entity would need to respond to the effects identified in the climate-related scenario analysis, ▸ The significant areas of uncertainty considered in the entity's assessment of its climate resilience, ▸ The entity's capacity to adjust or adapt its strategy and business model to climate change over the short, medium and long term. ***(IFRS S2, Paragraph 22a)***	▸ ASCO is in the process of conducting a climate-related scenario analysis to further enhance its strategic planning. ▸ ASCO has the potential to demonstrate its capacity to adapt its strategy and business model to climate change, with opportunities for future evidence and development	▸ Use scenario analysis tools to evaluate the potential impacts of different climate scenarios (e.g. scenario of temperature rise of 2°C or below) on the company's operations and financial performance. ▸ Based on the scenario analysis, it is recommended to disclose how climate change could necessitate changes to ASCO's next revision of the Strategy and business model. This includes identifying any necessary responses to the effects highlighted by the scenario analysis. ▸ The disclosure is recommended to also cover significant areas of uncertainty in ASCO's assessment of climate resilience. This could involve uncertainties related to climate science, policy developments, or market responses. ▸ Finally, it is recommended to evaluate and disclose ASCO's capacity to adjust or adapt its Strategy and business model to climate change over different time horizons (short, medium, and long term). This includes exploring potential pathways for enhancing climate resilience and ensuring business continuity in the face of climate change.	▸ **High**

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
The entity shall disclose **how and when the climate-related scenario analysis was carried out, including information about the inputs the entity used and the key assumptions** the entity made in the analysis *(IFRS S2, Paragraph 22b)*	ASCO is in the process of conducting a climate-related scenario analysis.	▸ Develop a comprehensive report that details the methodology, inputs, and assumptions used in the climate-related scenario analysis, and ensure this information is disclosed in financial and sustainability reports.	▸ **Low**

3. Analysis of ASCO's Climate Risk management practice

ASCO's internal and external stakeholders want to understand how climate-related risks are identified, assessed, and managed and how these processes are integrated into existing risk management framework and processes. The analysis of the alignment with the climate-related risks management recommendations of IFRS S2 Standard provides further recommendations for inclusion of climate related matters in ASCO's risk management practices. The analysis was prepared based on the requirements of IFRS S2 Standard.

ASCO's risk management system is based on the COSO Enterprise Risk Management methodology. The risk management processes are governed by the Risk Management Policy, Risk Management Concept, Guidelines on the Risk Management and the Guidelines on the Risk Detection, Assessment and Monitoring, which include practices aligned with COSO methodology.

The review of the risk register, risk map, critical risk indicators and level of tolerance to key risks, risk service's action plan and quarterly and annual reports on risk management is included in the Supervisory Board's Audit Committee's responsibilities.

The Risk Committee and the Working Group on Risk Management are responsible for ensuring control and coordination of risk management related activities and perform evaluation of the work done associated with the risk management processes, risk monitoring plan and the implementation of preventive measures.

In Risk Assessment and Risk Management section of ASCO's Management System (3.3.3 Risk Assessment and Risk Management), ASCO describes the risk matrix, adopted by the Company as a tool for analyzing risk scenarios and evaluating the proposed preventive/mitigation measures or alternative control measures. The risk matrix methodology identifies the likelihood and the consequences of a potential risk scenario or hazard, as well as containing risks after implementation of additional control measures.

The Chairman is responsible for proposing and approving risk assessment and control measures, while QHSE is responsible for the development, effective implementation, communication, and continuous efficiency of the risk management procedures.

ASCO needs to formally consolidate a detailed list of climate-related risks and opportunities, following the IFRS S2 requirements and establish a structured approach for managing them. These climate factors then be evaluated and ranked, focusing on their significance. Each climate-related risk and opportunity assessment consider their potential impact, likelihood, and timing. It's important to note that climate risks encompass not just regulatory aspects but also the physical impacts of climate change (both immediate and gradual) and all consequences linked to the transition to a low-carbon economy, such as policy and legal changes, technological shifts, market dynamics, and reputation concerns. This process is visualized in the diagram below.

Figure 3. Framework for Identifying, Evaluating, and Prioritizing Climate-related Risks and Opportunities

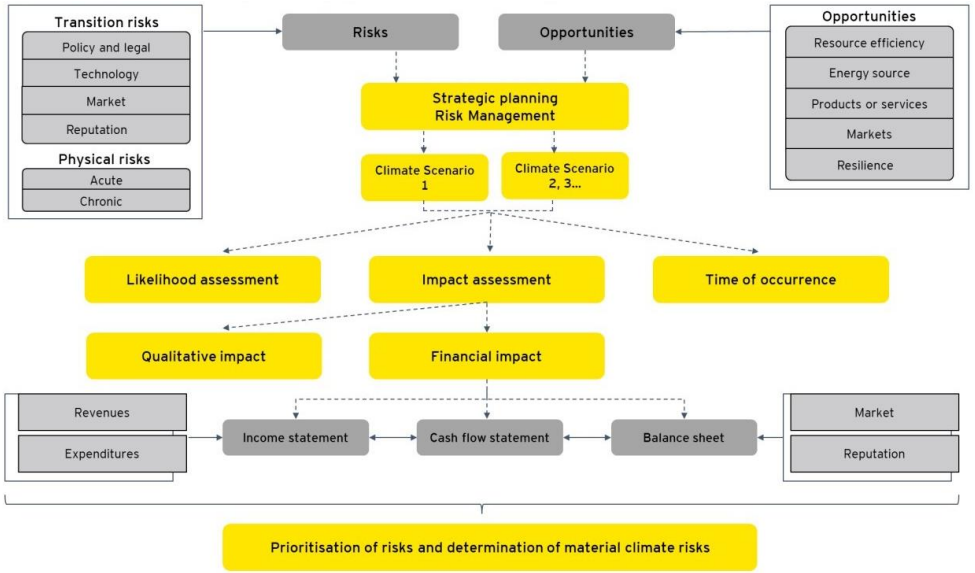


Table 6 Climate-related risk management gap analysis

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
The entity **shall disclose information about the processes and related policies the entity uses to identify, assess, prioritize and monitor climate-related risks**, including information about: • The **inputs and parameters** the entity uses, • Whether and **how the entity uses climate-related scenario analysis to inform** its identification of climate-related risks,	• ASCO has identified climate-related risks, but does not have formally established processes for identifying, assessing, prioritizing, or monitoring climate-related risks, and does not disclose how identified risks are assessed, prioritized, or managed. • ASCO is in the process of performing climate-related scenario analysis.	▸ It is recommended to integrate current climate-related risks into existing risk management framework. ▸ Formally establish climate-related risk management processes (identification, monitoring, assessment) in ASCO's corporate risk management documents (Sections 3.3.3 "Risk Assessment" and 3.3.4 "Task Risk Assessment" of ASCO's Management System document). It is recommended to include detailed descriptions of the processes used to	▸ **Low**

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
• How the entity **assesses the nature, likelihood and magnitude of the effects of those risks** (for example, whether the entity considers qualitative factors, quantitative thresholds or other criteria); • Whether and **how the entity prioritises climate-related risks relative to other types of risk**; • How **the entity monitors climate-related risks**; • Whether and **how the entity has changed the processes it uses compared with the previous reporting period**; *(IFRS S2, Paragraph 25a)*		assess the potential size and scope of identified climate-related risks. ▸ It is recommended to add identified climate-related risks to ASCO's Risk Register, including their prioritization. ▸ In addition, include consideration of scenario analysis results to the risk identification and assessment procedures (e.g. Sections 3.3.3 "Risk Assessment" and 3.3.4 "Task Risk Assessment of Management System corporate document).	
The entity shall disclose **information about the processes the entity uses to identify, assess, prioritize and monitor climate-related opportunities**, including information about **whether and how the entity uses climate-related scenario analysis to inform its identification of climate-related opportunities** *(IFRS S2, Paragraph 25b)*	ASCO has identified climate-related risks but does not have established climate-related risk processes or documents regulating the identification, assessment, prioritization, and monitoring of climate-related opportunities.	▸ Formally establish climate-related opportunity management processes (identification, monitoring, assessment) in ASCO's corporate risk management documents (Sections 3.3.3 "Risk Assessment" and 3.3.4 "Task Risk Assessment of ASCO's Management System document) or in relevant corporate documents, such as Sustainability Policy, ASCO's Strategy, Emissions Reduction Action Plan ▸ Include consideration of scenario analysis results to the climate-related	▸ **Low**

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
		opportunity identification and assessment procedures (e.g. Sections 3.3.3 "Risk Assessment" and 3.3.4 "Task Risk Assessment of Management System corporate document).	
The entity shall disclose **information about the extent to which, and how, the processes for identifying, assessing, prioritizing and monitoring climate-related risks and opportunities are integrated** into and inform the entity's overall risk management process *(IFRS S2, Paragraph 25c)*	Climate-related risk management processes are not formally established and are not integrated into ASCO's overall risk management framework, but the climate-related risks have been identified.	▸ Formally integrate climate-related risks and opportunities management into ASCO's overall risk management, aligning it with COSO Enterprise Risk Management methodology, including appropriate risk terminology. The processes for identifying, prioritizing and monitoring climate-related risks and opportunities is recommended to be included in ASCO's corporate risk management documents, such as: "Sections 3.3.3 "Risk Assessment" and 3.3.4 "Task Risk Assessment" of Management System	▸ **Low**

4. Analysis of ASCO's Climate Metrics and Targets practice

ASCO's climate strategy, including its net-zero by 2050 goal, requires enhanced transparency to meet stakeholder expectations and IFRS S2 standards. Current disclosures omit Scope 3 emissions data, and while a GHG measurement methodology is in place, its coverage and maturity remain limited, Additionally, climate risk assessments are not provided. Furthermore, information on sustainable investments and the integration of climate considerations into financial and executive decision-making is lacking. To comply with IFRS S2, ASCO must provide comprehensive metrics and targets related to climate risks and opportunities, ensuring a complete and transparent portrayal of its climate-related initiatives and performance.

Table 7. Climate-related metrics and targets gap analysis

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
The entity shall disclose **information relevant to the cross-industry metric categories of its absolute gross greenhouse gas emissions generated during the reporting period**, expressed as metric tonnes of CO2 equivalent classified as: • Scope 1 greenhouse gas emissions, • Scope 2 greenhouse gas emissions, • Scope 3 greenhouse gas emissions, • **Disclose the approach (including methodology) it uses to measure its greenhouse gas emissions** (e.g. Greenhouse Gas Protocol accounting standard is required for measurements) *(IFRS S2, Paragraph 29a)*	• ASCO discloses direct and indirect emissions data for 2021, 2022, and 2023. • ASCO does not disclose measurement for Scope 3 emissions. • The methodology used to measure GHG emissions is also not disclosed.[2]	▸ Adopt the GHG Protocol's Corporate and Scope 3 Standards. ▸ Disclose Scope 3 Emissions: Identify relevant Scope 3 categories using the GHG Protocol's Scope 3 Standard. Collect data from suppliers and customers, then calculate emissions using the GHG Protocol's tools. Report total Scope 3 emissions with a category breakdown. ▸ Implement internal controls like audits and data verification. Use recognized emission factors (e.g., IPCC) to convert activity data into GHG emissions. Document methodologies comprehensively for both internal use and inclusion in sustainability reports, ensuring explicitness. ▸ Obtain third-party verification of GHG emissions data. Benchmark against industry peers and engage with stakeholders to explain the alignment with standard practices.	▸ **Medium**
The entity shall disclose **information relevant to the cross-industry metric categories of climate-related transition risks, climate-related physical risks and climate-related opportunities** in the amount and	• ASCO does not provide neither cross-industry metric categories of climate risks nor the percentage of assets or business activities covered.	▸ Identify and quantify the percentage of ASCO's assets or business activities that are exposed to climate-related risks. This involves assessing physical risks (e.g., extreme weather events) and transition risks (e.g., regulatory	▸ **Medium**

[2] ASCO, Sustainability Report 2022–2023, p.144

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
percentage of assets or business activities ***(IFRS S2, Paragraph 29b-d)***	• Some climate-related risks are described in the Sustainability Report without categorization, likelihood, or impact assessment. • Informally identified risks include stricter IMO emissions requirements, navigation complications due to declining Caspian Sea levels, failed investments in new technologies, oil and gas dependency, and increased windy weather conditions[3].	changes). Report these percentages clearly in disclosures to provide stakeholders with a clear understanding of exposure to climate risks. ▸ Develop clear metrics and indicators for reporting on climate-related risks and opportunities. These metrics is recommended to enable stakeholders to understand the magnitude of risks and opportunities, as well as ASCO's resilience and adaptability. ▸ Integrate the categorized, assessed, and quantified climate-related risks and opportunities into ASCO's Sustainability Report. This is recommended to include detailed explanations of the methodologies used for risk assessment and quantification, as well as a clear presentation of the findings. ▸ Engage with stakeholders to explain the findings and ASCO's strategies for managing risks and seizing opportunities. This may involve investor briefings, sustainability forums, and updates on ASCO's website.	
The entity shall disclose **information relevant to the cross-industry metric categories of capital deployment – the amount of capital expenditure,**	• ASCO mentions significant investments in sustainable vessel construction and purchases in the Sustainability	▸ Identify and quantify the capital expenditures specifically allocated to climate-related initiatives.	▸ **High**

[3] ASCO, Sustainability Report 2020-2021

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
financing or investment deployed towards climate-related risks and opportunities, **information about internal carbon prices, and about remuneration** *(IFRS S2, Paragraph 29e-g)*	Report but does not provide specifics on capital expenditure or financing deployed. • There is no detailed disclosure on internal carbon pricing or executive compensation linked to climate performance.	▸ Develop and disclose the details of ASCO's internal carbon pricing mechanism, including the price per ton of CO_2 and how it influences decision-making and investment strategies. ▸ Develop and implement remuneration policies that link executive and employee compensation to climate-related performance targets. This can include metrics such as reductions in GHG emissions, progress towards sustainability goals, and successful implementation of climate initiatives. Clearly disclose these policies and the specific climate-related targets that influence compensation.	
The entity **shall disclose its climate-related targets, including details on:** • Target metrics, • Objectives, • Scope, • Timelines, • Base periods, • Milestones, • If the target is quantitative, whether it is an absolute target or an intensity target, • How the latest international agreement on climate change, including jurisdictional commitments that arise from that agreement, has informed the target, • Validation methods,	• ASCO outlines a 4-phase action plan to reduce CO2 emissions aligned with IMO regulations, targeting 100% net-zero operations by 2050. • Phases include incremental reductions, with major milestones at 2030 (10% reduction), 2040 (70-80% reduction), and 2050 (net-zero). • ASCO also integrates green technologies in line with national	▸ Define specific quantitative metrics for ASCO's climate targets and establish a baseline year for measuring progress. This involves setting clear, measurable goals to track and report progress effectively. ▸ Detail the methods used to validate targets, such as scenario analysis or benchmarking against industry standards. Engage third-party auditors to verify targets and progress. ▸ Implement regular monitoring processes, such as quarterly reviews of emissions data, and establish key performance indicators (KPIs) to track progress.	▸ **Low**

Requirement per IFRS S2	Current State Observations	Recommendations	Effort
Monitoring processes, and performance analysis *(IFRS S2, Paragraphs 33-36)*	priorities and Sustainable Development Goals[4].	▸ Explain how targets align with Azerbaijan's GHG emission reduction targets, particularly its Nationally Determined Contributions (NDCs) under the Paris Agreement. ▸ Set interim milestones (e.g., annual or bi-annual targets) and establish a process and frequency for regular review and adjustment. ▸ Establish a process for annual review and revision of targets, considering new regulations, technological advancements, and industry trends	

[4] ASCO, Sustainability Report 2022-2023, p.120

Analysis of ASCO's Reporting practice

ASCO's sustainability report highlights the company's commitment to addressing the environmental challenges that are inherent in the shipping industry, such as its impact on marine ecosystems, emissions, and resource consumption. To ensure transparency and comparability, ASCO follows the Global Reporting Initiative (GRI) standards. Through these standards, ASCO aims to communicate its efforts in managing Environmental, Social, and Governance (ESG) issues directly tied to its operations.

The report offers comprehensive insights into topics, such as the Company's Sustainable Development Policy, assessment of significant issues, stakeholder engagement, integration of sustainability into business practices, and ESG-related efforts. It also includes detailed sections on corporate governance, addressing areas like shareholder management, strategic planning, compensation systems, internal audits, risk management, and future growth plans. Additionally, the Report covers human resources management, social initiatives, and environmental efforts.

ASCO aligns its policies with the UN's 17 Sustainable Development Goals (SDGs). It ensures fair wages, safe working conditions, health benefits, and fosters the professional development of its employees. The company is committed to advancing gender equality and ensuring a non-discriminatory work environment, offering career opportunities based on merit and performance. ASCO prioritizes environmental sustainability through initiatives aimed at reducing emissions, conserving water resources, and integrating renewable energy technologies into its maritime operations. Additionally, the company fosters collaboration with both local and international stakeholders to support global efforts in achieving the Sustainable SDGs by 2030.

In its environmental reporting, the report discusses ASCO's expansion, particularly through the acquisition of Aframax-type ships and entering new markets. However, while ASCO highlights its increase in shipping volumes, the Report lacks clear information on how the Company is addressing the carbon footprint associated with its growth.

The report also addresses ASCO's social responsibility and labor practices, particularly in its offshore fleet services and collaboration with SOCAR, emphasizing the Company's significant role in Azerbaijan's economy and the oil and gas industry.

ASCO's strategy of expanding into markets beyond the Caspian Sea shows forward-looking growth plans, but the company could provide more details on how it manages risks related to ESG factors. While the Report includes substantial financial data, its non-financial reporting could be enhanced to provide a more balanced view, especially in areas like environmental impact and employee engagement.

The Report further highlights ASCO's efforts to maintain discounted tariffs for various cargoes and sustain volumes along Caspian routes, reflecting the company's responsiveness to market demands. Moreover, its bond issuance and securing of financing from the European Bank for Reconstruction and Development (EBRD) demonstrate ASCO's strategic steps to strengthen its operations.

Appendix B: Peer's best practice overview

To support ASCO in adopting the best practices in climate governance as per IFRS S2 standards, we have created a detailed table that illustrates the governance, strategy, risk management, and metrics and targets of MOL, Matson, and Euronav. These companies exemplify excellence in integrating climate-related considerations into their corporate frameworks. This table serves as a benchmark for ASCO to refine its climate governance policies.

Table 8. Peers' best practices

To be aligned with peers' best practices
Governance
▸ **MOL's** governance on climate change is robust and well-structured. The CEO leads decision-making, with the Chief Sustainability Officer (CSuO) overseeing environmental initiatives. The Sustainability Committee, chaired by the CFO and vice-chaired by the CSuO, handles key sustainability issues and reports to the Executive Committee and Board of Directors in regular basis. Environmental & Sustainability Strategy Division integrates sustainability efforts into the company's management plan, and business strategies. Remuneration of executives is linked to climate related KPIs. ▸ **Matson's** Board integrates sustainability into its governance framework, leveraging independent committees to address specific ESG topics (ESG Working Group, Green Team). The Audit Committee oversees the enterprise risk management (ERM) program, which includes climate-related risks. Regular updates on ESG matters are provided to the Board ensuring continuous engagement. ▸ **INSW** clearly defines the roles and responsibilities of the board and management in overseeing climate-related risks and opportunities. Regular updates to the board on climate-related issues, demonstrate active oversight and engagement.
Strategy
▸ **MOL** identifies climate-related risks such as regulatory changes, market shifts, and physical impacts of climate change and recognizes opportunities in transitioning to low-carbon technologies and improving energy efficiency. MOL demonstrates resilience by incorporating scenario analysis with financial impacts, including a 2°C or lower scenario, to test the robustness of their strategy. MOL has Environmental Vision 2.2, migration plan which includes a GHG emissions reduction scenario and specific actions to achieve net zero GHG emissions by 2050. This includes investing in decarbonization projects and the introduction of alternative fuel-powered vessels. ▸ **Matson** has conducted a thorough scenario analysis to identify and assess approximately 25 climate-related risks that could impact their business over various time horizons. These risks are categorized into transition risks and physical risks, aligning with IFRS S2 recommendations. They have identified key transition and physical risks and have implemented comprehensive resilience activities to mitigate these risks.
Risk management
▸ **MOL** classifies climate-related risks into "emerging" and "business execution" categories, helping manage previously unrecognized risks. The Board and Executive Committee discuss these risks and set policies, viewing them as opportunities. Executive officers oversee risk management, with major risks reported to the Executive Committee. An internal review division assesses risks before key decisions, ensuring thorough evaluation by the Executive Committee and Board. ▸ **Matson** has conducted a scenario analysis workshop to identify significant climate-related risks, creating a climate-specific risk register. This register includes qualitative analysis and expected financial impacts of both physical and transitional risks. Each risk is evaluated for likelihood and impact, assigned an owner, and mitigation activities are identified to ensure resilience.

▸ **Euronav** provides extensive understanding of all the risks that might affect the company including climate related risks and opportunities. These include Glasgow Climate Pact, Clydebank Declaration.
Metrics and targets
▸ **MOL's** climate-related targets and metrics reflect a strong commitment to reducing GHG emissions and transitioning to low-carbon technologies and are ambitious, exceeding the International Maritime Organization's goal of a 50% reduction by 2050. These targets are aligned with international frameworks and are regularly monitored and reported. Their proactive investment strategy and use of internal carbon pricing demonstrate a comprehensive approach to achieving their ambitious goals. ▸ **Matson** demonstrates a robust approach to climate-related metrics and targets. They track a comprehensive set of metrics, including EEDI, fuel usage, and GHG emissions across Scope 1, 2, and 3. The company has set clear short-, medium-, and long-term goals to reduce emissions and improve efficiency. Their strategic initiatives, such as fleet renewal and collaboration with industry groups, further support their commitment to decarbonization and sustainability. ▸ **Euronav** provides transparency in its sustainable financing through clear ESG related KPIs, and clear metrics to monitor their progress towards climate related goals. Those include targets for reducing Annual Efficiency Ratio (AER) for VLCCs and Suezmaxes based on Poseidon Principles, sustainability KPI based on achieving a CII rating of A or B for vessels under bareboat leases, specific fuel consumption targets for FSO vessels.