

Azerbaijan Caspian Shipping Company

Sustainability Report

2018-2019

ASC 

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INTRODUCTION





CHAIRMAN'S FOREWORD



Dear readers,

I am delighted to present the third Sustainability Report of Azerbaijan Caspian Shipping CJSC (ASCO) covering the period of 2018-2019. Our Sustainability Report, which has been prepared in line with the leading international standards and practices, has become an effective platform for our management team to regularly report to our key stakeholders.

One of the objectives set for us by the President of the Republic of Azerbaijan at the time ASCO was founded was to ensure a transformation into an efficient, profitable and sustainable company. We have aspired to achieve this by building our operations in compliance with international standards and maintaining a rich maritime fleet, which is considered a part of our national wealth that would serve for the benefit of our country and the welfare of our citizens. We are a 100%-state-owned company. Today, about 8,500 of our citizens are permanently employed at ASCO. Their constant

source of income, state social insurance, pensions, vacations, medical insurance, food supply, healthy and safe working conditions, various forms of training and education for their professional development, as well as all the rights and freedoms defined by the laws of the Republic of Azerbaijan, have been fully ensured by the Company.

The 17 Sustainable Development Goals (SDGs) of 2030 Agenda have been adopted by all the member countries of the United Nations and entered into force in January 2016, following the United Nations Summit held on September 25, 2015. The Republic of Azerbaijan has also ratified the SDGs and accepted related commitments. Being a major shipping Company with 100% of shares owned by the state, ASCO recognizes that its activities and value chain can impact many SDGs and understands its role in achieving the related targets, aligning its business activities accordingly to contribute to their implementation. The Company's Sustainability Policy adopted in 2019 acknowledges our commitments

regarding the SDGs, and stipulates the sustainable development of the Company through the efficient use of all kinds of resources, including materials and natural resources, as well as human capital, and ensures that these resources serve not only for the benefit of the current generation but also for the next generations.

Despite the ongoing global economic crises, as well as emerging challenges in the global shipping industry due to the sharp decline in total trade turnover, 2018-2019 was a productive period for ASCO. Positive results were achieved in transit cargo and shipping in Azerbaijan as a result of large-scale projects implemented in the country under the leadership of the President of Azerbaijan. ASCO successfully completed a number of important projects and took measures on various aspects of sustainable development during this period, including social, economic, environmental, health and safety, human resources management, and corporate governance. During the reporting period, the net profit margin of the Company was higher than the minimum target of 10%, and continuous payments were made to the state budget in form of taxes and duties.

To ensure sustainable development, it is important to have in place a strong corporate governance system that incorporates the principles of transparency, fairness, risk management, internal control, good governance and flexible business decision-making. Since its creation, the Company has implemented an international corporate governance system, established relevant committees that serve the making of collective decisions, adopted and implemented regulatory documents in this field, obtained certificates to ensure compliance with international standards, ensured transparency in the field of operations, finance and accountability, and incorporated an optimal structure that allows effective management. At the same time, several software systems vital for effective corporate governance, including the SAP ERP system used by the world's leading companies, as well as other software platforms designed for electronic document management, electronic ticket purchasing, fleet

operation, ship repair tracking, and shipbuilding, have been implemented at ASCO. Furthermore, to achieve its key business objectives and assess the annual performance of personnel to ensure fair career path and professional development, ASCO utilizes a Remuneration System (a KPI system) that is also in line with best international practices.

During the reporting period, significant work was undertaken with the objective to renew the fleet and to expand the geography of our business and operations beyond the Caspian Sea. Moreover, alongside with the salary increase a new medical insurance program was introduced for the personnel. ASCO has also commenced work to build residential blocks for its employees who have been waiting for housing for many years. The Company has also continued to support the promotion of seafaring profession, youth and sports competitions in the country. In 2018, the Company celebrated its 160th anniversary and many seafarers and shore staff members were provided with prestigious State awards. As a positive consequence of the work carried out in environmental management and fleet renewal, our direct CO₂ emissions decreased by 2.2% and indirect emissions decreased by 8.8% in 2019 compared to 2017. Additionally, volume of the acute air pollutant SO₂ decreased by 2.1% and 6.9%, respectively.

In conclusion, I would like to emphasize that we at ASCO will continue to do our utmost to justify the trust placed in us and ensure the sustainable development of the Company. We will also continue to unlock growth for societies and our business through new and better ways of organizing trade and providing access to global markets.

Respectfully,

Rauf Valiyev
Chairman

EXECUTIVE SUMMARY

KEY PERFORMANCE RESULTS

The global economic crises of recent years, the decline in total trade turnover and, consequently, the decline in the volume of international transportation have not bypassed the shipping industry. However, ASCO has continued to take appropriate rationalization measures, including cost optimization, elimination of overheads, more efficient use of revenues, and business diversification and development to mitigate these impacts. It has hence managed to maintain a sustainable development trend. ASCO completed 2018-2019 reporting years with a profit, as in the previous reporting years. ASCO's profit in 2018 constituted AZN 52 million and this figure was AZN 64 million in 2019. At the same time, the volume of investment by the Company during these years amounted to AZN 164 million and AZN 113 million, respectively. Moreover, the Company's capitalization increased by 21% in 2019 compared to 2017, and 78% compared to 2014, when ASCO began operations in its current legal form.

With the purpose of strengthening Azerbaijan's leading position as a logistics and trade hub of regional significance, and in order to make full use of the country's transit potential, ASCO is constantly researching the freight markets, the competitiveness of freight routes across Azerbaijan, and opportunities to attract additional freight to routes across the Caspian Sea. The Company cooperates closely with the relevant agencies in our country, as well as other countries involved in cargo transportation on route through Azerbaijan. Based on market research discounts on transportation rates continued to be applied for a number of goods, as well as additional discounts for new cargo were applied during the reporting period. These include discounted freight rates for food products produced in Azerbaijan, aluminum, clay, urea, sugar, paraxylene and benzol . As a result, the increase in the volume of truck transportation in 2019 was 73% compared to 2018, as well as 3% in railway wagons transportation and 1% in dry cargo.

The Company has continued to expand its business

activities outside the Caspian Sea, mainly in the Black and Mediterranean Sea basins, while maintaining a leading position in the Caspian Sea. During the reporting period, transportation carried out by tankers outside the Caspian Sea increased compared to 2017 by 205% in 2018, and 77% in 2019, while the increases in dry cargo transportation amounted to 9% and 12%, respectively. At present, ASCO operates 10 general dry cargo vessels and 2 tankers fully manned by Azerbaijani seafarers sailing under the flag of the Republic of Azerbaijan in basins outside the Caspian Sea.

ASCO's specialized offshore fleet has continued to provide offshore marine services for oil and gas projects led by our strategic partner SOCAR in the Azerbaijani sector of the Caspian Sea, as well as continuing its cooperation with other internationally reputable companies such as BP and Saipem in oil and gas projects outside the Azerbaijani sector of the Caspian Sea. Strengthening the inventory and equipment of the Zygh and Bibiheybat shipyards and providing overhaul, dock and ship repair and maintenance services to ASCO and other third-party organizations were performed continuously during the reporting period. Moreover, upon achieving relevant certification from the State Maritime Agency and registry organization (the classification entity), the Zygh yard has started the construction of low-displacement vessels for ASCO.

As a result of the work done in recent years to improve the quality of education at the Azerbaijan State Marine Academy, which is ASCO's one of the most important business units serving to train local seafarers, the minimum admission score for the Academy has increased. Besides Azerbaijani and Russian, courses taught in English have been established. At the same time, the number of training courses conducted in English at the Training Center, which provides certification and professional development for seafarers, has increased.

Fleet renewal activities also continued during the reporting period. In particular, three platform-supply vessels were purchased and began operation,



the Lachin tanker built at Baku Shipyard was commissioned, and the first of the Ro-Pax/Ferry type vessels (named Azerbaijan) being built at Baku Shipyard was launched. At the same time, an upgrade was completed on the STB-1, the largest barge in the Caspian Sea owned by the Company.

CORPORATE GOVERNANCE SYSTEM

Since its incorporation, ASCO has implemented an international corporate governance system within the Company and applied international practice in respect of all key corporate governance elements, including transparency, shareholder control, execution of strategic goals, organization of internal control and audit, risk management, business ethics and other relevant fields.

During the reporting period, measures were taken to further improve the corporate governance system, a number of new regulatory documents were drafted and applied, novel provisions were added to existing documents in accordance with international standards, and the work of committees,

as institutions established for collective decision-making within relevant fields, was improved. As such, during 2018-2019, ASCO's Data Disclosure Rules were updated, and a Data Disclosure Policy was adopted based on these Rules. More importantly, ASCO's first Sustainability Policy was drafted and approved, the remuneration system based on the annual performance of employees was developed, and business process maps, risks and internal control mechanisms were improved. In 2018, the Company's corporate governance system was assessed by Deloitte, an international audit firm, in accordance with GIST (Governance Indexing and Screening Tool) methodology, the principles of corporate governance for state-owned companies of the Organization for Economic Cooperation and Development, and the relevant guidelines issued by the International Corporate Governance Network (ICGN). As a result, ASCO was assigned a positive corporate governance rating. Furthermore, ASCO's credit rating was updated in 2019 and was given a positive credit rating by Moody's, an independent international rating agency.

Like every year, in 2018 and 2019 the annual financial statements of the Company were compiled



in accordance with the international financial reporting standards, independently audited and published on the official ASCO website, in accordance with transparency principles. Moreover, ASCO's first five-year report for 2014-2018 was compiled and published on the Company's official website. This five-year report covers the results, achievements and future plans in operations and financial performance, corporate governance and sustainable development within the last five years.

HUMAN RESOURCES

The Personnel Management Committee, a collective body, was established to ensure more effective implementation of the existing human resources management procedures at ASCO. Its regulations were approved, and the Human Resources Management Guidelines were updated in 2018. During the reporting period, ASCO continued to work on the digitalization of the existing human resources management procedures. As part of that initiative, all our corporate human resources systems were integrated into a uniform platform and a Recruitment

and Vacancy Management system was established on its basis. At the same time, the annual employee performance assessments were digitalized with an access through a web platform.

The Remuneration System (a KPI system) implemented in the Company since 2017 continued to be applied during the reporting period. Thus, under this system, the employees received their bonuses in 2018 and 2019 based on their annual performance as well as contribution to the achievement of ASCO's strategic goals.

During the reporting period, training sessions in various fields were organized at ASCO. Participation of employees in those training sessions, along with both local and international workshops and conferences enabled them to acquire new skills and earn new certifications. At the same time, students studying at the Azerbaijan State Marine Academy continued to do their internships on ASCO's vessels and structural units, as well as at partner shipping companies.

ASCO remained committed to the protection of

human rights, gender equality, establishing healthy working conditions and building a team with equal rights, in accordance with ASCO's Code of Conduct, Azerbaijani legislation and international conventions. No incidents were reported on these issues during the reporting period.

SOCIAL ACTIVITIES



ASCO continued to implement various projects within the framework of corporate social responsibility during the reporting period. As in previous years, the Company provided material assistance to refugees and internally displaced persons, families of martyrs, war veterans, people with disabilities, children under the care of ASCO, as well as other people in need of support. Meanwhile, voluntary blood donation campaigns, visits to the liberated Jojug Marjanli village of the Jabrayil region, the cleanups of the administrative areas of ASCO's structural units, employees' sports competitions, trips to the Denizchi recreation center, children's festivities, and other social events were organized.

The Company also continued to improve the welfare and strengthen the health and safety measures for its employees. All of our employees have been insured under a medical insurance agreement since 2019. Additionally, to provide preferential housing to seafarers who have been in the housing queue for many years, ASCO has commenced the construction of a residential complex consisting of 5 buildings with a total of 487 apartments in Baku.

The Company supports sports competitions with the objective of contributing to the development of sports in the country and encouraging a healthy lifestyle. As such, ASCO supported the Sabail Professional Football Club (PFC), the Sailing Federation and the Equestrian Federation Public Association of the Republic of Azerbaijan, renovated the stadium

in Baku where Sabail PFC's home plays are held, provided the club's players with uniforms and sports equipment, and organized local and international events in sailing and equestrian during the reporting period.

QUALITY, HEALTH, SAFETY AND ENVIRONMENTAL (QHSE) PROTECTION

During the 2018-2019 reporting period, ASCO, in accordance with the environmental provisions of its Sustainability Policy, continued to take measures to ensure that both offshore and onshore work was performed in safe conditions without harming the environment or human health.

As a result of the QHSE management measures, no cases of environmental violation and no fatal accidents were reported. Also, no environmental or health fines or sanctions were imposed by the authorities during the reporting period.



31% efficiency in drinking water consumption and 16% efficiency in electricity usage were achieved by the Company during the reporting period. Additionally, electricity consumption rate, measured as kWh per employee, decreased by 5% in 2018 and 7% in 2019. In addition, a decrease of 2.2% in the volume of direct and 8.8% in the volume of indirect emissions from ASCO's business activities was reported. In comparison with 2017, the total volume of CO₂ gas emissions, which create the greenhouse effect, and of sulphur dioxide (SO₂) gas, a severe air pollutant, decreased by 2.1% and 6.9% in 2018 and 2019, respectively.

AZERBAIJAN CASPIAN SHIPPING CJSC

Infographic summary

ASCO's key business lines:



Cargo transportation



Specialized offshore services for the oil and gas industry



Ship repair and construction



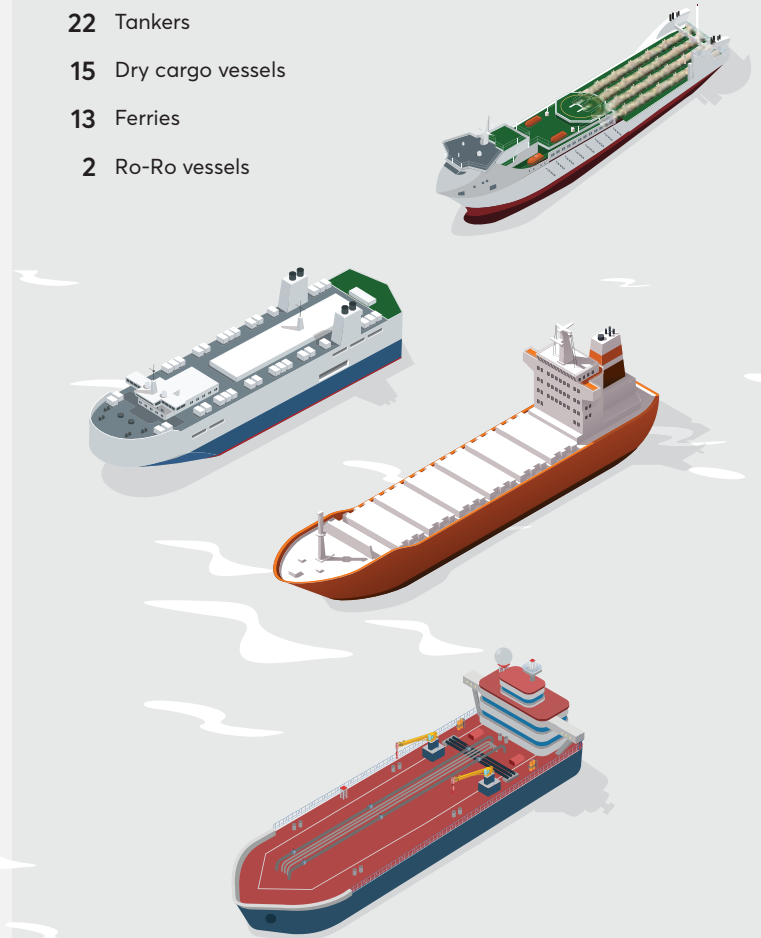
Training and education

ASCO's supporting business lines

- ✓ Logistics services
- ✓ Dry cargo port services
- ✓ Agency services

Composition of the Merchant fleet - 52 vessels

- 22 Tankers
- 15 Dry cargo vessels
- 13 Ferries
- 2 Ro-Ro vessels



Environmental management

In 2019 compared to 2017

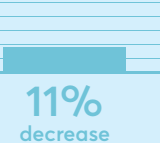
Savings in drinking water consumption



Savings in electricity consumption



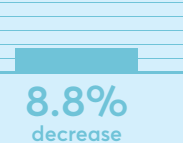
Decrease in energy intensity rate



Decrease in the volume of direct emissions (in CO₂ equivalent)



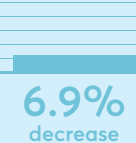
Decrease in the volume of indirect emissions (in CO₂ equivalent)



Decrease in CO₂ gas emissions



Decrease in SO₂ gas emissions





Social sphere:

Amount of welfare assistance in 2018: **1,058,533 AZN**

Amount of welfare assistance in 2019: **1,728,845 AZN**



Occupational Health and Safety

Expenditures on occupational health and safety increased by **17% compared to 2017**



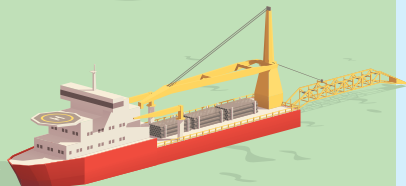
Human resources:

Number of employees in 2018: **8,606**

Number of employees in 2019: **8,442**

Composition of the Specialized Offshore fleet - 212 vessels

- 22 crane vessels
- 25 passenger vessels
- 19 anchor handling tug support vessels (AHTSV)
- 8 platform-supply vessels (PSV)
- 3 tug boats
- 7 port tug boats
- 11 diving vessels
- 6 fire-fighting vessels
- 6 barges
- 8 liquid cargo vessels
- 5 engineering and geological vessels
- 2 underwater pipe laying vessels
- 12 surface cleaner and sewage water collector vessels
- 68 supporting boats
- 3 ship repair workshops
- 1 floating pile driver
- 6 dredger and its convoy



Financial results:

Profit

in 2018: **AZN 52 mln.**

in 2019: **AZN 64 mln.**

Investment

in 2018: **AZN 164 mln.**

in 2019: **AZN 113 mln.**

Capitalization

Increase in capitalization since the beginning of operations: **78%**

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

- ✓ **ISO 9001:2015** (Quality Management)
- ✓ **ISO 14001:2015** (Environmental Management)
- ✓ **ISO 50001:2011** (Energy Efficiency Management)
- ✓ **OHSAS 18001:2007** (Occupational Safety and Health Management)
- ✓ **ISM code 2010** - International Safety Management
- ✓ **SOLAS** - International Convention for the Safety of Life at Sea
- ✓ **MARPOL** - Marine Pollution Convention
- ✓ **STCW** - International Convention on Standards of Training, Certification and Watchkeeping for Seafarers

Operating results

In 2019 compared to 2018

Increase in dry cargo transportation

Increase in car transportation

Increase in vehicle transportation



Days worked by the specialized offshore fleet:

2018 – **45,527 days**

2019 – **45,924 days**



Number of ship repair operations carried out by the yards:

2018 – **924 repair operations**

2019 – **931 repair operations**

ABOUT THIS REPORT

This report describes the work carried out by Azerbaijan Caspian Shipping Closed Joint-Stock Company on social, environmental and economic aspects of sustainable development in 2018-2019. The report was prepared in accordance with the "Core" compliance criteria of the Global Reporting Initiative reporting standards (hereinafter referred to as "GRI") and the relevant requirements of the leading international rating agencies on the three aspects listed above. There is a table of explanations on GRI standards at the end of this report, on page 92.

ASCO's internal control mechanisms, the methodology for preparing sustainability reports and inspections by independent external auditors ensure the accuracy of the information presented in this report. This report was audited by EY, an international audit firm. All indicators for the 2018-2019 reporting period were analyzed separately and interviews were conducted with the relevant employees of the Company. The independent external audit opinion is presented on page 100 of this report.

During the preparation of this report, an online survey was conducted by the Company in order to study the views of stakeholders and to report the issues related to them. The survey was published in Azerbaijani, Russian and English on social networks and the official website of the Company. As a result of the online survey, we determined which information on the Company activities was considered to be more important for customers, business associates, suppliers, non-governmental organizations, public, media and other stakeholders and, based on these data, we composed a Materiality Matrix. The Materiality Matrix is presented below.

The ASCO Materiality Matrix



Environment

1. Water consumption
2. Waste management
3. Energy efficiency
4. Greenhouse gas emissions
5. Discharge of ballast water
6. Supplier environmental assessment

Economy

13. Anti-corruption measures
14. Economic performance
15. Procurement practices
16. Indirect economic impact

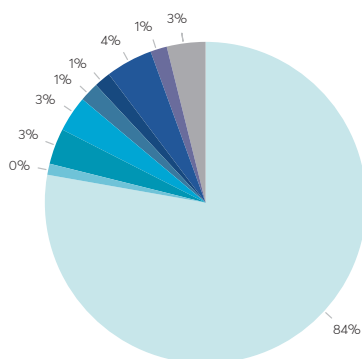
Society

7. Training and education
8. Occupational health and safety
9. Employment
10. Impact on local communities
11. Human rights assessment
12. Diversity and equal opportunities

Organization

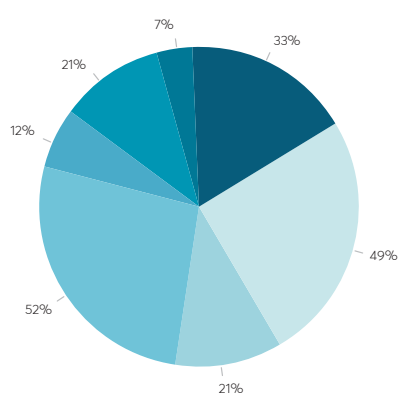
17. Ethics and integrity
18. Corporate governance

1. Please note which group of concerned parties you are related to.



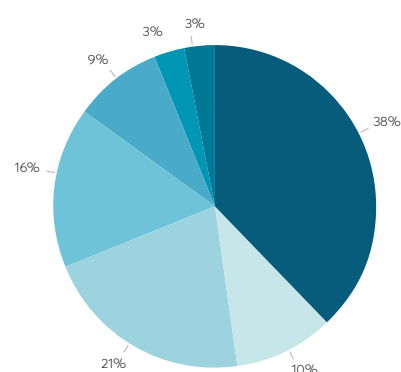
- ASCO employees
- Customers
- Suppliers
- Media
- Government bodies
- Partners
- International organizations
- NGOs
- Others

2. Which issues are important for you regarding the general activities of the company?



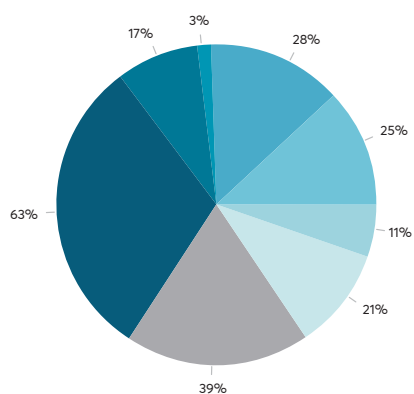
- ASCO's major services and products
- ASCO's strategy and risks
- Ethical behavior
- Corporate governance
- Supply chain
- Changes and newly approved documents
- Other

3. Which issues related to the economic activities are important for you?



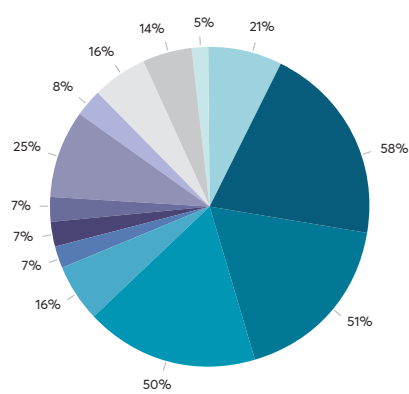
- Economic impact
- Indirect economic impact
- The Company's markets of operation and regions of presence
- Anti-corruption
- Procurement practices
- Anti-monopoly
- Other

4. What issues related to the environmental activities are important for you?



- Electricity consumption
- Water consumption
- Biodiversity
- Emission
- Wastes
- Compliance with environmental acts and laws
- Environmental performance evaluation of suppliers
- Other

5. Which issues on social activities are important for you?



- Employment
- Relations between the Company employees and management
- Occupational health and safety
- Training and education
- Diversity and equal opportunities
- Freedom of association and collective agreements
- Forced or child labor
- Local population
- Evolution of human rights
- Evolution of social activities of suppliers
- Public policy
- Customer safety and health
- Other

INTEGRATION OF SUSTAINABILITY INTO THE BUSINESS



Being the largest shipping Company in the region, ASCO considers it important to promote the principles of sustainable development among personnel, customers, suppliers and other stakeholders whilst being continuously committed to sustainable development.

The principles of sustainable development have been integrated into ASCO's Strategic Plan and reflected in the relevant strategic goals. Regular renewal of the

Company's fleets, high quality repair of the vessels, achieving savings in fuel consumption through a more efficient organization of ship operations to keep emissions to a minimum, collecting and disposing waste generated on ships and at production sites, ensuring the personnel's professional and personal development, supporting social projects, creating a strong local HR base consisting of seafarers and improving their welfare, strengthening its financial standing, ensuring healthy and safe working conditions, and other measures demonstrate the integration of sustainable development principles into ASCO's business.

SUSTAINABILITY POLICY

In 2019, the Sustainability Policy, which provides a unified approach to sustainability at ASCO, was approved by the Company's Management Board.

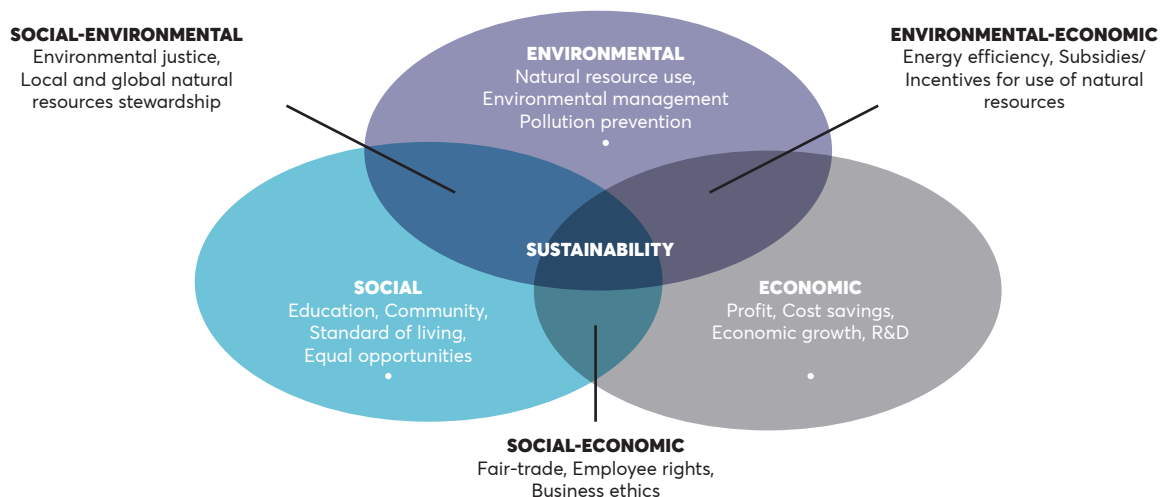
The objective of the policy is to ensure the continuation of the Company's key business activities, including meeting obligations in respect of environmental protection, the efficient use of limited resources, full integration of the principles of sustainable development into the overall value chain, implementation of corporate social responsibility, as well as maintaining ASCO's vision to provide society and the shareholders with long-term benefits in accordance with sustainability principles. The Company's Sustainability Policy and its principles cover all structural units of Azerbaijan Caspian Shipping Closed Joint-Stock Company, all types of its commercial and non-commercial activities, as well as relations with all direct and indirect stakeholders, both domestic and foreign. The ASCO Management Board is the highest body responsible for the implementation of the Sustainability Policy. The Board determines the Company's Sustainability Policy in accordance with leading international requirements, ensures its compliance with the country's sustainable development goals, and supervises compliance with the Sustainability Policy and its principles in all aspects of its activities.



ASCO's concept of sustainable development involves the renewable and sustainable use of natural resources, making sure they are not depleted, as well as ensuring their transmission to future generations, a high degree of social welfare, protection of stakeholders' interests and sustainable development of the Company.

ASCO's Sustainability Policy covers three aspects: the environmental, social and economic aspects that ASCO counts as core elements of sustainable development. ASCO seeks to organize its activities in a balanced manner with respect to these aspects. The following diagram reflects the interrelation of the three aspects of sustainable development. The Sustainability Policy and its key principles are publicly available on ASCO's official website. More information about the policy can be found at www.asco.az.

Three aspects of sustainability



ASCO'S COMMITMENT AND CONTRIBUTION TO THE GLOBAL SUSTAINABLE DEVELOPMENT GOALS

The 17 Sustainable Development Goals (SDGs) to 2030 were adopted worldwide as part of the Global Agenda at the United Nations Summit held on September 25, 2015. In addition, most of the United Nations signatory states endorsed the Paris Agreement in line with the SDG 13 to combat global warming in November 2016. The Republic of Azerbaijan has also joined the Global Agenda for 2030 and accepted relevant commitments to prioritize the Sustainable Development Goals and adopt them at a national level. One of the key objectives of the Paris Agreement is to limit the global temperature rise to below 2 degrees Celsius, by means of the active participation of all signatories. All adopted SDGs are illustrated in the diagram below. Being the country's largest shipping Company, ASCO covers all SDGs directly or indirectly and, through its activities and value chain, it fulfills its responsibility to achieve the goals set by the state. ASCO seeks to contribute to the implementation of SDGs by aligning its activities with SDGs and integrating them into its business operations and along the entire value chain.

Global Sustainable Development Goals (SDGs):



GOALS 1 and 2

Our employees are paid higher than the minimum wage in the country, covering household and necessary expenses and enabling them to run a modern lifestyle. In addition, in accordance with the Company's Regulations on Welfare Assistance, we provide financial assistance to our employees and other citizens in need and continuous support to the families of refugees, IDPs and martyrs ([for detailed information see page 67](#))



GOAL 3

We constantly ensure that our employees receive professional medical treatment and that their working conditions are safe for their health. All ASCO onshore and offshore crews undergo regular medical examinations. At the same time, medical insurance is provided to our employees and their families ([for detailed information see page 77](#))



GOAL 4

ASCO employees are constantly provided with technical, professional and personal development training. In addition, the Azerbaijan State Marine Academy (ADDA), which operates under ASCO, provides training for seafarers in the country and also trains future professionals entitled to work as seafarers in international waters. Furthermore, the Training Center, as a structural unit of the Azerbaijan State Marine Academy, conducts training and courses for the certification of seafarers and further improvement of their skills and competences ([for detailed information see page 60](#))

**SUSTAINABLE
DEVELOPMENT
GOALS**

**1 NO
POVERTY**



**2 ZERO
HUNGER**



**3 GOOD HEALTH
AND WELL-BEING**



**4 QUALITY
EDUCATION**



**5 GENDER
EQUALITY**



**6 CLEAN WATER
AND SANITATION**



**7 AFFORDABLE AND
CLEAN ENERGY**



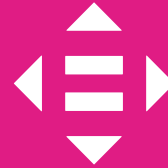
**8 DECENT WORK AND
ECONOMIC GROWTH**



**9 INDUSTRY, INNOVATION
AND INFRASTRUCTURE**



**10 REDUCED
INEQUALITIES**



**11 SUSTAINABLE CITIES
AND COMMUNITIES**



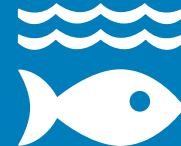
**12 RESPONSIBLE
CONSUMPTION
AND PRODUCTION**



**13 CLIMATE
ACTION**



**14 LIFE
BELOW WATER**



**15 LIFE
ON LAND**



**16 PEACE, JUSTICE
AND STRONG
INSTITUTION**



**17 PARTNERSHIP
FOR THE GOALS**





GOALS 5 and 10:

Both men and women are provided with equal career opportunities regardless of gender. At ASCO, female and male employees are paid only in accordance with their position, rank and performance without being subjected to any kind of discrimination. At the same time, ASCO has created healthy working conditions that provide equal opportunities for all employees, regardless of race, religion or affiliation, where they are free to express their views or suggestions (for detailed information see page 85).



GOAL 6:

We understand that fresh water resources have become a global problem, including Azerbaijan with limited fresh water resources. For this reason, we use fresh water resources sparingly and constantly monitor the quality of drinking water both on our onshore facilities and vessels. We pay close attention to the prevention of adverse effects of our activities on water bodies. Furthermore, compliance with sanitary conditions on board our vessels and onshore facilities is constantly monitored by the relevant departments and divisions (for detailed information see page 85).



GOALS 7 and 9:

The Scientific and Technical Council established at the Company, the Specialist on Innovations, as well as the Laboratory of Innovations established at Azerbaijan State Marine Academy regularly study various novelties and innovations, as well as international experience in the shipping industry, including opportunities to use clean and renewable energy sources. ASCO works to align its operations in this area with international practice. Preference is given to low-emission and energy-efficient ship projects equipped with more modern equipment and optimal operating capabilities (for detailed information see page 86)



GOAL 8:

We continuously assess working conditions and safety at the workplaces of our personnel while taking into account the requirements of the OHSAS standard in this field (for detailed information see page 77). Moreover, we constantly work to further improve the financial sustainability of the Company and to ensure its effective operation as a business, while contributing to the strategy of transforming Azerbaijan into a transport and logistics hub in the region (for detailed information see page 41).



GOAL 11:

Although ASCO lacks the ability to directly influence this SDG, the Company contributes indirectly to this SDG by means of its activities, operational geography and value that it creates.



GOAL 12:

We are committed to the sparing and responsible use of materials, natural, human, financial and other resources, both at the production and consumption stages, when providing our services. We supervise our operations to strike the optimal balance in this respect.



GOAL 13:

As can be seen on page 89, AASCO managed to reduce the volume of emissions during the reporting period and we aim to make more progress in this area in the future.



GOALS 14 vs 15:

The prevention of negative technical and anthropogenic impacts on aquatic and terrestrial ecosystems deriving from our activities is of particular focus to ASCO. A special management system has been established at ASCO in compliance with international standards and relevant certificates for the protection of the sea surface from oil spills, the management of liquid and dry waste generated by ships, the use of ballast water and the organization of onshore production ([for detailed information see page 83](#)).



GOAL 16:

All employees of the Company have been provided with working conditions that offer equal opportunities for everyone. The principle of fairness guides relations with employees and decision-making processes. We understand that bribery has a negative impact not only on our operations but also on society as a whole. Therefore, an anti-bribery policy has been implemented in the Company and awareness-raising training courses are constantly organized in this sphere ([for detailed information see page 56](#)).



МЭҚСЭД 17:

We believe that all Sustainable Development Goals can be achieved through the exchange of experience and knowledge between different companies, organizations and governments. In this regard, ASCO acts as an initiator in the establishment of many partnerships. In this report, you can also find information about ASCO's partnerships and relationships with various stakeholders.



ABOUT ASCO



OUR VALUES, MISSION AND GOALS

VALUES:

Personnel - Experienced sailing personnel and a professional team are our main value;

Environment - We aim to minimize the impact on the environment throughout all aspects of our activities;

Safety - We constantly focus on establishing a safe working environment, providing high-quality services and preventing risks;

Quality Service - As Azerbaijan Caspian Shipping Company, we guarantee high-quality cargo transportation and diverse specialized offshore services based on our rich experience;

Sustainable development - As a Company with efficient and effective management, we have taken a path of sustainable development in all aspects of our activities adding value for all our stakeholders throughout the value chain of our services.

VISION:

Maintaining a leading position in the Caspian Sea and expanding operations outside the Caspian Sea.

MISSION:

Ensuring a harmonious and continuous flow of international cargo and contributing to Azerbaijan's regional transport hub strategy.

OUR SUSTAINABLE DEVELOPMENT GOAL:

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

STRATEGIC TARGETS

Target 1:

Establishment of a modern shipping Company which can operate efficiently and ensure sustainable development.

Target 2:

Performing operations in a safe manner and without environmental damage.

Target 3:

Training of highly skilled local professionals.

Target 4:

Expansion and diversification of business activities:

- Maintaining the leading position in cargo transportation in the Caspian Sea;
- Expanding operations beyond the Caspian Sea;
- Expanding the geography of specialized offshore services;
- Increasing the volume of ship repair services for external companies;
- Expanding other business activities and increasing profitability.

SLOGAN:

Your shortest
bridge between
Europe and
Asia

HISTORY OF ASCO

Azerbaijan Caspian Shipping Closed Joint Stock Company, which was founded by the establishment of the Caucasus and Mercury Joint Stock Company, celebrated its 160th anniversary in 2018. ASCO is a shipping Company with a rich and long history, having the largest merchant fleet and a specialized offshore fleet serving the oil and gas industry in the Caspian Sea. Our 160 years of experience in maritime transportation together with our professional seafarers who pass on this experience from generation to generation are the key drivers behind our success.



1873

Launch of the Alexander, the world's first-ever oil-carrying barge in the Caspian Sea

Foundation of the Azerbaijan Caspian Shipping Company by the establishment of the Caucasus and Mercury Joint Stock Company

1858



1866

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



1878

Launch of the Zaroaster, the world's first-ever tanker in the Caspian Sea



1881

Organization of Baku maritime classes to meet the demand for seafarers



1908

Launch of the Delo, the first-ever vessel equipped with two reversible engines, in the Caspian Sea



1903

Launch of the Vandal, the first-ever vessel with an internal combustion engine, in the Caspian Sea



1962

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

1960

Vessels of the Caspian Shipping Company sail out of the Caspian Sea

1949

Foundation of the Caspian Sea Offshore Fleet by the establishment of the Floating Vehicles division within the Azerdenizneft union

1949

Foundation of the Caspian Sea Oil Fleet by the establishment of the Floating Vehicles division within the Azerdenizneft union

1969-1987

During the leadership of the Great Leader Heydar Aliyev in Azerbaijan, over 400 vessels were constructed at a rate of 20-30 vessels per year while the fleet saw rapid development



2003-2011

Tanker fleet renewal



2005-2012

Renewal of the ferry fleet



1997-2010

Vessels operating beyond the Caspian Sea were put into operation back to the Caspian Sea

2004

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



2013

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



2014

Resumption of activities beyond the Caspian Sea

2014-2019

Commissioning of 22 new vessels for the merchant and specialized offshore fleet, and continuing the construction of 6 more vessels

2018

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



1975-1985

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



KEY BUSINESS LINES

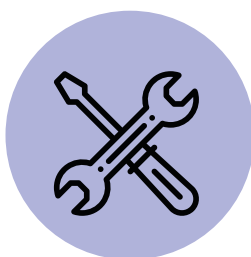
Being the oldest shipping company in the Caspian Sea, ASCO owns the largest permanent fleet in that sea basin. ASCO's main areas of business include:



Cargo transportation



Specialized offshore services for the oil and gas industry



Ship repair and construction



Training and education



Other supporting activities related to the shipping industry

CARGO TRANSPORTATION

The merchant fleet, consisting of 52 vessels and providing cargo transportation services, operates within the structure of ASCO. This fleet is engaged in the transportation of various types of cargo in the Caspian Sea, as well as the Black and Mediterranean seas, including transportation between these basins. The fleet includes tankers, universal dry cargo vessels, ferries and Ro-Ro vessels. The composition of the merchant fleet is reflected in the table below.

Composition of the merchant fleet, units:

Vessel type	Quantity
Tankers	22
Universal dry cargo vessels	15
Ferries	13
Ro-Ro vessels	2
Total	52

20 tankers owned by ASCO operate in the Caspian Sea and transport crude oil and oil products from the ports of Kazakhstan and Turkmenistan, as well as from Russian oil fields in the Caspian Sea, to Azerbaijani ports. At the same time, the Company has been providing cargo transportation services by tanker vessels outside the Caspian Sea and in the Black and Mediterranean Sea basins since 2017. At present, ASCO operates 2 tankers with a carrying capacity of 7,000 tons beyond the Caspian Sea.



Universal dry cargo vessels of the Company carry grain, wheat, barley, corn, bran, timber and wood products, metal products, fertilizers, construction materials, containers, as well as various other types of dry cargo in the Caspian Sea and beyond. Currently, ASCO operates 5 dry cargo vessels in the Caspian Sea and 10 dry cargo vessels beyond the Caspian Sea. Both dry cargo vessels and tankers owned by ASCO and operating beyond the Caspian Sea sail under the flag of the Azerbaijan Republic, and their crews consist entirely of Azerbaijani sailors.

Besides tankers and universal dry cargo vessels, ASCO's merchant fleet also includes 13 ferries and 2 Ro-Ro vessels. Today, ASCO is the only shipping Company operating ferries in the Caspian basin. Ferries owned by the Company perform transportation of railway wagons, containers, vehicles, as well as passengers across the Caspian Sea along the Europe-Caucasus-Asia transport corridor. The Company's Ro-Ro vessels carry trucks (under the TIR convention), cars, special vehicles, as well as passengers across the Caspian Sea. Ferries and Ro-Ro vessels operate between the ports of Azerbaijan, Kazakhstan and Turkmenistan.

SPECIALIZED OFFSHORE SERVICES FOR THE OIL AND GAS INDUSTRY:

There are 212 vessels in ASCO's specialized offshore fleet, which are engaged in several important oil and gas projects in the Caspian Sea, especially those executed in the Azerbaijani sector of the Caspian. The specialized offshore fleet provides full support to oil and gas production processes, including construction of offshore platforms and marine piers, conducting geological exploration, laying oil and gas pipelines and maintaining them during operations, providing fire protection at offshore oil facilities, and transporting oil workers to their workplace. The fleet provides services involving the exploration and extraction of mineral resources from the seabed as well.

ASCO's specialized offshore fleet participates in oil and gas extraction projects within the Azerbaijani sector of the Caspian Sea, such as Azeri-Chirag-Guneshli, Shah-Deniz, Bahar-Gum-Deniz, Umid-Babek, 28 May, and Oil Rocks, as well as in the Russian, Kazakh and Turkmen sectors beyond the Azerbaijani sector of the Caspian Sea. The composition of the specialized offshore fleet is presented in the table below.



Composition of the specialized offshore fleet, units:

Vessel type	Vessel quantity
Crane vessels	22
Passenger vessels	25
Anchor handling tug support vessels (AHTSV)	19
Platform-supply vessels (PSV)	8
Tug boats	3
Port tug boats	7
Diving vessels	11
Firefighting vessels	6
Barges	6
Liquid cargo carriers (tankers)	8
Engineering and geological vessels	5
Pipe-laying vessels	2
Surface cleaner and sewage water collector vessels	12
Service boats	68
Ship repair workshops	3
Floating pile driver	1
Dredger and its convoy	6
Cəmi	212



SHIP REPAIR AND CONSTRUCTION

High-quality repair of all types is performed by professional specialists at Bibiheybat Ship Repair Yard and Zygh Ship Repair and Construction yard, which are structural units of ASCO. While servicing vessels owned by ASCO, these yards also provide repair services to the ships of other shipping companies operating in the Caspian Sea.

In general, the Bibiheybat and Zygh yards provide the following services:

- Performance of overhaul, dock and navigation repairs and maintenance between voyages;
- Installation and commissioning of vessel systems and equipment, electrical and radio navigation equipment, engines, and devices;
- Performance of diving, underwater engineering and hydro-technical works;
- Inspection, cleaning and painting of underwater parts of hull, rudders and propellers of ships upon their docking;
- Inspection and repair of inflatable lifeboats, hydro-static pressure devices and personal rescue equipment;
- Maintenance and repair of ASV (adaptive support ventilation) type insulating breathing equipment;
- Manufacturing of various types of spare parts, special paints and hardware.

Two modern floating docks, with a carrying capacity of 6,000 and 8,000 tons, are operating at Zygh Ship Repair and Construction Yard (ZSRCY), at Bibiheybat Ship Repair Yard (BSRY) four floating docks, with a carrying capacity ranging from 4,500 to 15,000 tons are operating. At the same time, having passed the applicable certification, Zygh Ship Repair and Construction Yard has been providing shipbuilding services since 2017.

EDUCATION

Being part of ASCO, the Azerbaijan State Marine Academy (hereinafter "ASMA" or the "Academy") which boasts more than 130 years of experience in providing maritime education, ensures the development of the seafaring profession in Azerbaijan and trains highly-qualified local seafarers. ASMA is also essential to the training of seafarers for shipping companies of other countries operating in the region. The Academy is recognized by the International Maritime Organization (IMO) and diplomas issued by ASMA are accepted in more than 170 countries around the world. Education meeting modern standards has been established at all levels at the Academy (bachelor's, master's and doctoral degrees). At present, education is provided at ASMA with specializations in Maritime Navigation Engineering, Vessel Power Plants Operation Engineering, Electrical and Electronics Engineering, and Shipbuilding and Ship Repair Engineering. The Academy offers education in Azerbaijani, Russian and English, and ASMA has established various experience exchange programs with overseas maritime universities.



The Training and Education Center (TEC) operating under the Academy ensures further professional development of specialists working in the maritime industry and their certification in accordance with international conventions and standards. Training courses are organized in Azerbaijani and English at the TEC. These training courses have been accredited by the Azerbaijan State Maritime Agency and certified by organizations such as the American Bureau of Shipping (ABS), the Nautical Institute and Bureau Veritas. The Training and Education Center holds a certificate to conduct DP Induction and DP Simulator trainings on a modern dynamic positioning (DP2) simulator. It is one of 95 centers in the world and the only such center in the Caspian region authorized to conduct those training.



Furthermore, the Azerbaijan Marine College under ASMA operates as a secondary vocational education institution. The College trains students in specialties including ship navigation, exploitation of vessel's energetic installations, exploitation of vessel's energy installations and automatic equipment, ship repair, shipbuilding, installation and maintenance of ship machinery and equipment, environmental protection and efficient use of natural resources.

OTHER SUPPORTING ACTIVITIES RELATED TO THE SHIPPING INDUSTRY

In addition to ASCO's main business lines, the Company is also engaged in a number of supporting activities related to the shipping industry. This includes the following spheres of business:

- Logistics services
- Dry cargo port services
- Agency services

Logistics services

ASCO Logistics LLC, which operates as part of ASCO, provides timely, safe and efficient door-to-door transportation of various types of cargo using

the optimal route and mode of transport. At the same time, ASCO Logistics LLC provides additional services to cargo owners, such as customs clearance, insurance, transport agency, freight forwarding, documentation and security services during the transportation of goods.

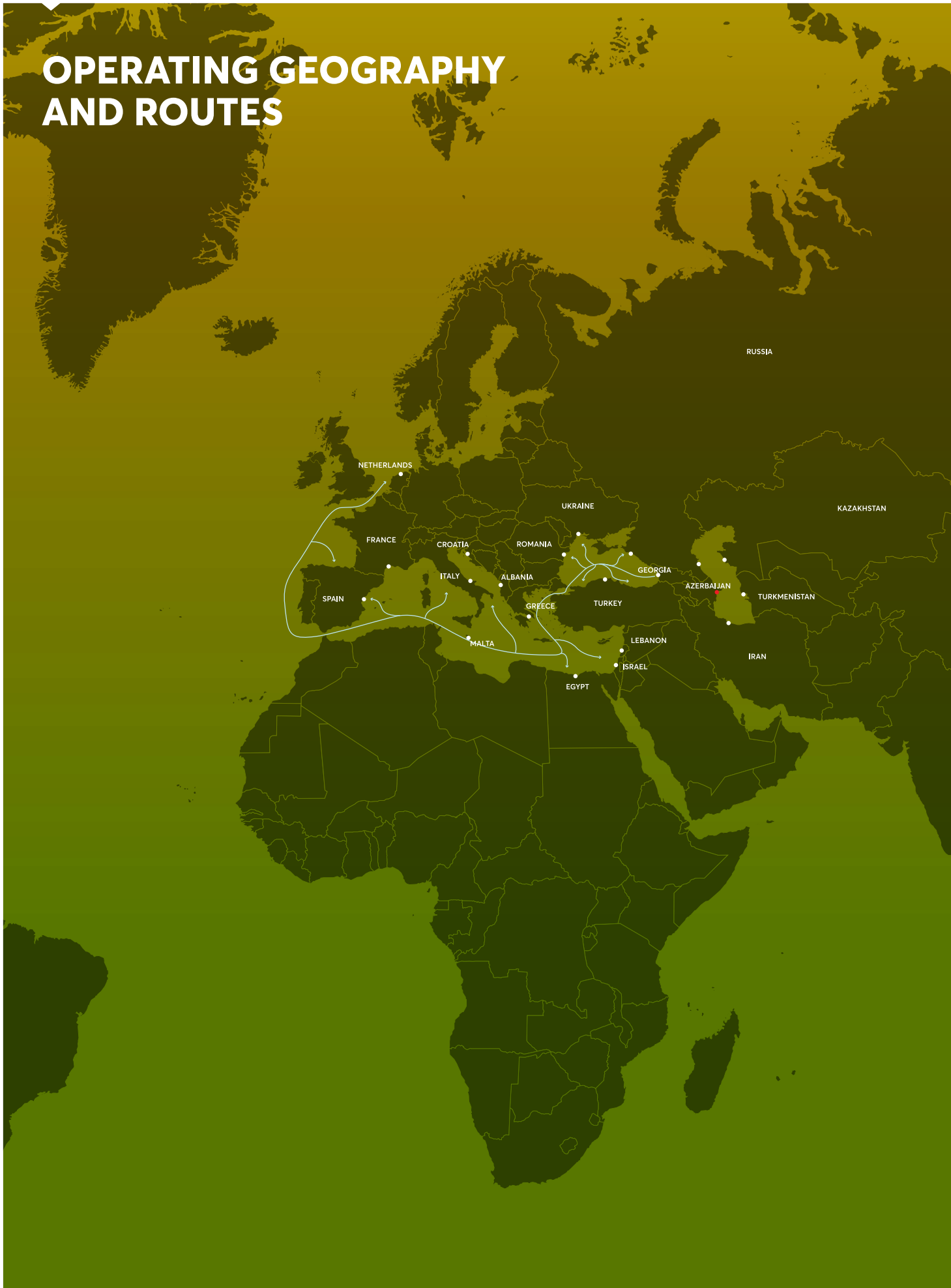
Dry cargo port services

The key objective of the Zygh dry cargo port facility operating within ASCO's structure is to establish, operate and manage the activities of the dry cargo port by means of applying advanced equipment and technologies, to provide high-quality port services to both local and foreign companies, and to ensure safe cargo handling and port operations, as well as other relevant port services.

Agency services

Inflot Maritime Agency operates as part of the Zygh dry cargo port. Inflot provides services such as clearance and documentation for the berthing, loading and unloading of vessels within ports, as well as representation of the ship owner, charterer or other legal operator of ships before the relevant bodies and execution of financial instructions on their behalf.

OPERATING GEOGRAPHY AND ROUTES

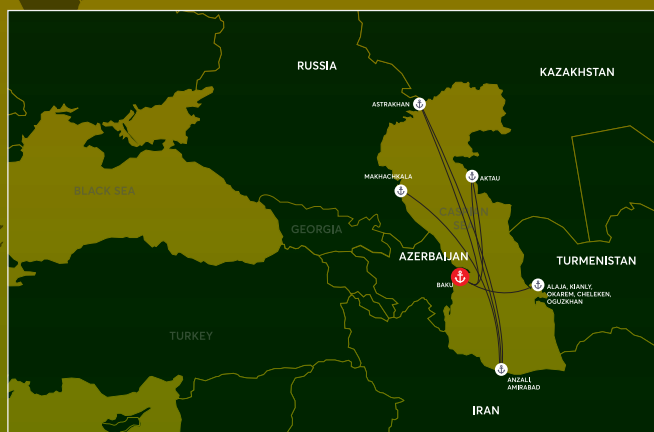




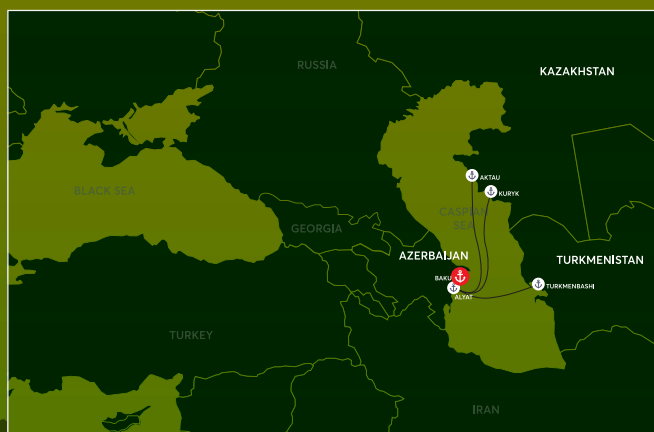
TRANSPORTATION ROUTES OF
TANKERS IN THE CASPIAN SEA



TRANSPORTATION ROUTES
OF **DRY CARGO** VESSELS
IN THE CASPIAN SEA



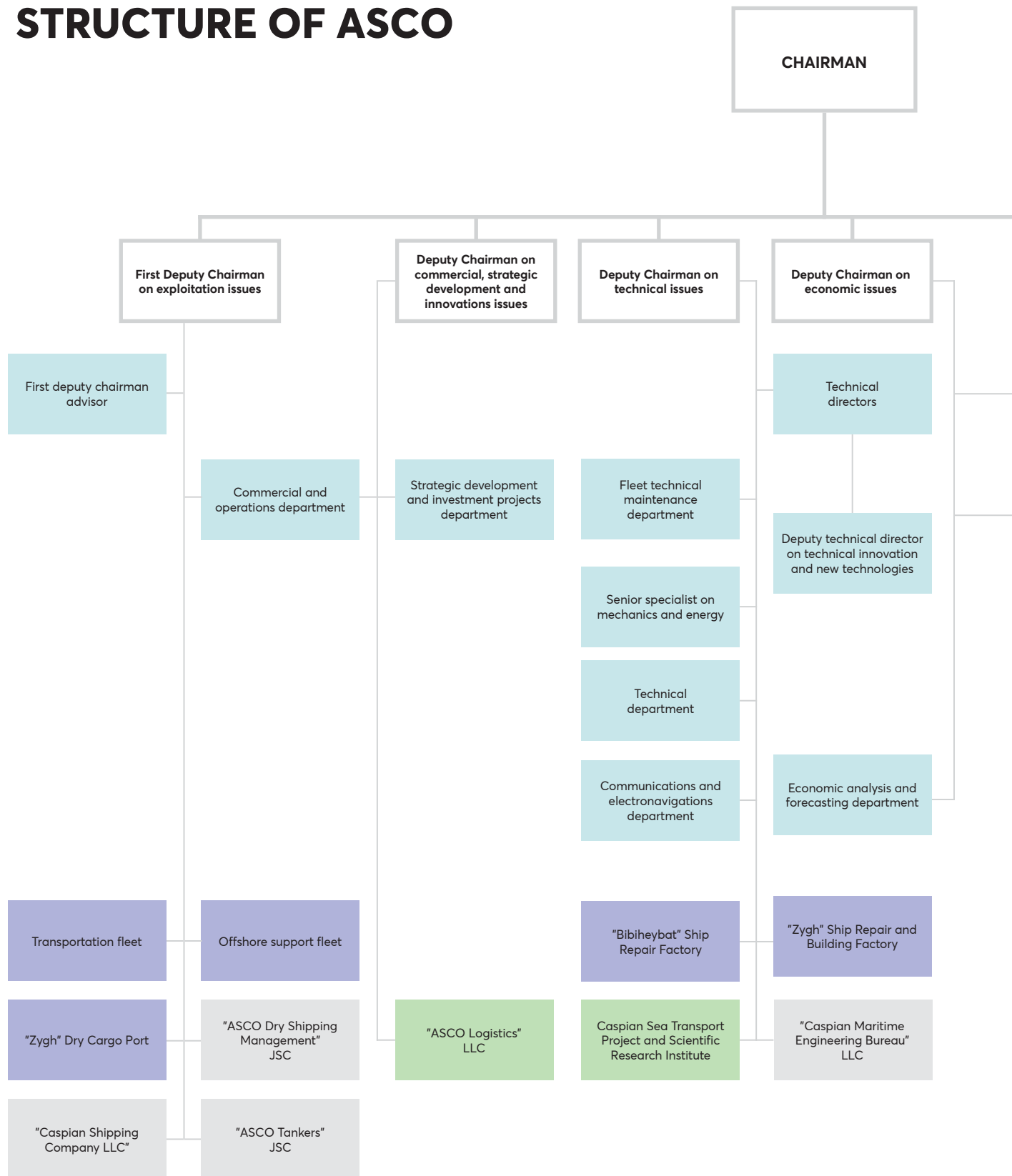
TRANSPORTATION ROUTES
OF **FERRIES AND RO-RO**
VESSELS



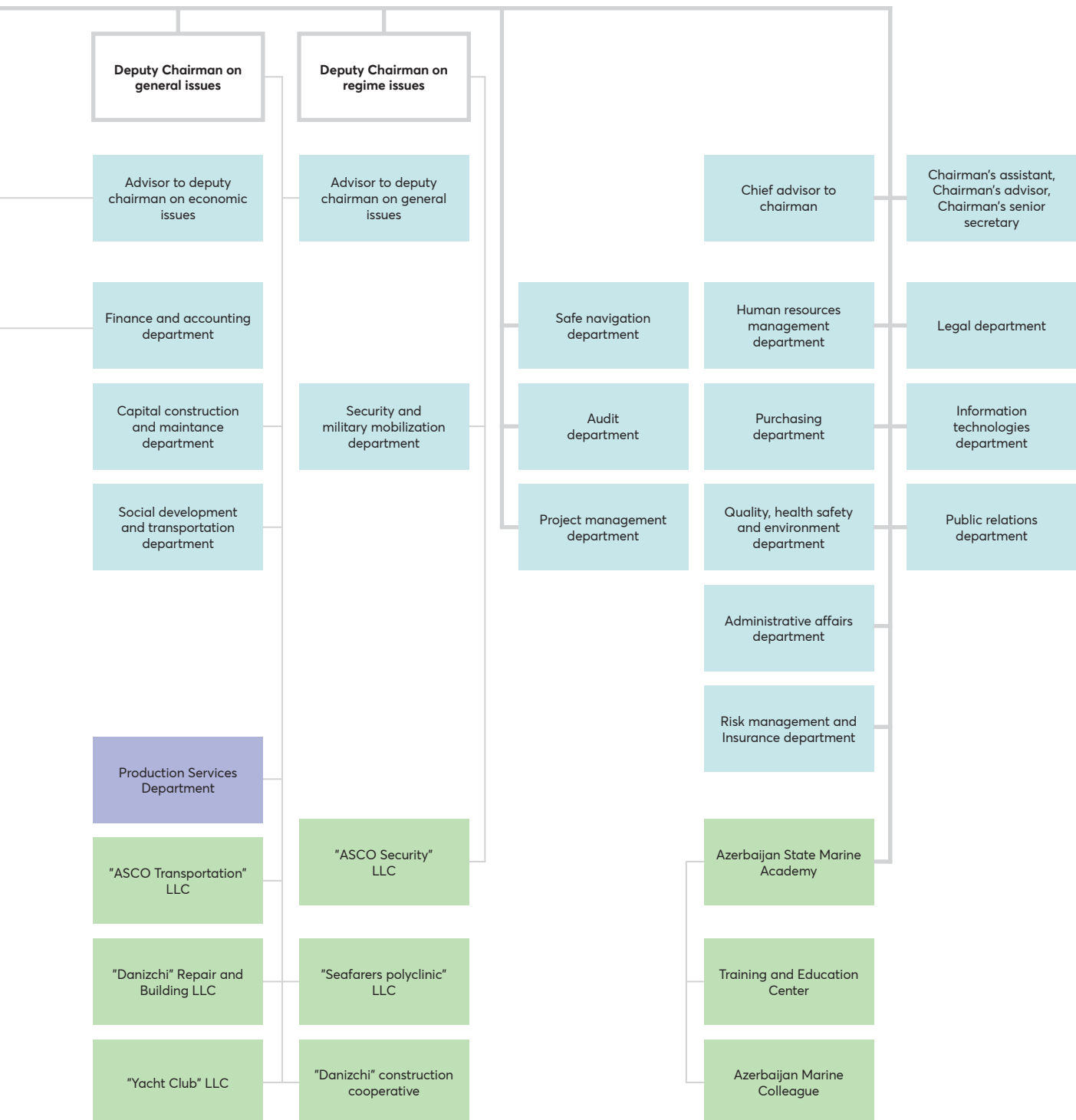
THE MAIN OPERATING
AREA OF THE SPECIALIZED
OFFSHORE FLEET



ORGANIZATIONAL STRUCTURE OF ASCO



- Management
- Department and divisions
- Structural units
- Enterprise with status of legal person
- Foreign subsidiaries



SUBSIDIARIES, JOINT VENTURES AND REPRESENTATIVE OFFICES



ASCO places special emphasis on the continuous improvement of the management structure at the Company. Non-core structural units on ASCO's balance sheet at the time of its establishment which were not directly related to its main business, including housing and communal services, a social and cultural activities center for seafarers, the Denizchi auxiliary agricultural enterprise, as well as agricultural lands and the Central Seafarers Hospital, were handed over to the relevant authorities starting in 2014. Today, ASCO has established an optimal organizational structure that ensures good governance and flexible business decision-making at the Company. Information on existing subsidiaries, joint ventures and representative offices of the Company is provided below.

Subsidiaries:

- Azerbaijan State Marine Academy
- ASCO Logistics LLC
- ASCO Dry Gemi İşletmeciliği A.Ş (Republic of Turkey)
- ASCO Tankers Gemi İşletmeciliği A.Ş (Republic of Turkey)
- Azerbaijan Caspian Shipping Limited (Republic of Malta)
- Caspian Sea Transport Project Exploration and Scientific Research Institute
- Denizchi Housing Cooperative
- Denizchi Repair and Construction LLC
- Seamen Polyclinic LLC
- ASCO Security LLC
- ASCO Transport LLC
- Yacht Club LLC

Joint ventures:

- Caspian Shipping LLC (Russian Federation)
- Caspian Marine Engineering Bureau LLC

Representative offices of the Company operate in the following countries:

- The Republic of Turkey
- The Republic of Kazakhstan
- The Republic of Turkmenistan
- The Islamic Republic of Iran
- The Republic of Greece

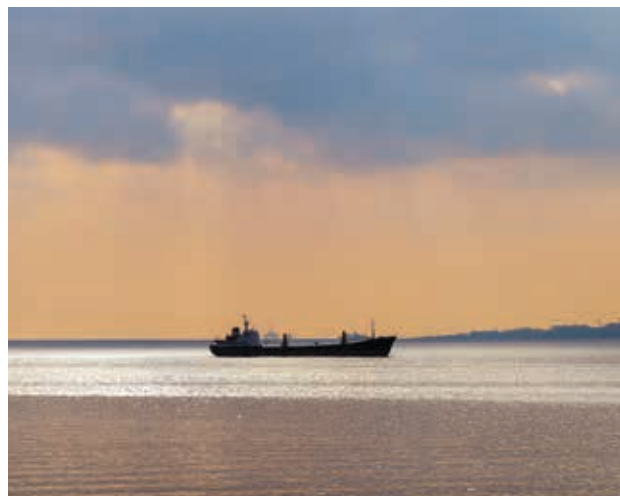
Detailed information on subsidiaries such as Azerbaijan State Marine Academy and ASCO Logistics LLC has been provided in the Key Business Lines section of this report. Other subsidiaries ASCO Dry Gemi İşletmeciliği A.Ş and ASCO Tankers Gemi İşletmeciliği A.Ş were incorporated in Istanbul, Turkey in 2017 and ensure the efficient operation of ASCO's dry cargo and tanker vessels in the water basins beyond the Caspian Sea, including a prompt resolving of cargo transportation issues. Azerbaijan Caspian

LLC was incorporated to carry out the construction of the residential block, while Denizchi Housing Construction Cooperative was incorporated to manage issues arising from the process of distributing the apartments to our employees. Seamen Polyclinic LLC, the Company's structural unit, carries out regular compulsory medical examinations of both seafarers and onshore personnel in accordance with maritime requirements. Established in 2018, ASCO Security LLC ensures the protection of all facilities included in the ASCO structure, including ship repair and construction yards, berths, vessels and other significant facilities and assets. At the same time, ASCO Transport LLC, which was incorporated in 2018, provides ASCO and its structural units with transportation services using its cars, buses, minibuses, trucks and special purpose vehicles.

Caspian Shipping LLC, one of ASCO's joint ventures, has been operating in Astrakhan, Russia since 2015 and ensures ready access of ASCO-owned vessels to the external water basins beyond the Caspian Sea through the Volga-Don and Volga-Balt canals. Another joint venture, the Caspian Marine Engineering Bureau LLC, was incorporated in 2016 between the



Shipping Limited was incorporated in the Republic of Malta in 2016 and provides documentation and agency services for ASCO vessels operating outside the Caspian Sea. Caspian Sea Transport Project Exploration and Scientific Research Institute provides shipping engineering and design services. To meet the housing needs of several former and current employees who have been in the housing queue for many years and whose housing conditions are unacceptable, ASCO initiated the building of a residential block at its own expense in 2016 and started to distribute these apartments to the given employees on preferential terms. To this end, Denizchi Repair and Construction



Caspian Sea Transport Project Exploration and Scientific Research Institute under ASCO and the Odessa Marine Engineering Bureau, a company with a high reputation for shipping engineering and design. 6 vessels currently being built at Baku Shipyard for ASCO, have been designed by this joint venture, including 2 new generation Ro-Pax ferries with a unique concept and 4 Volga-Don max type tankers.

ASCO's representative offices in Turkey, Kazakhstan, Turkmenistan, Iran and Greece assist in the prompt and effective resolution of issues that may arise in the ports of those countries and other related areas.

KEY STAKEHOLDERS AND RELATIONS WITH THEM

The Company's Sustainability Policy covers all of the structural units, all types of its commercial and non-commercial activities, as well as relations with all direct and indirect stakeholders, both domestic and foreign. 100% of the Company's shares are owned by the state, and in this regard, the main stakeholder of the company is its shareholder - the state of Azerbaijan. The Company reports to the Government of Azerbaijan on its activities in all spheres and coordinates the budget for the upcoming years.

In addition to the Company's shareholder, other major domestic and external stakeholders include, but are not limited to:

- Employees of ASCO - as of December 31, 2019, ASCO had 8,442 employees. Personnel are among the main stakeholders in the Company's activities and, therefore, it takes important measures to improve its employees' social and material welfare.
- Customers - ASCO serves both local and foreign companies in the cargo transportation markets, ship repair and construction, logistics, specialized offshore services and other fields.
- Suppliers - ASCO closely cooperates with both local and foreign suppliers of goods and services in the sphere of procurement. The selection of suppliers is carried out in accordance with the Procurement Guidelines of the Company, which are based on the principles of sustainable development, business ethics, anti-corruption, transparency and others.
- International organizations - being the largest shipping Company in the region, ASCO cooperates with international organizations, corporations and institutions and performs its activities in accordance with relevant international conventions.
- Other participants - ASCO cooperates with a number of local and foreign shipping companies, ports, agents, brokers, logistics companies, non-governmental organizations, media and other organizations and institutions as interested parties due to its wide range of shipping operations both in the Caspian Sea and water basins beyond the Caspian.



ASCO communicates with its key stakeholders by means of various letters, official notifications, instructions, working groups and business meetings. At the same time, a Public Consultative Council (the Council) was established at ASCO in 2017 with the objective of managing stakeholder relations. This Council serves to establish effective interrelations between the Company and the public, and to ensure clarity and transparency in its activities. The Council members come from civil institutions operating in the country, including non-governmental organizations (public associations and funds), mass media, trade unions, citizens' campaign groups, international experts and consultants, as well as ex-seafarers and current ASCO employees distinguished for their special skills and experience or who have a good reputation among current staff. Meeting regularly and led by the ASCO Chairman, this Council takes on the role of a consultative body and provides an opportunity to discuss the financial and operating results of ASCO's business operations, provide advice and suggestions, and ensure the participation of both the public and personnel during the decision-making process at ASCO.

COOPERATION WITH SUPPLIERS

ASCO recognizes that a well-established, efficient and transparent supply chain contributes to sustainable development, and prefers to work with suppliers who perform operations in an environmentally safe manner and without any adverse effect on the environment, adhering to the principles of sustainability and carefully respecting human rights.

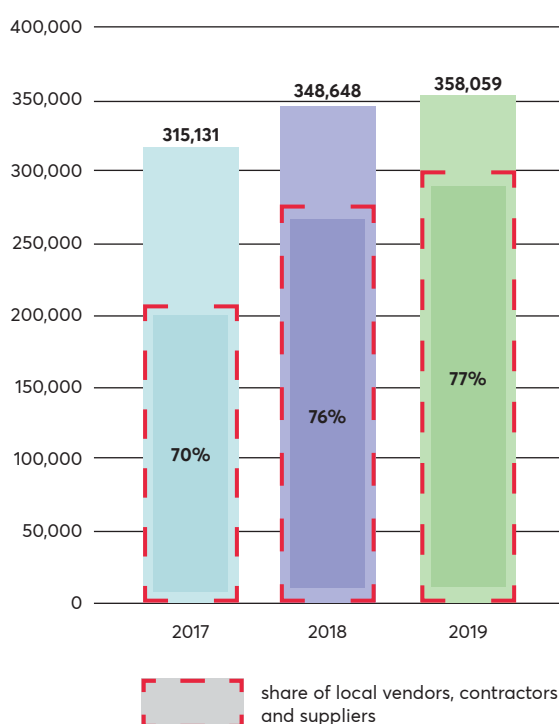
In accordance with the Law of the Republic of Azerbaijan On Public Procurement, the Procurement Committee (hereinafter referred to as the "Committee") was established at ASCO and its Statute and the Guidelines for the Organization and Management of Procurement at the Company were approved. The Committee is the competent authority responsible for the procurement of goods (works and services) and supervising these processes at the Company. The Committee's main objective is to organize procurement operations at ASCO in accordance with Azerbaijani legislation, the ASCO Charter and Guidelines for the Organization and Management of Procurement, as well as in accordance with the principles and good practice firmly established in the international shipping business.

One of the main principles of ASCO's Guidelines for the Organization and Management of Procurement is to ensure "effective value". The term «effective value» covers not only costs but also the quality of work, completion of work in time and other technical and commercial factors. These factors also include the capabilities, reliability and financial strength of vendors /contractors, as well as the volume of work they have previously completed in a similar field.

ASCO prefers to cooperate with vendors /contractors in implementing innovations who suggest solutions that reduce operating costs and ensure technical safety and environmental protection, and who have the ability and capacity to supply goods (works or services) to standards acceptable to ASCO.

The Company applies a particular management procedure for all vendors/contractors when taking effective value into account. Contractors who successfully pass the due diligence process are invited to bid and are included in the list of potential vendors, whereas those who fail to pass it are included in the register of unreliable (risky) parties. As a Company with 100% of shares owned by the state, ASCO is guided by the shareholder's policy to support local businesses. As such, ASCO prefers to acquire local goods, works and services that meet the relevant quality requirements, rather than procure products imported from abroad.

Procurement costs, thousand AZN



KEY FINANCIAL AND OPERATING RESULTS



FINANCIAL RESULTS

The global economic and political processes in recent years, including the global financial crisis, the sharp decrease in oil prices, and the global economic crisis accompanied by the devaluation of national currencies, have led to a decline in total trade and, hence, the volume of cargo transportation. Nevertheless, as a result of effective preventive measures taken in our country under the leadership of the President of the Republic of Azerbaijan, positive results have been achieved in transit cargo transportation through Azerbaijan, including in the shipping industry.

ASCO, in its turn, has continued to take measures to mitigate the effects of the global economic crisis by optimizing costs, eliminating excess spending, efficiently using revenues and bringing new cargo to the Trans-Caspian route. As a result of such measures taken, ASCO has built a financial model with sustainable development trends in recent



years. Thus, ASCO makes profits from its operations every year, and the annual net profit margin of the Company during 2014-2019 was higher than the 10% set as the minimum target. At the same time, ASCO's capitalization in 2019 increased by 78% compared to 2014.

Revenue and profit for 2014-2019, thousand AZN:

	2014	2015	2016	2017	2018	2019
Revenues	262,480	331,642	454,925	474,305	452,171	479,192
Net income (after tax)	34,016	68,997	108,266	100,131	52,462	63,873
Net income margin (after tax), %	13%	21%	24%	21%	12%	13%

Capitalization of the Company, thousand AZN:

	2014	2015	2016	2017	2018	2019	Total
Share capital at the beginning of the period	548,763	614,339	693,370	807,409	923,540	990,988	548,763
Share capital at the end of the period	614,339	693,370	807,409	923,540	990,988	977,314	977,314
Change in equity (+ increase, - decrease), thousand AZN	65,576	79,031	114,039	116,131	67,448	-13,674	428,551
Change in equity (+ increase, - decrease), %	12%	13%	16%	14%	7%	-1%	78%

* The decrease in equity in 2019 is due to the payment of dividends by ASCO.

ASCO has reported under international financial reporting standards (IFRS) since 2014. The financial reports prepared under these standards are audited annually by EY, an internationally renowned audit firm. These reports are published together with the audit opinion on the Company's official website.

To maintain the pace of development and ensure financial stability at the Company, ASCO steadily invests in fleet renewal, including the construction

and acquisition of new vessels and the overhaul of existing vessels, to ensure that their technical condition meets modern requirements. Information on investment by ASCO during 2014-2019 is shown in the following table:

Financial results for 2017-2019 (according to IFRS), thousand AZN

Income statement summary, thousand AZN	2017	2018	2019
Revenues	474,305	452,171	479,192
Cost of sales	(265,101)	(294,242)	(300,065)
Gross profit	209,204	157,929	179,127
General and administrative expenses	(52,120)	(52,461)	(51,485)
Social expenses	(5,103)	(12,132)	(12,354)
Other operating income	44,439	33,253	32,118
Other operating expenses	(52,105)	(48,114)	(56,672)
Loss from the decommissioning of vessels and fixed assets	(837)	(200)	(70)
Loss from exchange rate differences	(3,888)	(692)	157
Operating profit	139,541	77,583	90,821
Financial expenses	(1,410)	(1,914)	(1,288)
Profit before income tax	138,131	75,669	89,533
Income tax expense	(38,000)	(23,207)	(25,660)
Profit for the year	100,131	52,462	63,873

Investment by ASCO in 2014-2019

Indicators	2014	2015	2016	2017	2018	2019	Total
Investment, thousand AZN, including investment in:	113,111	67,626	147,458	145,800	163,981	112,974	750,950
Shipbuilding and acquisition of vessels	75,268	8,065	108,131	91,990	99,682	60,709	443,845
Overhauls of vessels	30,172	37,898	31,298	39,258	43,263	35,970	217,859
Other (construction, installation, other fixed assets and intangible assets)	7,671	21,663	8,029	14,552	21,036	16,295	89,246

KEY OPERATING RESULTS

CARGO TRANSPORTATION

There was an increase of 73% in the number of vehicles under the TIR convention transported by the Company in 2019 compared to 2018 and an increase of 3% in the number of railway cars, as a result of the engagement of new ferry and container cargo in the Trans-Caspian corridor, as well as the engagement of TIR vehicles travelling from Turkey to Central Asia along the route passing through the Caspian Sea. Further, the Company recorded a 1% increase in the volume of dry cargo transported by universal dry cargo vessels. Although there was a decrease in the volume of cargo transported by tankers, there was no decrease in revenue from the operation of ASCO-owned tankers sailing in the Caspian Sea during the reporting period, due to the fact that they operated under an annual time-charter agreement. The volume of cargo transported by ASCO-owned vessels, and the number of TIR vehicles and railway cars transported during 2017-2019 are presented in the following tables.

Volume of cargo transportation in 2017-2019, tons

	2017	2018	2019
Transportation by tankers	4,064,416	4,513,905	2,156,139
Transportation by general cargo vessels	867,105	813,731	822,109
Transportation by Ro-Ro vessels	157,910	135,153	176,629
Transportation by ferries	3,257,935	2,760,223	2,807,935

Transportation of railway cars and other vehicles in 2017-2019, units

	2017	2018	2019
Number of railway cars transported	46,624	42,917	44,159
Number of vehicles (TIR) transported	17,220	12,767	22,049



To take advantage of Azerbaijan's favorable geographical position on major trade routes in both East-West and North-South directions, and to make full use of the transit potential created in the country, it is important for all relevant agencies and organizations to cooperate in accordance with a common strategy. In this regard, with the initiative of ASCO, the preparation of strategy for the development of logistics industry in Azerbaijan was launched at the end of 2018 and ASCO signed an agreement with internationally recognized consulting firm EY (Ernst & Young) to carry this project. A working group consisting of members from relevant institutions involved in transport industry was set up during the execution of this project. The project was coordinated by the Ministry of Economy of the Republic of Azerbaijan. The possibility of bringing additional transit cargo to the routes passing through Azerbaijan was investigated as part of the project implemented by EY and, consequently, a strategy for the development of the country's logistics sector until 2023 was agreed. This development strategy encompasses the spheres that need to be improved in transport and logistics, factors that impose difficulties for transit cargo transportation, as well as proposals to eliminate such preventing factors. Currently, work is being performed to implement the strategy.

At the same time, in order to fully utilize Azerbaijan's transit potential and to develop the existing logistics systems in the country, ASCO closely cooperates with the relevant agencies and institutions participating in the transportation of goods in our country as it implements the Strategic Roadmap for the development of logistics and trade in the Republic of Azerbaijan approved by Presidential decree on December 6, 2016.

ASCO constantly analyzes freight markets, the competitiveness of freight routes passing through Azerbaijan compared to other routes, opportunities to bring additional cargo to routes passing through the Caspian Sea and, accordingly, whether to provide discounted rates to attract potential new cargo. For this purpose, ASCO has provided discounted transportation rates for aluminum, clay, urea, cotton, fertilizers, sugar, paraxylene, benzene and food products produced in Azerbaijan.

ASCO is one of the co-founders of the Trans-Caspian International Transport Route (TITR) established in 2014, and closely cooperates with the relevant agencies of the Republic of Azerbaijan and other countries located on that route to develop the route and attract additional cargo. At the same time, Azerbaijan Railways, Baku International Sea Trade Port, including ASCO, Kazakhstan Railways, Aktau and Kuryk ports, Georgian Railways, Poti and Batumi ports, Turkish Railways, Ukrainian Railways, Polish Railways and Romanian Railways regularly apply discounted rates every year within the framework of the Trans-Caspian International Transport Route project.

Further, ASCO is a member of the Caspian Sea - Black Sea International Transport Route. This route runs from Turkmenistan to Romania through the Caspian Sea, Azerbaijan, Georgia and the Black Sea, and serves to transport cargo between Central Asia and Europe. At present, collaborative measures are being taken by the member organizations of the route to increase the cargo volume.

While maintaining its leading position in the Caspian Sea, the Company places particular importance on expanding its activities beyond the Caspian Sea. Growth was achieved in ASCO's cargo transportation volumes by 12 universal dry cargo vessels and 2 tankers operating outside the Caspian Sea.

SPECIALIZED OFFSHORE SERVICES FOR THE OIL AND GAS INDUSTRY

The specialized offshore fleet of the Company provides services such as full support for the extraction of oil, gas and other hydrocarbon resources in the Caspian Sea carried out by SOCAR, BP, Saipem and other companies. This includes the construction of offshore platforms and offshore piers, geological exploration, the construction of oil and gas pipelines, their maintenance during exploitation, as well as other services including firefighting to protect oil facilities and transporting oil workers to their workplaces. The number of days worked by vessels on projects implemented by the Company's specialized offshore fleet in 2017-2019 is described in the table below.

Days worked by the specialized offshore fleet:

	2017	2018	2019
Total days worked	43,637	42,078	45,448



The Caspian Sea Oil Fleet at ASCO is involved in projects implemented not only within the Azerbaijani sector of the Caspian Sea but also outside the Azerbaijani sector. During the reporting period, the fleet's crane vessel and supply tug were involved in work on the Filanovsky oil field in the Russian sector of the Caspian Sea. Also, a vessel named the Irgiz owned by the Company provided supply and tug services in the Kazakh sector of the Caspian Sea within the Jambul project.

SHIP REPAIR AND CONSTRUCTION

Bibiheybat Ship Repair Yard and Zygh Ship Repair and Construction Yard, included in the structure of ASCO and possessing a floating docks and onshore repair facilities, provide a high-quality repair service for all types of vessels, with the involvement of highly-skilled professionals. These yards are equipped with top-of-the-range machine tools, equipment and accessories, allowing them to carry out works such as hull welding, metal melting, locksmithing, woodworking, installation of electricals and other vessel repairs.

The number of ship repairs carried out at both yards in 2017-2019 is reflected in the table below.

Number of ship repair operations:

Type of repair	Bibiheybat Ship Repair Yard			Zygh Ship Repair and Construction Yard		
	2017	2018	2019	2017	2018	2019
Class repair	11	17	20	9	6	8
Dock repair	27	33	43	7	29	24
Current repair	12	9	9	6	12	22
Emergency repair	13	10	1	0	1	0
Navigation repair between voyages	196	136	169	460	635	604
Dock service	21	36	30	2	0	1
Total	280	241	272	484	683	659

During the reporting period, the yards provided repair services to the vessels belonging to ASCO's fleets, as well as to vessels owned by other organizations operating in the Caspian Sea. As such, during 2018-2019, these yards provided overhaul, dock service and repair and maintenance services to 94 ships in total of various types, flying the flags of Azerbaijan, Russia, Kazakhstan



and Turkmenistan and owned by other shipping companies, including dry cargo, tanker, Ro-Ro, passenger, engineering-geological, supply and tug vessels.

The Company constantly optimizes the efficiency and effectiveness of the ship repair process. The Ship Repair Tracking system was designed and implemented in 2019 to strengthen electronic control over the ship repair process, planning of the spare parts and materials supplies required for ship repairs, and monitoring of the progress of work to ensure it is carried out on time and meets budget in accordance with the approved plan at

each stage of the ship repair process. At the same time, the ship repair process is analyzed, business process maps updated, relevant risks identified, and control mechanisms established to address those risks.

FLEET RENEWAL

The construction of new vessels, including the commissioning of new vessels meeting international standards and the modernization of the fleets, is a particular focus of the Company, with the objective of maintaining its leading position in the Caspian Sea and ensuring its sustainable development. With this objective in mind, platform-supply type vessels were purchased and added to ASCO's offshore fleet, such as Turkan and Zira in 2018 and Shahdag in 2019. Furthermore, the first tanker built at Baku Shipyard at the request of ASCO (named Lachin) was commissioned and the first of the Ro-Pax / Ferry type vessels being built there (named Azerbaijan) was launched. At present, the construction of 3 tankers with a capacity of 8,000 tons is continuing at the Baku Shipyard, along with that of 1 Ro-Pax / ferry type vessel.

In total, 22 new vessels have been commissioned by Azerbaijan Caspian Shipping Company over the past 6 years to renew the fleet, including 8 dry cargo vessels and 2 tankers for the merchant fleet. These also include the largest anchor handling tug and support vessel in the Caspian Sea, 3 supply vessels, 4 tugboats, 1 port tugboat and 3 passenger vessels for the specialized offshore fleet. Moreover, the construction of 6 supply ships has started at the Zygh Ship Repair and Construction Yard, financed internally. These ships are planned for launch in 2020.

In addition to those mentioned, the Company has already launched 2 high-speed passenger vessels with a limit of 150 passengers, 2 tankers with a capacity of 7,000 tons, 1 supply vessel and 4 platform-supply vessels in the Caspian Sea within the framework of its alliance with the Caspian Marine Services (CMS).





The Company has developed a plan to renew the fleet until 2029 to ensure transit cargo transportation through Azerbaijan and the continuity of services to the oil and gas industry, which is an important sector of the country's economy. The plan covers the minimum number of vessels required to be built and provides for the decommissioning of vessels with a completed useful life and technical conditions not meeting the latest requirements, as well as the construction of more than 70 vessels to replace decommissioned ones during the next 10 years.

TRAINING AND EDUCATION

The Company's demand for highly-qualified young professional personnel able to operate the latest technology is met by the Azerbaijan State Marine Academy, which belongs to ASCO. In order to reconcile the graduation of students at ASMA with the Company's demand for new personnel, the quality of alumni is more important than quantity. The minimum admission score for the Academy has increased as a result of the work carried out in this area. 29 people scoring more than 500 points and 4

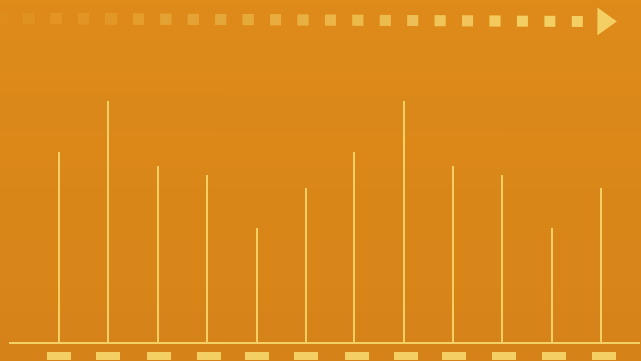
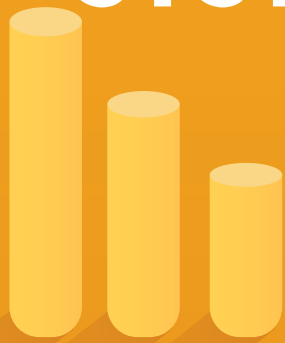


people scoring more than 600 points were admitted to ASMA during 2018-2019.

ASMA began providing education entirely in English in 2018 and then, the number of courses taught in English was increased in 2019. The main educational building at ASMA has undergone large-scale renovation. Lecture rooms, workshops and service rooms were redecorated, and all classrooms were supplied with new projector equipment, internet connections and laptops. 2 language labs and one computer study room were created to better equip the Academy in 2019. A gas turbine engine laboratory was set up in the Ship Power Plants department, and CADMATIC software, widely used in ship construction and design throughout the world, was installed at the Shipbuilding and Ship Repair Engineering department in 2019.

Having passed the relevant certification, 3 trainers from the ASMA Training and Education Center were authorized to conduct trainings on the DP2 simulator in 2019. In addition, syllabus and teaching aids were developed for 3 new training courses at the Center and the relevant courses were conducted in 2019. At the same time, training on safety standards in English was organized for employees of reputable foreign companies, such as Total, Saipem and BP. In total, the number of training courses conducted in English at the Training Center has increased threefold compared to 2018.

CORPORATE GOVERNANCE SYSTEM



CORPORATE GOVERNANCE SYSTEM OF THE COMPANY

ASCO understands the importance of the corporate governance system in building a modern Company and ensuring its sustainable development. It takes continuous measures and implements various projects in this area.

One of the important elements of the corporate governance system is the shareholder setting a long-term vision and development priorities. ASCO's strategic development priorities were approved by order of the Cabinet of Ministers of the Republic of Azerbaijan in 2015. Further, the State Program on the Development of Shipping in the Republic of Azerbaijan in 2016-2020 was approved by order of the President of the Republic of Azerbaijan in 2016. The Strategic Development Program, which was adopted in 2014 and covered the short-term, medium-term and long-term goals of the Company, has been reconciled with the above documents, and ASCO's activities are designed to achieve these goals. Furthermore, McKinsey&Company, a leading international consulting firm, began developing a Strategic Development Plan until 2030 for ASCO at the end of 2019. The project is expected to be completed in the first half of 2020. The strategy developed within the project will cover the Company's opportunities to further expand operations outside the Caspian Sea while maintaining a leading position in the Caspian Sea for the next 10 years.

Another important element of an effective corporate governance system is the implementation of the statutory framework, which has been applied and well-tried in international practice. The Company has placed special emphasis on this priority since its incorporation.

The following is a list of some of the important regulatory documents applied at ASCO:

- Regulations of the Management Board
- Strategic Plan of the Company
- Sustainability Policy
- Corporate Governance Code



- Code of Conduct
- Instructions on Combating Bribery
- Instructions on Operating the Hotline Contact Center and Conducting Internal Investigations
- Data Disclosure Policy
- Financial and Operating Results Disclosure Policy
- Guidelines on Remuneration Based on Annual Performance
- Statutes of various committees
- The set of documents applicable for QHSEE (Quality, Health, Occupational Safety and Environmental Protection)
- The set of documents applicable for human resources management
- The set of documents applicable for internal audit
- The set of documents applicable for risk management
- Information Technologies Policy

A special focus is given to ensuring transparency in the decision-making process, as well as to taking the collective opinion into account during the decision-making process at ASCO. In this respect, in accordance with leading international corporate

governance principles, the following committees have been established in the relevant areas in order to ensure the adoption of collegial decisions in the Company's activities.

- The Procurement Committee
- The Risk Committee
- The Personnel Management Committee
- The Public Consultative Council

The Personnel Management Committee, a collective body, was established with the objective of ensuring more transparent and effective implementation of the existing human resources management procedures at ASCO. Its regulations were approved, and the Human Resources Management Guidelines adopted in 2018. More detailed information on the Committee has been provided in the Human Resources Management section of this report.

Additionally, the Public Consultative Council operates at ASCO to organize effective interaction between the Company and the public, to ensure openness and transparency in its activities, and to improve its operations. Meetings of the Council are held at least once a year and provide information on the activities of ASCO, the results achieved and future plans. Further, it answers questions put by veteran seafarers, captains and other crew members, as well as by NGOs and the media.

It is of crucial importance to obtain international certificates for the shipping industry and to organize its activities in accordance with the requirements of these certificates in order to establish a Company that meets modern requirements. The Company, the Azerbaijan State Marine Academy and the Training Center have been awarded 5-year ISO and ISM certificates of conformity since 2016. In this respect, the American Bureau of Shipping (ABS) conducts annual audits to ensure that the Company organizes its activities in accordance with the requirements of the awarded certificates. In the 2018-2019 reporting period, relevant audits were conducted at ASCO. These audits were completed successfully, and it was confirmed that the activities of the Company were organized in accordance with the requirements of the certificates.

Accountability and transparency are other important elements of corporate governance. IFRS have been applied at ASCO since 2014. The financial reports prepared in accordance with these standards are audited annually by EY, an internationally recognized audit firm. Alongside this, the Company has been preparing biannual Sustainability Reports which have been audited by EY since 2014. An additional point is that ASCO's first five-year report, covering 2014-2018, was prepared and audited during the reporting period. In accordance with the principles of transparency, the audited financial reports, five-year report and sustainability reports are published on the Company's official website, where they are publicly





available documents, while also being submitted to interested parties.

In accordance with the Company's strategic development priorities, it has collaborated with reputable international rating agencies to obtain a credit rating. ASCO received a credit rating from Fitch Ratings for the first time in its history in 2016. Later on, Moody's was engaged, and the Company's credit rating was re-assessed in 2019. These organizations analyzed ASCO's business model, conducted numerous meetings and carried out research, hence determining that ASCO's liquidity and ability to meet its credit obligations are sustainable.

International training in various fields is regularly conducted by ASCO to ensure that its personnel master the principles of the international corporate governance system and improve their awareness in this sphere. As such, ASCO closely cooperates with business academies of renowned international companies in this field – the American Bureau of Shipping, EY, PricewaterhouseCoopers (PwC) and the International Maritime Association BIMCO (the Baltic and International Maritime Council).

Given the importance of hardware and software systems in building an effective corporate governance system, particular attention is paid to the automation of business processes and the application of innovative software in the Company. In this regard, ASCO initially established a unified central IT network in 2014, covering all Company

departments through fiber-optic channels. Later, programs and systems that were crucial for modern management were implemented. This includes the application of the SAP system, the establishment of the Central Electronic Dispatch System, the installation of Fleet Positioning Software, which allows to determine the position of vessels on electronic maps at any time, the application of the Electronic Document Exchange System serving for the preparation, approval and exchange of documents electronically, the Electronic Ticket Purchasing system, which enables customers to purchase tickets for passengers and cargo by making online transactions, as well as the application of the Ship Repair Tracking system, which allows monitoring of the ship repair process. In addition, software systems such as SeaSolution, EBrus, SeaHydro and CADMATIC, which are used to design new ships for the ASCO fleet, calculate the hull strength and hydrodynamic parameters of vessels, and create 3D models of ships, have been successfully implemented by the Company.

Modules of SAP ERP, a system used by leading companies throughout the world, have been successfully implemented in the Company, including financial accounting, human resources management, inventory management and materials demand planning, sales, treasury, prime costing, tax accounting and business analysis modules. At present, ASCO is working on the implementation of the ship repair and planned maintenance module of the SAP ERP system.



ASCO's corporate governance system was analyzed by international audit and consulting firm EY in 2016 and a Roadmap was developed outlining the measures that needed to be taken to further improve it. The implementation of all projects envisaged under the Roadmap was successfully accomplished during 2016-2017. Later, at the end of 2017, ASCO's corporate governance system, existing documents and their level of application, the process of adoption of strategic and other important decisions, risk management, internal control and audit, and the level of transparency in operations, were all analyzed by another international accountancy firm, Deloitte. Taking into account both internal and external factors, the Company was awarded a positive corporate governance rating in 2018 as a result of that analysis.

COMPENSATION AND REMUNERATION SYSTEM

Human resources, one of ASCO's core values, play an important role in ensuring the sustainable development of the Company. From this perspective, the Company constantly focuses on rewarding accomplishments and incentivizing its personnel. As a continuation of the work performed on the application of the international corporate governance system, ASCO has been implementing a remuneration system, i.e. an incentive scheme, based on the annual performance indicators of employees, which is widely used in international practice.

Work was carried out to develop the annual KPI-based Remuneration System in 2018-2019. ASCO's Remuneration System is already aligned with international practice, the Guidelines for Evaluating the Effectiveness of the Performance of Legal Entities with a Controlling Block of Shares Owned by the State, Corporate Governance Guidelines

and Standards for Joint Stock Companies with a Controlling Block of Shares Owned by the State, and the Guidelines for Bonus Payments based on Performance Indicators to Members of Management Bodies of Legal Entities with a Controlling Block of Shares Owned by the State, which were approved by order No. 257, dated June 4, 2019, of the Cabinet of Ministers of the Republic of Azerbaijan.

The Remuneration System is governed by the Guidelines for Remuneration Based on Annual Performance approved by the ASCO Management Board. Under the Remuneration System, balanced KPIs were set aimed at achieving the Company's strategic goals and objectives. Scorecards were developed for each KPI, and the Working Group on the Remuneration System was established to regulate and coordinate the remuneration processes.

The Remuneration System meets the following principles, criteria and objectives:

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

In 2019, the ASCO Remuneration System was analyzed by Deloitte concluding that the Remuneration System was aligned with international practice and the systems implemented by leading companies both in the region and internationally.



INTERNAL CONTROL SYSTEM

An internal control system has been established at the Company with the objective of increasing efficiency and preventing risks. The internal control function is performed by the Internal Audit Department and the audit reports prepared by this department are submitted to the ASCO Management Board. The Internal Audit Department checks the activities of ASCO, its subsidiaries, departments, branches and representative offices for compliance with Azerbaijani



legislation and ASCO's internal documents, monitors operations for compliance with business process maps, oversees adherence to process control mechanisms, as well as provides regular assessments of the internal control mechanisms. In addition, the Company's internal auditors, besides auditing various areas, also provide consulting services within the Company. At present, internal audit at the Company is governed by the Internal Audit Strategy, Policy, Methodology and Guidance on internal audit, and instructional documents on the collection and storage of audit-related documents, as well as their submission to both internal and external parties.

All major business processes at ASCO, together with their sub-processes and process owners, have been identified, and all business processes have been mapped together with their process owners. Existing risks in business processes and appropriate control mechanisms to address those risks are reflected in the Matrix of Risks and Control Mechanisms. Having taken into account changes in the structure, new processes, new risks and control mechanisms, relevant actions were carried out at ASCO during 2018-2019 to optimize the business process maps, as well as to improve the internal control system.

The performance of ASCO's internal audit function during the last 5 years, together with the Company's internal audit methodology and accountability, were analyzed by independent audit and consulting firm PwC in 2019, who highly evaluated the implementation of the internal audit function. Further, proposals and recommendations to further improve the internal audit function were presented and successfully implemented. In addition, PwC organized training on the internal audit and control system for the relevant ASCO employees in 2019.

The cooperation established between the internal audit function and external independent auditors is one of the indicators of the objectivity of the Company's internal audit and control system, and of the fact that it has reached an optimal level. As such, according to the agreement reached with EY, the Company's internal auditors will be involved in implementing mutually agreed audit procedures during the external independent audit of ASCO's annual financial statements commencing in 2019. The main purpose of the cooperation is to ensure the exchange of experience between internal and external auditors, and to accelerate the process of preparing annual financial statements by reducing the workload of the external auditors.



RISK MANAGEMENT

The Risk Committee and Working Group were established at ASCO to identify, assess and manage risks associated with the Company's business activities. All work carried out in this sphere is regulated in accordance with the following documents: the Committee statute, Risk Management Policy, Risk Management Concept and Guidelines, and Risk Detection, Assessment and Monitoring. The risk management actions are evaluated and the preventive measures to be implemented are discussed at meetings of the Committee held quarterly. All risks are reflected in ASCO's Corporate Risk Map and approved by the Chairman of the Company after being reviewed by the Committee.

ASCO's risk management system is based on the COSO (Committee of Sponsoring Organizations) Enterprise Risk Management (ERM) methodology. This system is integrated with the Company's performance and strategy and serves to achieve the goals set by the Company. With the objective of systematizing and ensuring regular performance of the risk monitoring process at the Company, the Risk Management Monitoring and the Materialized Risk Monitoring Forms are used. In total, two materialized risks were reported in 2018 and one in 2019 according

to the Risk Management System. These risks do not fall into the high category and there have been no serious impacts or penalties imposed on the Company due to their materialization.

The development and regular updating of the Corporate Risk Map is a key focus. According to the Corporate Risk Map, the material risk categories include strategic, personnel, inventory and equipment supply, commercial, information technology, security, market, financial, and environmental risks. Specific preventive measures are identified and reflected in the risk scorecards in order to minimize environmental, sustainability, occupational safety and other risks. Preventive measures include providing the relevant vessels with insurance certificates by taking into consideration the requirements of the 2001 International Nairobi Convention on Civil Liability for Bunker Oil Pollution Damage and the 1992 International Nairobi Convention on Civil Liability for Oil Pollution Damage to prevent the risk of oil spills. Moreover, compulsory insurance agreements are concluded against loss of earning capacity as a result of accidents or occupational disease.

Regular analysis is conducted at ASCO and work carried out to improve the Corporate Risk Map, as well as to simplify the risk scorecards and their compilation by users. Furthermore, training courses





are organized to increase the knowledge of the Company's management and personnel in the field of risk management. In this regard, training courses on Risk Management and Risk Assessment in Business Decisions were conducted in 2019 for ASCO's management and staff by the Kyiv Business Academy of internationally renowned firm EY.

BUSINESS ETHICS AND DISCIPLINARY RULES

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

The key principles of the Code of Conduct are as follows:

- Ensuring transparency in the business activities of ASCO and increasing trust in the Company invested by business associates, suppliers, customers, authorities and other third parties;
 - Avoidance of damage to the reputation of the Company due to the unethical behavior of employees or their behavior contravening applicable law.
- Strict observance of the Code of Conduct and rules of discipline during the performance of daily business and in relations with interested parties is an important focus at ASCO. In this regard, the Company's employees are regularly trained and educated to increase their awareness of business ethics. Online training in business ethics and combatting corruption was conducted through the training platform launched at ASCO in 2019. No cases of violations of employees' rights to liberty and security, of violations such as slavery, forced labor or child labor, or human rights violations concerning suppliers were reported during the reporting period of 2018-2019. Employees who violate the ethical norms and values established by the said internal regulatory instruments of the Company and applicable legislation shall be subjected to disciplinary sanctions in accordance with ASCO's internal documents and applicable legislation. In the event of any minor or insignificant cases of violation of internal disciplinary rules, the
- Application of uniform and carefully-set ethical norms and values, as well as principles of professional conduct, both within ASCO and in relations with counterparties, including third parties;
 - Establishing and maintaining an environment of honesty, integrity, trust and mutual respect at ASCO;



Human Resources Department and the immediate supervisor of the relevant employee shall provide appropriate instructions and warn the employee.

ASCO places particular importance on the full protection of human rights in all areas of its activities and constantly works in this area. The protection of human rights at the Company is governed by the Company's Code of Conduct, the Constitution of the Republic of Azerbaijan and other statutory instruments in the country, as well as international conventions, including the European Convention for the Protection of Human Rights and Fundamental Freedoms. Employee rights are fully protected, including labor, safety, strike and vacation rights, and rights to social security, education, freedom of thought and speech, protection of honor and dignity, living in a healthy environment and citizenship.

ANTI-BRIBERY MEASURES

The prevention of bribery and its constant maintenance at a zero level is a key focus at ASCO, in order to ensure the Company's sustainable development. For this purpose, an Instruction on Combating Bribery was approved and implemented in 2014, while a Hotline call center was established to facilitate the reporting of possible violations in an effective manner. The Instructions on Combating

Bribery regulate issues relating to the timely detection and prevention of corruption offences and fraudulent activities and the elimination of their results, as well as the implementation of anti-bribery activities and the setting of fundamental principles and requirements in this field, including the responsibilities of employees for the prevention of corruption.

According to the Company's recruitment procedure, newly recruited personnel are familiarized with the instructions and also instructed accordingly by the Human Resources and Legal departments. In addition, the Company constantly raises the awareness of personnel on anti-bribery requirements. A total of 450 people, including 89 executive officers, participated in anti-bribery training conducted in 2018. In 2019, this work was carried out by means of an electronic training platform established at ASCO. Employees were provided with extensive information and training on anti-bribery measures through the electronic platform, and at the end of the training, a test consisting of 10 questions was taken to check the understanding of the training material. 36 executive officers and 92 staff members participated in the training conducted through the electronic platform at the Company's head office. Alongside this, employees are interviewed on a selective basis during internal audits and their level



of knowledge of the Instructions on Combating Bribery is assessed. The results of this monitoring are reflected in the audit report. Non-tolerance of bribery is also communicated to all contractors cooperating with ASCO, and relevant clauses to combat bribery are incorporated into contracts.

The Hotline call center at ASCO records and investigates grievances about the Company and takes appropriate preventive measures. Information about the call center and its telephone numbers are posted at visible places at ASCO's head office and all of its structural units, as well as being published on the Company's official website. Every ASCO employee is required to take all possible measures to prevent existing or potential bribery and to notify the relevant persons or call the Hotline to notify it of any bribery cases. Thanks to the operation of the call center, every employee has an opportunity to freely express their opinion and claim the protection of their rights without being exposed to any legal or social pressure.

ASCO received two complaints through the Hotline in 2018 and six in 2019. These complaints involved labor relations and social issues, and the issues raised in the complaints were resolved positively in accordance with Azerbaijan legislation and ASCO's internal rules. During the reporting period of 2018-2019, no bribery cases were reported at ASCO.

FUTURE PLANS

ASCO intends to continue to implement projects for further improvement of the Company's corporate governance system. One of the projects planned for 2020 is development of the roles and responsibilities distribution matrix for business processes (RACI).

Also, ASCO's head office is planned to be certified according to ISO 37001 (anti-bribery management system). An additional point is that we plan to gain ISO 31000 certification for the risk management system and to implement the changes envisaged in COSO 2017.

In order to improve the IT systems used at ASCO, the Company intends to integrate various existing ship operation systems into a unified platform, as well as to improve and automate the Management Reporting System.

Furthermore, we plan to automate the process of calculating KPIs within the Remuneration System and to implement an appropriate IT system for this purpose.

HUMAN RESOURCES MANAGEMENT



HUMAN RESOURCES MANAGEMENT POLICY IN THE COMPANY

ASCO personnel fulfils a crucial role in ensuring the sustainable development of the Company. Our people are one of the Company's core values. ASCO ensures the rights and social and material wellbeing of its employees and focuses on their personal and professional development in accordance with relevant local and international laws, including international corporate governance standards.

Information on the total workforce for 2017-2019, as well as the number of newly hired and terminated employees, is provided in the following table:

Total workforce, number of employees hired and dismissed in 2017-2019

	2017	2018	2019
Workforce	8,921	8,606	8,442
Number of employees hired	928	521	284
Number of employees terminated	628	552	538

The Human Resources Management Guidelines and Policy have been implemented in the Company in line with international requirements since its incorporation. ASCO's Human Resources Management Policy serves to achieve efficiency, transparency and equal opportunities for all employees, enabling the Company to build teams which can achieve ASCO's strategic goals by creating a healthy work environment and safe conditions.

The Personnel Management Committee, a collective body, was established to ensure efficient implementation of the existing human resources management procedures at ASCO. Upon the approval of its charter, the Human Resources Management Guidelines were updated in 2018. The Committee oversees recruitment, reassignment,



labor contracts, salary rates, salary supplements, approving staff positions and the headcount structure in accordance with international human resources management practice. The Deputy Chairman of the Company presides over the Committee, while other members include the heads of the Human Resources Management, Finance and Accounting, Legal, Fleet Technical Operations, Marine Navigation Safety and QHSE departments, as well as the Chairman of the Trade Union.

In 2019, the Recruitment and Vacancy Management IT system was launched at the Company. This system tested the theoretical knowledge of the fleet personnel. The exam results are issued immediately, and the relevant document is sent to the examinees. Alongside this, a Reserve Talent Pool has been established at ASCO to support young people who have obtained secondary vocational education or higher education in seafaring and want to build a career in this field, as well as to promptly satisfy the Company's demand for potential personnel.

Induction training is carried out with the objective of ensuring that newly-recruited ASCO employees adapt to their new workplace and the corporate environment at the Company. To cultivate effective cooperation between departments all



new hires are instructed on the Company's internal disciplinary rules, the Company's Code of Conduct, combating bribery, the Hotline call center, the dress code, QHSEE rules, desk etiquette, structure of the Company and other information.

It is noteworthy that ASCO holds a service performance assessment (PA) in line with leading international practices and conventions, as well as the rules of corporate governance and personnel motivation. The relevant managers assess both the individual and professional performance indicators of their subordinates and identify those needing improvement. At the same time, the service performance assessment results are used to map the future career development perspectives and to prepare relevant training programs for employees. Moreover, since 2019 the PA has been taken into consideration when setting annual remuneration, in line with the Company's Guidelines on Annual Performance Based Remuneration. During the reporting period, extensive measures were taken to digitalize the performance assessment. This measure ensures a fully automated process through a web platform and thus increases the transparency

of the process, allowing the incoming data and assessment results to be collected and analyzed in a centralized database.

TRAINING AND EDUCATION

Training and continuous development of professional and competent personnel with knowledge and skills to meet the requirements of modern technologies is a key factor in ensuring sustainable development. In this respect, particular focus is placed on the setup of training and seminars for ASCO employees and executives on the requirements of international standards, modern management principles, modern equipment and innovative technologies used in the shipping industry.

In order to achieve the highest results, ASCO closely cooperates with business academies of renowned international companies in this field, such as the American Bureau of Shipping, International Maritime Association BIMCO (Baltic and International Maritime Council), as well as EY, Deloitte and PwC. Moreover, an electronic training platform was created and launched in 2019, enabling employees to participate in training courses online at any time.

In 2018, nine ASCO employees participated in the Project Management Education Program organized with the joint support of BP and the Baku Higher Oil School. Upon successful completion of the program, participants were awarded certificates by the prestigious George Washington University in the United States. In 2019, ASCO employees participated in workshops and training courses organized by the People's Republic of China. A total of 15 employees from the ASCO head office, Azerbaijan State Marine



Academy and the Caspian Maritime Transport Design and Scientific Research Institute participated in workshops and training courses on international logistics, scientific research, education, finance, information technology, environmental protection, and other subjects. Having successfully completed the courses, participants were awarded certificates. In addition, one employee from ASCO's Maritime Navigation Safety Department participated in training on Capacity Development for Port Facilities Protection conducted in Japan in 2019.

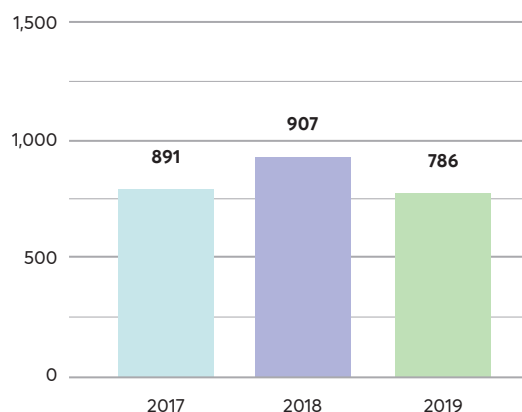
Conducting training in corporate governance also continued at the Company during the reporting period. To broaden staff knowledge in the field of risk management, training courses on Risk Management and Risk Assessment in Business Decisions were conducted in 2019 for ASCO's management and junior staff by the Kyiv Business Academy of internationally renowned firm EY. At the same time, Deloitte conducted training in Cyber Security for ASCO employees and provided detailed information on existing threats in information technology throughout the world and their consequences. Further, the American Bureau of Shipping (ABS) conducted training courses for ASCO personnel on business ethics, effective meetings management, and innovations in global shipping. In total, the number of training days per employee in ASCO was 4.2 in 2018 and 3.5 in 2019. As the recording of this indicator only started in 2018, no data for 2017 is provided. For the next reporting period, this indicator is expected to be presented in hours.

Relevant training and courses are constantly organized at the Training and Education Center (TEC) operating under ASMA to update the necessary certificates and increase the knowledge and skills of seafarers. Currently, TEC holds certificates that

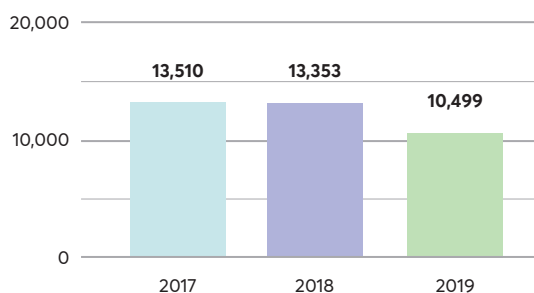


entitle it to conduct 41 different training courses. In total, 1,693 training courses were conducted by the Center during 2018-2019 with 23,852 participants.

Number of training courses conducted at TC



Number of participants at the training courses conducted at TC



The Training and Education Center commenced training in English as well as Azerbaijani in 2018. Employees of reputable foreign companies, such as Total, Saipem and BP, were trained in safety standards at the Training Center in 2019. In total, the number of training courses conducted in English in 2019 increased by more than 3 times compared to 2018.

EMPLOYEES AND EMPLOYEE RELATIONS

Creating a healthy working environment, building a strong team and maintaining progress are crucial for ASCO. Strengthening of communications and professional relations between ASCO management and employees, the establishment of bilateral relations to eliminate existing difficulties, as well as consideration of the opinions and suggestions of employees are a key focus in the Company's activities.

Along with traditional communication channels, ASCO widely uses digital systems such as an internal electronic data exchange portal and its electronic document exchange system to ensure continuous and direct communication between employees. The information on recent updates at the Company, structural changes, new appointments and similar events are delivered to employees through the electronic document exchange system in the form of instructions, e-mail notifications, announcements on the Company's internal portal and other forms.

Particular attention is paid by ASCO to incentivizing employees. The Remuneration System Based on Annual Performance was implemented in 2017. Detailed information on this system is provided in the Corporate Governance System section of this report. In addition to the Remuneration System, ASCO runs an additional monthly payment scheme for distinguished service, as well as providing honors, orders, medals, honorary titles and badges. It holds competitions to identify the best sailing personnel and takes other measures aimed at motivating its employees.

A collective agreement applies to all ASCO employees. The agreement was drafted with due consideration of the Labor Code of the Republic of Azerbaijan and the International Labor Organization's conventions

on working conditions, working regimes and catering for seafarers. According to international standards and the terms of the collective agreement applied at ASCO, the Trade Union Committee must be notified at least 2 months in advance in case significant changes are expected in the Company, or in case of measures that could lead to the abolition of jobs or mass redundancy.

DIVERSITY AND EQUAL OPPORTUNITIES

Diversity and equal opportunities are important for building a healthy and equal team and for making decisions based on transparent and wide range of opinions. ASCO recognizes that it is possible for the Company to move forward, meet its strategic goals and ensure sustainability only with a healthy, cohesive team endowed with diversity and assured of equal opportunities.

ASCO constantly ensures the absence of discrimination among staff members, who are the driving force of its development. As such, ASCO has established a healthy working environment that provides equal opportunities for every employee, regardless of race, religion, physical appearance or membership of any particular group, to raise their professional level, develop their career, and express opinions or suggestions. The assessment of performance of the Company's employees is carried out objectively, taking into account only their skills and professionalism, as well as the outcome achieved by the relevant employee.



The absence of discrimination and provision of equal opportunities to employees by ASCO is regulated by the Company's Code of Conduct, the Law of the Republic of Azerbaijan on State Guarantees of Gender Equality, and the United Nations and International Labor Organization Convention on Equal Remuneration based on the principle of "The Same Remuneration for the Same Labor".

Because the seafaring profession requires high physical fitness, the ability to do physically demanding work at sea in poor weather conditions, and in some cases to work on the open seas outside the country and away from family for a long time, the majority of sailors in the world today are men. A similar trend is observed at ASCO as well. However, ASCO has created favorable conditions for both men and women in all possible positions, both offshore and onshore. Believing that gender equality is a key condition for ensuring sustainable development and good governance, the Company focuses on minimizing vertical gender segregation, as well as increasing the number of women in managerial positions. At the same time, in recent years some of ASCO's structural units not directly related to its core

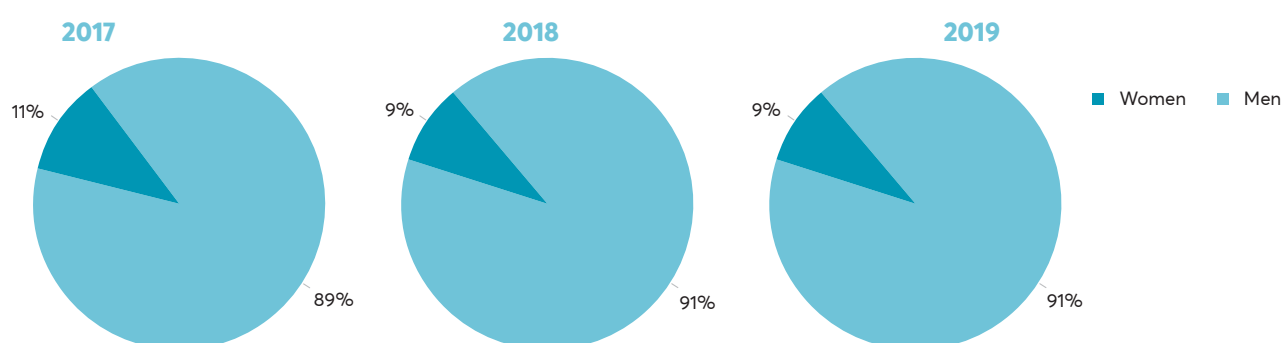
business, including the Central Seamen's Hospital, the Social and Cultural Activities Center for Seafarers, kindergartens and other supporting facilities, have been transferred to the relevant authorities. Due to the fact that most of the employees of these entities were females, the number of female employees working at ASCO decreased in 2018-2019.

During the reporting period, there were no reported incidents or complaints of discrimination based on gender, race, religion, political opinion, age, disability, IDP status or affiliation with any particular group.

Number of employees by category and gender for 2017-2019

Categories*	2017		2018		2019	
	Female	Male	Female	Male	Female	Male
Managers	51	1,455	44	1,452	47	1,559
Professionals	580	1,537	360	1,965	367	1,808
Technical specialists	68	53	71	17	54	14
Blue collar workers	318	4,859	286	4,411	283	4,310
Total	1,017	7,904	761	7,845	751	7,691

* In recent years some of ASCO's structural units not directly related to its core business, including the Central Seamen's Hospital, the Social and Cultural Activities Center for Seafarers, kindergartens and other supporting facilities, have been transferred to the relevant authorities. Due to the fact that most of the employees of these entities were females, the number of female employees working at ASCO decreased in 2018-2019.



Number of employees by age

	2017			2018			2019		
	Up to 30	30-50	Over 50	Up to 30	30-50	Over 50	Up to 30	30-50	Over 50
No. of employees by age	1,431	4,243	3,247	1,370	4,305	2,931	1,208	4,184	3,050

Number of employees by gender hired in 2017-2019

	2017		2018		2019	
	Female	Male	Female	Male	Female	Male
Total number of employees hired	98	830	36	485	28	256

Number of employees by age hired in 2017-2019

	2017			2018			2019		
	Up to 30	30-50	Over 50	Up to 30	30-50	Over 50	Up to 30	30-50	Over 50
Total number of employees hired	445	293	190	229	198	94	150	88	46

Number of employees by gender dismissed in 2017-2019

	2017		2018		2019	
	Female	Male	Female	Male	Female	Male
Total number of employees dismissed	92	536	101	451	52	486

Number of employees by age dismissed in 2017-2019

	2017			2018			2019		
	Up to 30	30-50	Over 50	Up to 30	30-50	Over 50	Up to 30	30-50	Over 50
Total number of employees dismissed	119	206	303	85	205	262	107	215	216

Composition of the Management Board by gender

	2017		2018		2019	
	Female	Male	Female	Male	Female	Male
Management Board	0	6	0	6	0	6

Composition of the Management Board by age

	2017				2018				2019			
	Up to 30	30-50	50-60	Over 60	Up to 30	30-50	50-60	Over 60	Up to 30	30-50	50-60	Over 60
Management Board	0	4	2	0	0	3	3	0	0	2	4	0

Composition of the Management Board

Name	Position	Birth year
Rauf Goyush oglu Valiyev	Chairman	1965
Mubariz Mustafa oglu Jabbarov	First Deputy Chairman on exploitation issues	1968
Farhad Tofiq oglu Guliyev	Deputy Chairman on commercial, strategic development and innovations issues	1981
Jalal Hasanaga oglu Farajli	Deputy Chairman on economic issues	1967
Jabrayil Idris oglu Mahmudlu	Deputy Chairman on general issues	1966
Nazraddin Murad oglu Ahmadzada	Deputy Chairman on regime issues	1982

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

FUTURE PLANS



ASCO will keep improving its human resources management system, continuing to apply international practice and various governance tools.

The Company plans to implement a Career Development IT system as part of its process digitalization. This system will allow the collection of information in a centralized electronic database storing statistics data on the personnel performance, provide training required for their future development, collect information on those responsible for monitoring personnel development, analyze the information, and consequently better manage the career development of promising personnel. Furthermore, it is planned to automate the KPI calculation process within the Remuneration System and to implement an appropriate IT system for this purpose.

ASCO intends to take certain measures to support the Academy's strategic development plan. These include bringing in new equipment, continuous



improvement of the training and education system in compliance with modern requirements, as well as organization of joint training programs with foreign maritime universities. Another key part of the development plan is continuation of scientific and technological research on shipping, organization of research conferences, broadening the capacity of education provided in English. It is planned to organize workshops to increase knowledge and raise awareness of students on the Global Sustainable Development Goals, as well as implement measures to further develop the Azerbaijan Marine College and Training and Education Center operating under ASMA.

SOCIAL ACTIVITIES



SOCIAL ACTIVITIES

ASCO is aware of its corporate social responsibility to the community and, as is the case with all areas of its activities, always focuses on ensuring sustainable development in social activities.

The social activities of the Company include the following areas:

- Financial support, charity and social projects
- Employee welfare and support for their health
- Support for the development of sport in the country
- Youth support
- Promotion of the seafarer profession and support for seafarers' education

Number of people receiving welfare assistance

Unit	2018	2019
ASCO head office	26	28
Merchant Fleet	191	248
Caspian Sea Oil Fleet	410	482
Bibiheybat Ship Repair Yard	266	442
Zygh Ship Repair and Construction Yard	98	285
Azerbaijan State Marine Academy	20	17
Production Services Department	232	131
Zygh Dry Cargo Port	9	9
"ASCO Security" LLC	-	40
"ASCO Transport" LLC	-	120
Denizchi Repair and Construction LLC	19	38
Denizchi Housing Construction Cooperative	1	4
"Seamen Polyclinic" LLC	3	5
Total	1,275	1,849

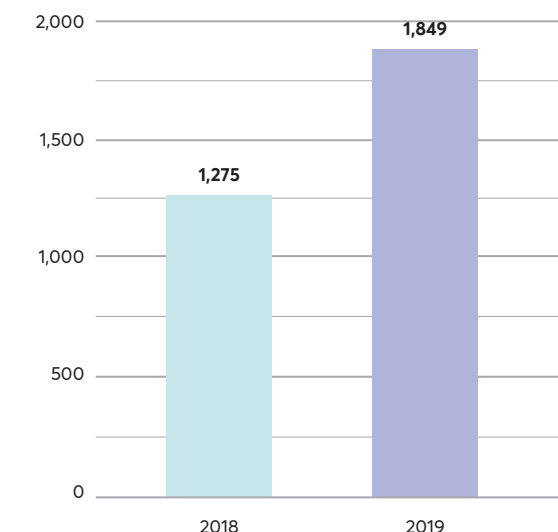
FINANCIAL SUPPORT, CHARITY AND SOCIAL PROJECTS

As part of its corporate social responsibility, every year ASCO regularly provides welfare assistance to orphans, families facing severe financial problems, war veterans and people with disabilities. Work in this area is carried out in accordance with the Company's Regulations on the Provision of Welfare Assistance. Information on welfare assistance provided by the Company in 2018-2019 is presented in the following tables.

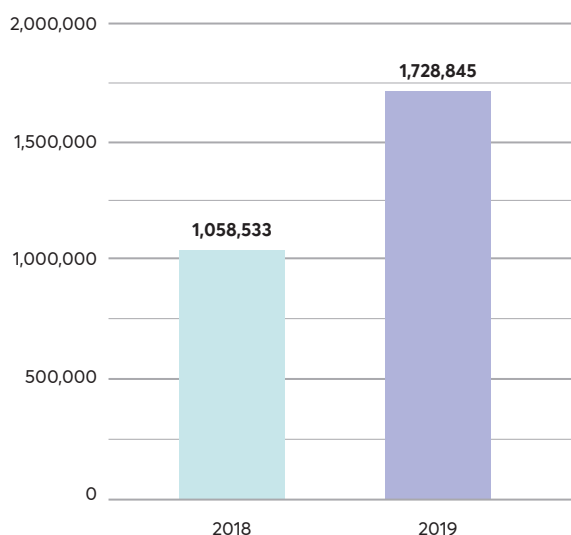
Amount of welfare assistance, AZN

Unit	2018	2019
ASCO head office	27,100	33,780
Merchant Fleet	190,376	245,138
Caspian Sea Oil Fleet	467,407	583,522
Bibiheybat Ship Repair Yard	116,440	146,185
Zygh Ship Repair and Construction Yard	68,140	487,371
Azerbaijan State Marine Academy	13,760	16,480
Production Services Department	141,370	90,827
Zygh Dry Cargo Port	7,400	4,600
"ASCO Security" LLC	-	25,587
"ASCO Transport" LLC	-	46,804
Denizchi Repair and Construction LLC	19,440	34,050
Denizchi Housing Construction Cooperative	700	9,000
"Seamen Polyclinic" LLC	6,400	5,500
Total	1,058,533	1,728,845

Number of people who received welfare assistance



Welfare assistance amount, AZN



ASCO cares for the families of those who fell in battles for the territorial integrity and independence of Azerbaijan, as well as for refugees and internally displaced persons (IDPs). As such, food aid is provided during the holidays to 3,350 families of refugees and IDPs from Khojaly, Kalbajar, Lachin, Aghdam and Shusha who are settled in the Goranboy region. At the same time, it continues to provide support, care and help to the descendants of the victims of the Karabakh War and the tragedy of January 20, as well as to people with disabilities. Since 2019, ASCO has been paying monthly allowance of AZN 250 to the descendants of martyrs previously employed at the Company, AZN 150 to disabled people, and AZN 100 to Karabakh war veterans, totaling 128 people. Moreover, ASCO always highly appreciates the service rendered by veterans to our society and

country, and in this regard, every year on the eve of the Victory Day on May 9, the Company provides welfare assistance to veterans who fought at the frontline or worked on the home front.

In addition to the above social allowances, the Company is the guardian of the children of former employees who lost their lives or have lost their ability to work, as well as of other children in need. The children who are under the ASCO guardianship receive welfare assistance equal to the double minimum wage and the Company also covers all their higher education expenses. The information on children under ASCO's care in 2017-2019 is provided in the following table:

Children under ASCO's care

Structural unit	2017	2018	2019
Merchant Fleet	21	22	23
Caspian Sea Oil Fleet	76	72	75
Zygh Ship Repair and Construction Yard	1	1	5
Bibiheybat Ship Repair Yard	9	7	6
Production Services Department	6	11	9
Azerbaijan State Marine Academy	1	1	1
"ASCO Security" LLC	-	-	1
Total	114	114	120

One of the social projects run by ASCO was the visit of ASCO employees and ASMA students to the liberated village of Jojug Marjanli in Jabrayil region during the Novruz holiday in 2019, where a concert



program for the military personnel of "N" unit was organized. Moreover, a tree-planting campaign was held in Jojug Marjanli to mark the 96th anniversary of the birth of the national leader, Heydar Aliyev. During this campaign, ASCO management and employees, together with the soldiers and officers of the "N" unit, planted more than 100 plane trees.

Voluntary blood donation campaigns were held at ASCO in 2018-2019 to support the state care program approved by the President of the Republic of Azerbaijan for children suffering from hemophilia and thalassemia, as well as the Heydar Aliyev Foundation project titled "For a life without thalassemia". The main purpose of the latter social initiative is to help the Central Blood Bank provide an adequate blood supply to patients with thalassemia.



ASCO employees organize voluntary work days every year to draw attention to the need for increased environmental protection, as well as to improve the environmental situation within the country. On those days, the offices are cleaned, restoration work is carried out, many trees and ornamental bushes are planted in the administrative territories of the Bibiheybat and Zygh ship repair yards, Training and Education Center and other structural units.

EMPLOYEES' WELFARE AND HEALTH SUPPORT

ASCO has commenced the construction of 5 residential buildings with a total of 487 apartments in the Khatai district of Baku, with the goal to provide residential accommodation for those who have been waiting in the housing queue for many years and those who need to improve their housing conditions. For this reason, Denizchi Housing Construction Cooperative (HCC)

was incorporated and a combined list of housing queue participants was approved for ASCO based on the queue lists available at the enterprises of which ASCO is the legal successor. Alongside this, Guidelines for the Membership of Denizchi Housing Construction Cooperative were drafted and implemented with the purpose of regulating the issues arising from the process to grant membership of Denizchi HCC to persons already queuing for housing and those who need housing improvement, as well as other related issues. The ASCO Housing Commission determines the persons entitled to be provided with residential accommodation on preferential terms and to be accepted to full membership of the Cooperative. The Commission also reviews the existing housing queue and length of waiting time of its participants, examines the documents submitted with the membership applications and makes fair decisions. The composition of this commission includes the Deputy Chairman of the Company, ASCO departments, divisions and structural units, a veteran seafarer, a representative of the Republican Committee of the Trade Union of Maritime Transport Workers of Azerbaijan, as well as an independent expert and a lawyer. Subsidized conditions for persons entitled to obtain an apartment are determined depending on the period they were registered in the housing queue. The size of the subsidy, i.e., the share of the value of the apartment to be paid by ASCO, is approved by the Management Board. 387 people became members of the cooperative during the reporting period.



The Company places particular emphasis on the effective organization of leisure time for its employees and strengthening their physical health. ASCO holds events in various sports every year in an attempt to further increase the interest of both shore and sailing personnel in sport. During the reporting period, mini-football, table tennis and volleyball tournaments were organized among employees. Apart from that, a sports and athletics contest was held among ASCO



employees on Seamen's Day, June 25, in 2019 for the first time. Competitions were held in 7 different sports: football, tennis, checkers, chess, backgammon, tug of war and swimming. About 600 ASCO employees took part in those competitions. We plan to hold sports and athletics contests every year and to increase the number of sports competitions.

To effectively organize the vacation of employees and their families during the summer months, ASCO provides its employees with discounted vouchers to the Denizchi recreation center located in the Khachmaz region. ASCO employees received 2,071 vouchers in 2018 and 2,207 vouchers in 2019.

For the protection of the health of its employees, all personnel working at ASCO's head office, structural units and subsidiaries were insured by the Company under a medical insurance agreement in 2019. Under this agreement, several clinics and hospitals provide a full range of medical services to ASCO employees. Family members of ASCO employees are also provided with discounts ranging from 5% to 50% on medical services.

Moreover, shuttle buses are provided for the comfortable, timely and safe transportation of employees to their place of work at the Head Office and ASCO's structural units. Employees are also provided with a daily meal or paid an allowance to cover their daily meal expenses. At the same time, relevant personnel are provided with personal protective equipment, including special clothing, shoes and other equipment and utensils free of charge.

SUPPORT FOR THE DEVELOPMENT OF SPORTS IN THE COUNTRY

With the objective of supporting the development

of sports, especially football, in Azerbaijan, ASCO sponsors the Sabail Professional Football Club, which plays in the Azerbaijani Premier League. As part of the sponsorship, the stadium in Baku where Sabail PFC's home plays are held, was renovated and the stadium was renamed the ASCO Arena. Moreover, the players were provided with the football kits and other sports equipment with the ASCO logo on them.



The Khazar Sailing Sports Club operates as part of ASCO with the aim of developing sailing as a sport in our country. The main objective of the club is to develop sailing as a sport and train the next generations of athletes who may join the national teams. ASCO focuses on upgrading the Khazar Sailing Sports Club's equipment and maintaining it at a level that meets international standards. In 2019, 7 new sailboats made in Poland were purchased and launched for the club.

At the same time, ASCO sponsors the Azerbaijan Sailing Federation and participates in the financing of both local and international events under this sponsorship. On the occasion of the 95th anniversary of the birth of the National Leader Heydar Aliyev and the 160th anniversary of the



Company, the Baku Sailing Regatta-2018 was held in Baku. Moreover, the next sailing competition, Baku Sailing Regatta-2019, was organized by the Sailing Federation of Azerbaijan and ASCO on the occasion of the 96th anniversary of the birth of the National Leader Heydar Aliyev.

ASCO also strongly supports the Public Union of the Equestrian Federation of the Republic of Azerbaijan in holding various equestrian sports events, sponsoring the Federation with the objective of promoting this sport.

YOUTH SUPPORT



ASCO understands the crucial role of young specialists in ensuring sustainable development, and places special emphasis on training young seafarers, enabling their personal development and improving their professional qualities. One of the Company's main targets is to train young professionals, increase their knowledge and skills, monitor and encourage their career development, and ensure the close participation of young specialists in the Company's business.

An annual forum is organized with the participation of young people working at ASCO, as well as the ASMA and the Marine College students to mark Azerbaijan National Youth Day on February 2. The forum provides information on the youth policy of the Republic of Azerbaijan and the Company, the reforms being carried out at ASCO, its development prospects, important measures taken to transform the Company into a modern enterprise meeting international standards, and the role of youth in this work. All questions asked by young people are answered by the Company management, and young people who excel in their service and education are rewarded during the meetings.

ASMA organizes an Open Day and meets with new students and their parents at the beginning of each academic year. All questions asked by parents and students about the Company's activities, the organization of education at ASMA, the conditions created for students, and job opportunities for students after graduating from the Academy are answered, and information on various other topics are provided at these meetings.

ASCO holds annual events on June 1 to mark the International Children's Day. In 2019, festivities were organized for children attending ASCO's Khazar and Dalga kindergartens. Further, sports entertainment events for children under the slogan "Father, Mother and Me" were held at the Denizchi recreation center with the participation of seafarers' families, jointly organized by ASCO and SOCAR. Moreover, the Company always shows special attention for children with disabilities who are taken care of in community-based rehabilitation centers, brought up in orphanages, or attend school while being raised in low-income families. Games, musical and entertainment programs, and competitions are organized for them.

PROMOTION OF THE SEAFARER PROFESSION AND SUPPORT FOR SEAFARERS' EDUCATION IN THE COUNTRY

One of the Company's main goals is to train young professional seafarers, increase the knowledge and skills of young people and support their education, while encouraging promising young people and supporting their career development.

The Azerbaijan State Marine Academy, which operates under ASCO and provides training of seafarers in the region, serves to train professional seafarers in the country with the support of its





extensive facilities and through the application of syllabuses that meet high standards. ASMA runs promotional programs and educational work with the support of the Company, aiming to attract talented and educated young people from schools across Azerbaijan to the seafaring profession. According to the annual surveys of new students admitted to the Academy, there has been an increase in the number of students at ASMA as a result of organized promotional programs and educational work.

The Academy constantly implements measures to improve the training facilities and infrastructure. It carried out large-scale repair and reconstruction work in this direction in 2019: 10 lecture rooms, workshops and offices were repaired, and all classrooms were equipped with new projectors, internet lines and laptops. A gas turbine engine laboratory was built in the Ship Power Plants department. Besides that, 2 language labs and one computer study room were created to upgrade the Academy's facilities.

Driven by the objective of organizing and expanding education in English, an English Language Department was established at ASMA, and the Academy commenced teaching fully in English in 2018. In 2019, the number of specialties taught in English was increased, and currently ASMA offers full-time education taught in English in the Marine Navigation Engineering and Vessel Power Plants Operation Engineering subjects. Overall, the Academy offers education in Azerbaijani, Russian and English.

Various work is done to encourage ASMA students to gain the best possible education. In particular,



final year students at the Academy who record the best academic results and behavior are awarded a letter of guarantee by the Chairman of the Company. Beyond that, the Company has paid top students an additional scholarship in the amount of AZN 100-180 in accordance with their academic performance since 2018. An additional point is that ASCO funds undergraduate and postgraduate education of young people within the Scholarship Program. Two Company employees who are ASMA alumni have gained a master's degree at the World Maritime University in Malmö, Sweden. Their tuition fees and living expenses were covered by ASCO. After completing their master's degree, they have continued their career at ASCO.



Moreover, one of the tools that allows the application of theoretical knowledge in practice is a training vessel commissioned by the Academy. At present, the passenger vessel Sabit Orujov is used for teaching students theoretical and practical lessons and conducting internships. Academy students are provided with opportunities to apply the theoretical knowledge that they learn at the Academy in practice, and to familiarize themselves with the principles of operating vessels and onboard equipment in real conditions. For this purpose, ASMA students take internships on vessels owned by ASCO and its structural units, including the Merchant Fleet and Offshore Fleet, Bibiheybat Ship Repair Yard and Zygh Ship Repair and Construction Yard. Students who excel in their education are sent to take internships on the Company's vessels operating in international waters, such as the Black Sea and Mediterranean Sea basins. 16 students of the Academy took internships on board such vessels during 2018-2019 and all their expenses were covered by ASCO. Concurrently, as part of cooperation with prestigious maritime company Columbia Ship Management

Ltd, 14 people, including several ASCO employees and ASMA students, were sent on an internship on board vessels owned by that company operating in international waters in the course of 2018-2019. Apart from that, 30 students studying Ship Building and Ship Repair Engineering at ASMA were sent to Baku Shipyard LLC to take an internship under a memorandum signed between Baku Shipyard LLC and Azerbaijan State Marine Academy in 2019.

During the reporting period, the Academy took several measures to strengthen cooperation with foreign educational institutions. In 2018, ASMA signed a cooperation memorandum with the Moroccan Institute of Higher Marine Studies, as well as with the Yildiz Technical University of Turkey. This cooperation involves academic relations in maritime training and research, cultural, scientific and educational exchanges between the parties, including exchanges of researchers, teachers and students, as well as the organization of joint scientific conferences, symposiums and workshops.



In 2018, the 160th anniversary of the Azerbaijan Caspian Shipping Company was celebrated. Several projects were implemented in the country on this occasion date to promote the seafaring profession. In particular, new books such as "The Great Leader Heydar Aliyev and National Shipping Policy", "Shipping in Azerbaijan: A Documentary History" and a postage stamp book "Azerbaijan Caspian Shipping - 160 years old" were published at the request of ASCO and submitted to the National Library. These books, as well as other publications related to the Company, were also published electronically in the newly created "e-publications" section of ASCO's official website.

Moreover, at ASCO's request, a researcher and journalist, Fuad Akhundov, made a documentary film

"Shipping in Azerbaijan: Pages of History" on the eve of the 160th anniversary of the Company; the film tells the 160 year-long history of the Company, its rich seafaring traditions, seafaring dynasties and heroism of seafarers. At the same time, an Azerbaijani seafarers anthem, "Long Live the Seafarers!" was composed at the Company's request. The anthem was sung by People's Artist Mubariz Tagiyev and the words were written by Zamina Khinaly, while the music was composed by People's Artist Faig Sujaddinov.



The anniversary projects included exhibitions dedicated to themes such as "The Shipping Company Celebrates its 160th Anniversary", "My Caspian", and "The Sea Loves the Brave", consisting of more than 100 works of fine art (paintings, graphic art and sculptures), organized in 2018 at the Museum Center. Those works were put to an open vote on the official ASCO Facebook page and the winners were determined and rewarded. All works submitted to the competitions were published in the form of a catalogue. Moreover, a photo gallery on the theme "The Shipping Company Celebrates its 160th Anniversary" was organized within the Metro Gallery Project at the Ganjlik metro station, jointly organized by ASCO and Baku Metropolitan CJSC.

Two new medals for services in shipping – The Jubilee Medal of the Republic of Azerbaijan: "160th Anniversary of Azerbaijan Caspian Company (1858-2018)" and the medal of the Republic of Azerbaijan "for Services in Shipping" were established by the Milli Majlis and approved by the President of the Republic of Azerbaijan on the eve of the 160th anniversary of the Company. These medals are awarded to both currently employed and veteran seafarers who have distinguished themselves in services in shipping.

One of the projects implemented as part of the 160th anniversary of the Company is the construction of the first museum ship in the Caspian Sea and the world's first tanker museum. A number of innovations have been implemented by using the latest technology in

the exhibition halls of the Surakhani museum ship. At the same time, a monument in honor of our heroic and brave seafarers was sculptured as part of the 160th anniversary of ASCO. Both the museum ship and the monument established in honor of seafarers are located at the seaside boulevard, near the Flag Square in Baku.

Having completed 160 years of rich shipping history, Azerbaijan Caspian Shipping Company was re-branded in 2018. The Company presented a new brand name and logo to the public and continued its activities under its new brand, ASCO.

In 2019, a flash mob was organized by 500 students of the Azerbaijan State Marine Academy on the occasion of the 6th anniversary of the Azerbaijan Caspian Shipping Company and the first anniversary of the presentation of the ASCO logo. Students gathered together on the administrative territory of the Merchant Fleet to animate the ASCO logo.

FUTURE PLANS

The above social activities, including the provision of welfare assistance, various sports competitions, provision of employees with medical insurance and visits to the Denizchi recreation center, support for youth, promotion of the seafaring profession and other projects are planned to be implemented in the future as well. Moreover, we expect to complete the construction of residential buildings for those who are or have been in the housing queue and need to improve their housing conditions, as well as to increase the number of sports in competitions during the next reporting period.

At present, a full-length historical-feature film is being produced at the initiative and with the support of ASCO with the objective of portraying the events that took place at sea during the January 20 Tragedy and the great courage and heroism of seafarers so that they are viewed by a broad audience, while preserving this history and passing it on to future generations. The film is made by experienced professionals with the participation of well-known local and foreign actors. The director of the film is an Honored Art Worker, Elkhan Jafarov, while the artistic director of the film is the People's Artist, Fakhraddin Manafov, who plays one of the leading roles as well. The film will also star the People's Artist, Rasim Balayev, and is expected to be finished by the end of 2020.



OCCUPATIONAL HEALTH AND SAFETY



OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT

ASCO pays particular attention to creating healthy and safe working conditions for employees. Necessary measures are taken regularly by the Company to prevent incidents, especially the accidents that can result in injuries. The management in this sphere is regulated in accordance with the laws of the Republic of Azerbaijan, international conventions and internal ASCO regulations. An additional point is that all work to ensure occupational safety and create a safe working environment is carried out in accordance with conventions such as SOLAS, MARPOL, STCW and ILO 797 through the integrated Safety Management System (SMS) implemented at the Company.

Serving as the basis for the Company's health and occupational safety activities, the SMS management system procedures and forms are regularly updated, taking into account changes in international standards and requirements. As such, 55 forms and 34 procedures were updated in total during 2018-2019 and 21 new forms were developed and applied. These include the onboard tank washing procedure, human

resource interview forms, a work permit form, risk assessment procedures, the entry into confined spaces procedure, the rescue in confined spaces procedure, energy insulation procedures, slinger/signaler procedures, the safety requirements for the person in charge of undertaking gas analysis, and other materials.

At the same time, the International Maritime Organization (IMO), the State Maritime Agency, the Russian Classification Society and the American Bureau of Shipping (ABS) conduct regular inspections and audits at the Company to verify compliance with IMO requirements. External audits were conducted by the ABS in order to improve the SMS regularly and evaluate the internal management system, as well as to verify the compliance of the Company's activities with SMS and ISO standards. As a result of the audit, the compliance of ASCO's Security Quality Management System with the requirements of the following international management standards was confirmed: ISM-2010, SOLAS, MARPOL, ISO 14001:2015, OHSAS 18001:2007, ISO 9001:2015 and ISO 50001:2011.



The level of workplace safety at the Company is regularly assessed in annual audit schedules based on ISO / ISM standards and SMS. A total of 128 internal audits, including 122 onboard the vessels, 2 at ASCO's head office, 2 at the Caspian Sea Oil Fleet, and 2 at the Merchant Fleet, were conducted during 2018-2019, with the objective of checking the implementation level of the SMS. In the course of the internal audit, it was confirmed that work was performed in accordance with the requirements of national legislation and international conventions, standards and certificates. At the same time, certain minor non-conformities were also identified, which were eliminated as a result of measures taken by the QHSE department during the reporting period.



As a result of the work done, the number of non-conformities that were detected during the external independent audits in 2019 decreased to 59% of the number of non-conformities in 2018.

Along with ensuring safe working conditions at ASCO, priority is also given to the health of



offshore and onshore personnel, and they are provided with regular medical examinations. Seamen Polyclinic LLC and the clinic located in the Ahmadli area operate as part of ASCO to sustain the health of personnel. Medical services are provided free of charge to the Company, with a 20% discount to their family members. In addition, a medical insurance agreement covering all employees of ASCO's head office, structural units and subsidiaries, has been in effect at the Company since 2019. ASCO employees and their family members are provided with medical services in a number of clinics and hospitals of the country under the medical insurance agreement.

The Company regularly takes action to maintain a healthy working environment and prevent the outbreak of viruses and bacteria that pose a risk of



disease. These measures include epidemiological initiatives, pest control, and disinfection performed onboard the vessels and at coastal facilities during 2018-2019. Further, personal protective equipment and safety equipment used at rescue areas and fire-fighting stations, as well as onboard the vessels and at the Company's shore facilities, undergo technical inspections and are renewed and upgraded if necessary.

It is of crucial importance to ensure that personnel are regularly informed on occupational health and safety, raising their level of knowledge and training to ensure that work performed in this sphere is effective and accidents are prevented. The Company has identified training courses for ship and shore personnel in this area and has developed a training matrix. In particular, the matrix includes courses such as permit to work, power insulation, risk assessment, confined space entry, rescue in confined spaces, environmental impact, hand protection / pinch points, noise hazards, work off-board and work at heights, slips / trips / falls, manual lifting, thermal stress / thermal tension and hypothermia, skin and eye contact with hazardous substances, health, hygiene and medical supervision, incident investigation, management of hazardous substances in healthcare, and slinger / signaller training. A total of 1,132 employees were registered and participated in the training courses during the reporting period.

One of the most important activities in employee training is the Safety Day event, which is held at least once a quarter. During Safety Day, participants are provided with information and presentations on common shortcomings in the field of safety, health, fire and the environment. Repeated shortcomings and deficiencies are jointly analyzed, and special information on preventive measures to address the shortcomings as well as the risk of recurrence is brought to the attention of the employees participating in the event. Thus, the personnel's level of awareness and understanding of QHSE is increased.

An additional point is that interactive video clips on safety instructions for ASCO's relevant passenger ships were created in 2019. Passengers are informed about the safety equipment available onboard the vessels and the rules of conduct in emergencies through these videos before each passenger transportation voyage. Further, safety instructions are distributed to passenger vessels so that the passengers can read the rules for behavior during emergencies.

Harmful workplaces at ASCO and all employees working at these workplaces are specially monitored in accordance with health and safety requirements. ASCO recorded 1,695 employees working at 171 hazardous workplace categories in 2018, and 1,648 in 2019, bearing the risk of personal injury or occupational disease. Such workplaces include welding, carpentry, foundry, hull welding and similar workshops. With the objective of protecting employees working in hazardous workplaces from various risks, procedures meeting leading international standards are implemented and the Labor Code of the Republic of Azerbaijan is strictly observed, while these employees are given additional vacation and paid extra wages accordingly.



In accordance with the requirements of the ASCO internal management system, in addition to the QHSE policy on occupational health and safety, a policy on drugs, gambling and alcohol and a policy on the use of tobacco products are enforced at the Company. The Company applies a principle of zero tolerance to the use of drugs, gambling and alcohol. It informs all of its employees about existing policies, and the information reflected in these policies is posted at all structural units, in visible places onboard vessels and published on the official ASCO website. There are also a number of safety procedures, programs and policies at ASCO to protect the safety of customers entering the Company's vessels, production and administrative areas. These include the instructions for entry and, if customers participate in ship operations, the Familiarization of Visitors instructions sheet, the Company's policy on the use of tobacco products in accordance with the requirements of 887-VQ (Chapter 2, Article 10) of the Republic of Azerbaijan and OHSAS 18001 (clause 4.2, b.c), and other relevant procedures and rules.

The annual allocation of funds to this area by the Company is another indication of the special attention paid to health and occupational safety at ASCO. Expenditures on occupational health and safety for the reporting period 2018-2019 are shown below.

Expenditures on occupational health and safety in 2019 increased by 33% compared to 2018, and by 17% compared to 2017. Such an increase is due to measures implemented to further upgrade personal protection equipment, including but not limited to protective helmets, protective goggles, ear buds, overalls, safety shoes, gloves, etc. and due to improved conditions at various areas of the workplace.



Expenditures on occupational health and safety for 2018-2019, AZN

Expenditures	2017	2018	2019
Occupational health and safety, including	2,618,284	2,311,151	3,063,900
improvement of working conditions	1,768,922	1,560,412	2,025,750
personal protection equipment	849,362	750,739	1,038,150

EMERGENCIES

One of the issues of crucial importance for ASCO is the prevention of accidents and emergencies. To this end, the Company constantly takes appropriate measures. Slips, the use of harmful substances, tool failures, falling tools and materials, fire and explosions, occupational diseases, and electric shocks are the main sources of danger and accidents. Collisions, grounding, fires and other incidents that may emerge in the course of the operation of vessels are all emergencies. Adequate procedures are implemented, taking into account both national and international standards, appropriate instructions are provided to the personnel, and measures are taken in order to prevent such accidents and emergencies.

No fatal accident was reported during 2018-2019. A total of one accident-related case and two vessel stranding cases were reported at ASCO in 2018. The accident occurred when a small tugboat collided with a non-operating platform, No. 453, located on the west side of the Oily Rocks. Consequently, a small deformation was recorded on the guard rail of the vessel's port deck. The stranding cases occurred with a tanker and a service boat. The tanker ran aground within the port area as a result of a decline in the sea level due to strong underwater currents. Meanwhile, the service boat ran aground due to the accumulation

of water in the bow side after she performed service operations. The accumulated water was pumped out by a suction pump and the defect was rectified.

One accident-related case, three stranding cases and two minor smoke emergency incidents were reported in 2019. The accident-related case occurred when a vessel collecting fecal water collided with the port side of another vessel anchored at the waiting berth within the territory of the yard. Minor smoke was reported due to a short-circuit on board one vessel, while another minor smoke discharge was detected at the galley oven on the other ship. Both incidents were adequately addressed on time and, consequently, no fire occurred, and no injuries or serious damage were reported. Three cases of stranding were reported on vessels due to a decline in the level of the sea in 2019. The crew members inspected the vessels, examined all compartments and made sure that there was no threat to the stability of the vessels. No serious injury was detected during the above-mentioned incidents in 2018-2019.

Productivity indicators in occupational safety for 2017-2019

	2017	2018	2019
Total number of injured employees	5	2	6
Total number of deceased employees	1	0	0
Number of occupational diseases	0	0	0
Total number of days lost due to accidents	596	150	663
Total number of working days lost due to illness	51,383	62,610	63,439
Number of personnel	8,921	8,606	8,442
Total hours worked	13,551,328	14,815,880	14,001,510
Total days worked	1,693,916	1,409,099	1,364,111
Occupational injury rate (per 1,000,000 hours worked)	0.4	0.1	0.4
Lost working days rate (per 1,000,000 worked hours)	44	10	47
Accident frequency rate (number of accidents per 1,000 employees)	0.6	0.2	0.7
Accident severity rate (number of lost working days per accident)	118	75	111
Absence at work rate (per 1,000,000 days worked)	30,334	44,433	46,506
Occupational disease rate (per 1,000,000 hours worked)	0	0	0

FUTURE PLANS

Proper implementation of the occupational health and safety measures by all employees and keeping accidents at a zero level are targets of crucial importance for the Company. In 2020, we plan to further reduce the number of non-conformities by means of internal audit, monitoring and other methods in the field of occupational health and safety, and to continue to improve the system by analyzing collected data. In addition, we plan the following measures during the next reporting period:

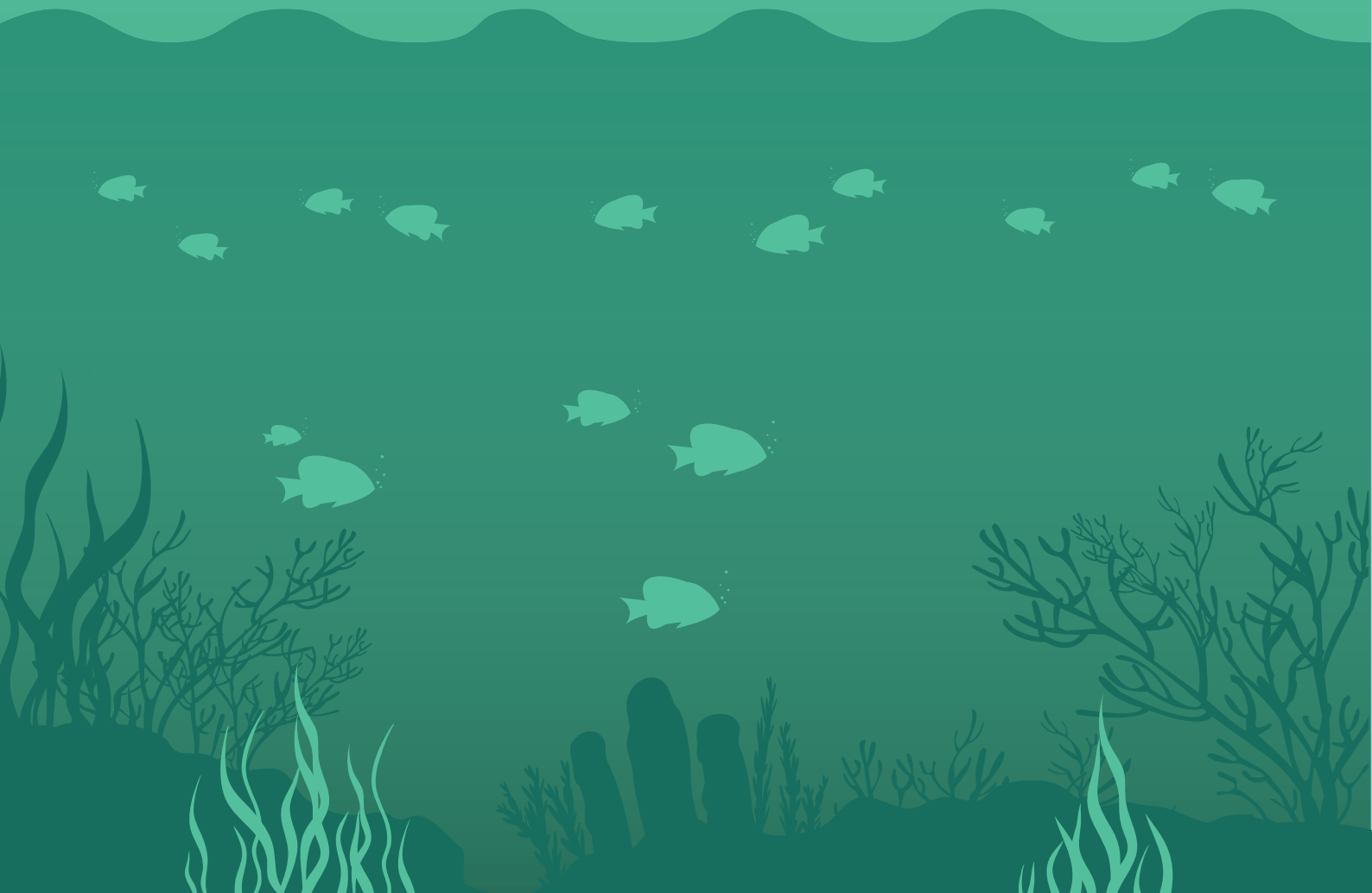
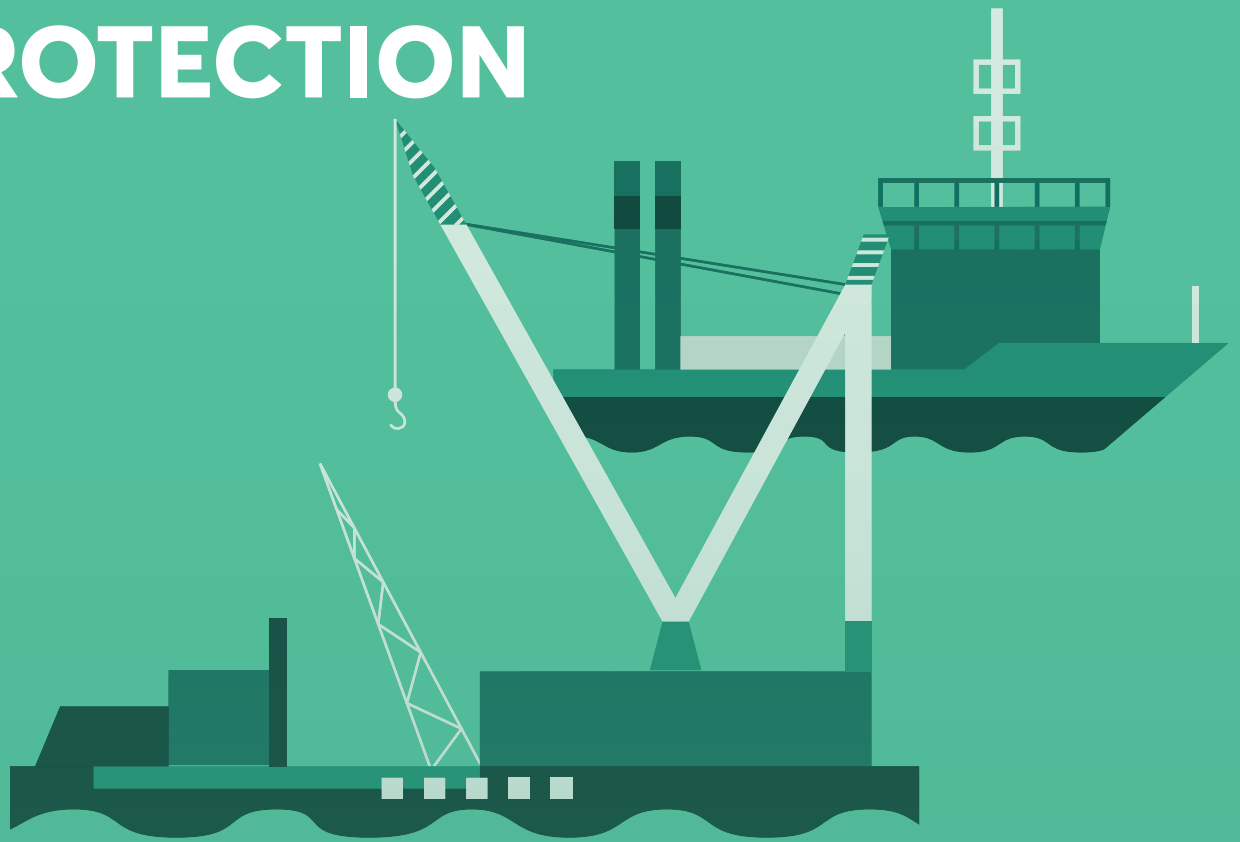
- Continuation of health certification work within the Company structural units and ensuring certification of certain areas by authorities with the relevant permissions and resources;

- Performance of select examinations to check the health of offshore and onshore personnel by the medical commission established at Polyclinic No. 1 operating under the Company;
- Performance of medical examinations on members of the Caspian Sea Oil Fleet's diving team by the newly established special Medical Commission for Divers at Polyclinic No. 1 operating under the Company.

Furthermore, we plan to conduct more than 20 training courses on occupational safety as per SMS requirements in 2020. An additional point is that ASCO also plans to upgrade and renew rescue stations and purchase additional equipment and facilities that meet international standards in this sphere. At the same time, ASCO plans to make video clips as were previously made containing safety instructions for passenger vessels, in respect of other vessels owned by the Company.



ENVIRONMENTAL PROTECTION



ENVIRONMENTAL IMPACT MANAGEMENT

Conducting operations in an environmentally friendly and safe manner is one of the strategic targets of the Company. ASCO focuses significantly on mitigating the negative impact of oil sludge, used oils, and other liquid and solid waste generated by the operation of vessels and shore facilities on water sources, soil and air. It takes preventive measures in this area in accordance with international practice and Azerbaijani legislation. No serious environment-related violation was reported in the Company and no fine was imposed on the Company by the authorities during 2018-2019.

The environmental management system has been built in accordance with ISO 14001: 2015 and the system is constantly improved. The system is also organized in accordance with ABS's HSQEE (Health, Safety, Quality, Environment, and Energy Management) guidelines. At the same time, ASCO has established procedures to identify the environmental impact attributable to shipping activities, determine the extent of such impact, and establish management guidelines aimed at reducing their impact. These procedures are carried out through risk analysis in accordance with international standards.

ASCO closely cooperates with relevant government agencies, including the Ministry of Ecology and Natural Resources and the State Maritime Agency of the Republic of Azerbaijan, in environmental management and protection. In 2018, ASCO

organized Environment Day with the participation of the above organizations. During this event, discussions were held, information exchanged, and reports submitted on topics such as the Quality Management System at the Company, environmental campaigns and awareness, environmental expertise, the latest environmental innovations in shipping, and so on.

The Company's environmental management system incorporates important elements such as waste, water, energy and emission management. Detailed information about them is provided in the following sections of this report.

WASTE

Strict requirements are implemented at ASCO in the management of various liquid and solid waste generated by the Company's fleets and structural units, including oil and oil products, household waste, sewage, used oils and fuel sediments, sludge, dry waste types and other pollutants. These issues are a focus of special attention at ASCO. In particular, waste is managed in accordance with the most stringent requirements of international conventions, as well as the country's national laws, to keep environmental impact to the minimum. In this regard, the Waste Management Plan and Waste Operations Logbook are applied onboard vessels belonging to ASCO fleets in accordance with resolutions MEPC.277 (70) and MEPC.295 (71) of the International Convention for the Prevention of Pollution from Ships (MARPOL) adopted by the International Maritime Organization (IMO).

At the same time, the direct or indirect impact of waste generated by the operation of the Company's fleets and coastal facilities on environmental sustainability is regularly assessed, and the main environmental threats are monitored. Guided by the requirements of ISO 14001:2015 Environmental Management Standards, as well as the life cycle principle and a systematic approach to



environmental management, ASCO supervises the waste it generates and its impact on the environment at each stage of the life cycle. Such waste is sent to the relevant facilities. For this reason, hazardous waste is only sent on the basis of agreements concluded with companies holding special licenses in this sphere. Before we conclude agreements with such companies, we conduct internal audits on them and their recycling capacities, including checking their permits. In addition, companies contracted for regular periods are audited to check their environmental conditions, and the Company is entitled to terminate agreements concluded with such companies if any serious environmental shortcoming is found in their activities. Inspections carried out during the reporting period revealed that two companies did not have the appropriate licenses and the quality of services provided was low. Consequently, ASCO refused to cooperate with them.

The waste generated on vessels of both the merchant fleet and specialized offshore fleet are collected and transported by SLV type vessels, which collect oil spills, bilge and sewage waters while preventing the marine pollution. Information on the types of waste generated and sent by the Company for processing during 2017-2019 is provided in the table below.

As can be seen from the table, there was an increase in the amount of hazardous waste generated at ASCO during the reporting period. In general, it is important to note that ASCO applies the strictest waste management methodologies, mechanisms and processes and constantly improves them, which leads to the classification of many wastes as hazardous. The majority of the waste generated during the cleaning of the vessels' hulls, as well as from the engine room during ship repair works carried out at ASCO's yards during 2018-2019, is classified as hazardous. Hazardous wastes are



collected in specially designated areas within ASCO's administrative territory and sent to the relevant organizations. Any difference in volumes between hazardous waste generated and sent for processing in any one year consists of waste sent for processing the next year. An additional point is that the volume of non-hazardous waste generated during 2017-2019 decreased sharply, which is due to the gradual handover for processing of large amounts of non-hazardous waste accumulated within the Company's administrative territories and warehouses from previous years, before the incorporation of ASCO.

As already noted, environmental protection is a very sensitive issue for the Company. At present, the discharge of household waste generated onboard vessels into neutral waters of the Caspian Sea is not prohibited by law or current conventions. However, to prevent pollution of the Caspian Sea, which is our natural resource, to protect its biological resources and biodiversity, and to enable them to be passed on to future generations, ASCO has voluntarily prohibited the dumping of all types of waste from

Waste generated by ASCO fleets and coastal facilities and sent for processing, tons

Type of waste	2017*	2018	2019
Volume of hazardous waste generated	6,215	9,329	9,432
Volume of non-hazardous waste generated	17,612	7,049	3,472
Volume of hazardous waste sent for processing	6,080	8,917	8,665
Volume of non-hazardous waste sent for processing	16,318	7,049	3,472

* ASCO constantly improves its calculation methodologies to record waste volumes and obtain more accurate results. Due to the application of a more advanced methodology for calculating the volume of waste generated and sent for processing, the figures for 2017 have been recalculated and added to the current report.

its vessels into the sea, even in the neutral part of the Caspian. This kind of waste is handed over to specialized onshore facilities only.

The Company is closely involved in environmental projects implemented in the Caspian Sea region. Its specialized vessels participated in the construction of the Pirshagi Wastewater Treatment Plant in 2019, which is of crucial importance for the protection of the Caspian Sea's ecosystem and biodiversity. Dredging works were carried out by the dredger Engineer B. Mammadov and dredger barges including Bakinskaya-3, Bakinskaya-5 and Bakinskaya-6 owned by ASCO. Moreover, the tug boat Absheronkaya-5 and diving support vessel Orion-12 were also involved in implementing the project. In addition, during the cleaning of the White City Boulevard water area to remove metal parts in 2019, three hull wrecks weighing 180, 200 and 65 tons, respectively, i.e. 445 tons in aggregate, were recovered from the Caspian Sea bed by vessels owned by ASCO. The Company's specialized crane, barge and tug boats such as Gurban Abasov, Socar-1, Barja-701, Hovsan-5, Absheronkaya-6, SPK-47/25 and Hovsan-2 participated in the recovery of the wrecks from the seabed.



With the objective of mitigating the environment impact of ASCO fleets, the vessels are subjected to dock repairs and overhauls at certain time intervals in accordance with the requirements of the classification society and international conventions. The vessels' hulls are cleaned, and the main and auxiliary engines are replaced with modern, low emission, more environmentally friendly ones during the repair process. As such, in 2018-2019 the hulls

of 198 vessels were cleaned, and 39 auxiliary and 2 main engines were purchased and installed on the vessels.

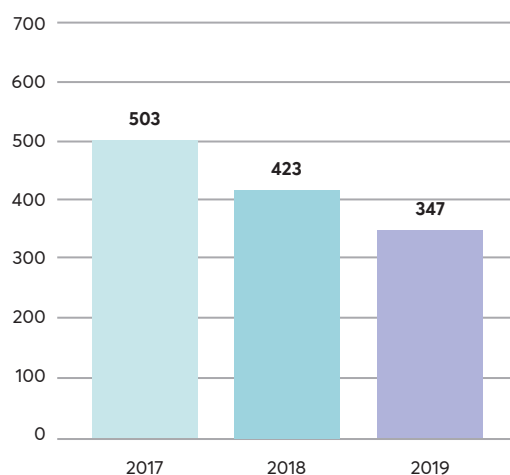
At the same time, regular voluntary clean up days are held at the coastal facilities, including the ship repair and construction yards, fleets and other administrative areas of the Company to protect the environment. All kinds of waste are removed, while renovation and re-planting are carried out there.

WATER

Today, the efficient use of drinking water is one of the most pressing global issues. The Company pays particular attention to the protection of water basins from pollution. It requires the sparing use of drinking water aboard vessels and at its onshore structural units, both in the Caspian Sea and international waters beyond the Caspian basin.

Protection of water resources and water basins at ASCO is carried out within the framework of the Company's Safety Management System (SMS), developed in accordance with international management standards. Material savings (31%) were achieved in drinking water consumption at the Company during the years 2018 and 2019 as a result of effective measures, including awareness-raising activities on the sparing use of drinking water and measures taken to prevent the inefficient loss and discharge of drinking water, both on vessels and at the head office and structural units, including the installation of appropriate sanitary facilities.

Drinking water consumption at the Company, thousand m³



Along with the protection of drinking water resources, measures were taken during the 2018-2019 reporting period to protect the huge water basins where we operate. As noted in the Waste section, ASCO does not allow any form of waste dumping at sea, either in the Caspian sector or in neutral waters, as it wishes to prevent pollution of the Caspian Sea. In order to strengthen the procedures used to prevent the discharge of liquid pollutants from household waste tanks and bilge water tanks onboard the vessels, ASCO introduced the Sealing, Unsealing and Control Rules at Discharge Points in 2017. The process of installing numbered and specially painted plastic seals on all ASCO vessels operating in the Caspian Sea was completed in 2019. Thus, the control to ensure the discharge of liquid pollutants from vessels only to appropriate waste collection vessels has been strengthened.

There is a risk of damage to ecosystems and biodiversity in different water basins deriving from the displacement of different biological beings, living organisms and particles attached to the hull during the movement of ships between different basins. ASCO manages this risk in accordance with the relevant conventions and international standards. The hulls of vessels intended to sail between basins are properly cleaned and all factors that may harm biodiversity are eliminated.

To prevent the mixing of petroleum products, household water and various types of discharge with ballast water on vessels resulting in the pollution of seawater, the purity of ballast water to be collected and the cleanliness of the tanks are analyzed and recorded in the ship's logbook by Company specialists on a daily basis during loading and unloading operations in ports. The discharge of ballast water is carried out only in accordance with permitted procedures.



ASCO uses seawater mainly in the cooling systems of ship engines and in coastal firefighting systems. This process is regulated in accordance with documents such as Permissible Discharge Limit Standards and Special Permission for Water Use approved by the State Expertise Department of the Azerbaijan Ministry of Ecology and Natural Resources. These data are contained in the official annual 2-TG (water management) reports issued by the State Statistical Committee. ASCO's seawater use figures for 2017-2019 are reflected in the table below.

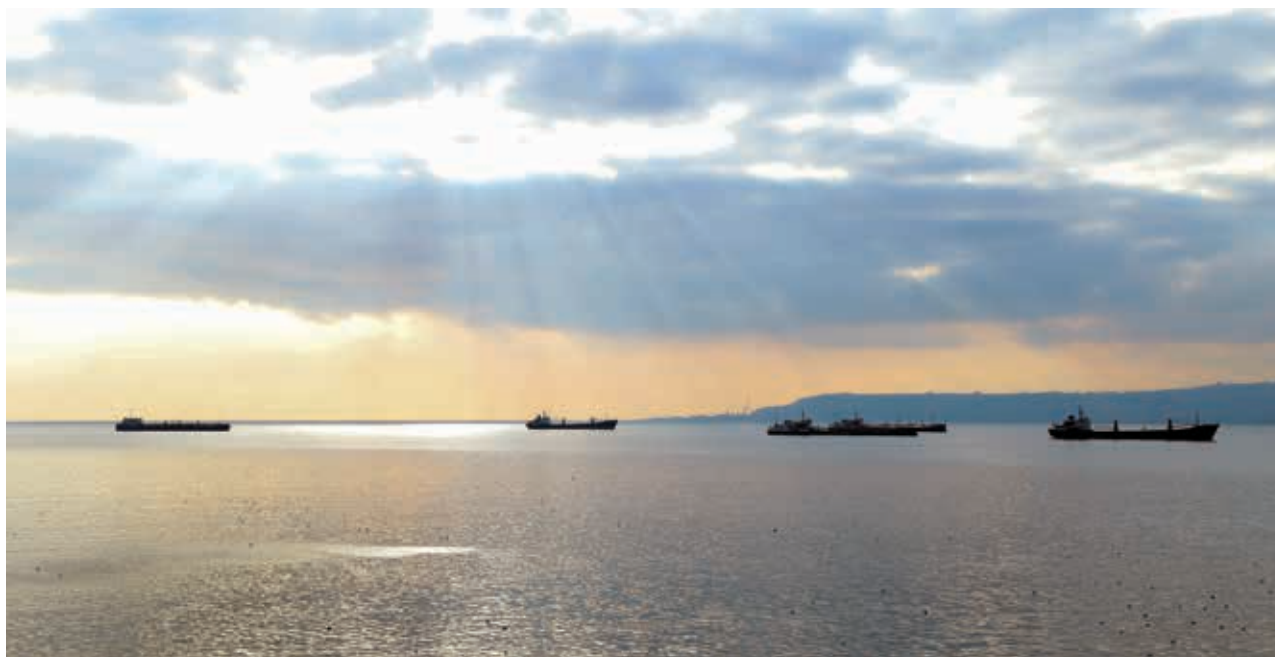
Use of seawater by the Company in 2017-2019, thousand m³

Structural unit	2017	2018	2019
Merchant Fleet	2,161	1,920	2,040
Caspian Sea Oil Fleet	10,722	10,722	10,322
Zygh Ship Repair and Construction Yard	7.1	8.4	9.3
Bibiheybat Ship Repair Yard	174	174	174

ENERGY

ASCO implements an energy management system to manage energy consumption efficiently and ensure continuous quality improvement in this sphere. A variety of fuels, electricity, gas and heat energy is used in the operation of vessels and onshore facilities at ASCO. The Company takes continuous measures to increase energy efficiency, reduce losses of energy resources (electric and heat energy, natural gas, gasoline, diesel, etc.), and reduce energy consumption by means of the application of modern technologies and scientific and technical innovations. Further, it constantly explores opportunities to implement alternative and renewable energy sources.

The main engines of vessels operated by the Company fleets mostly consume engine fuel, while auxiliary power generators use diesel fuel. The offshore fleet vessels consume diesel fuel only. Measures are taken by the vessel's commanding staff to increase the efficiency of fuel consumption, including choosing the optimal speed and route to reduce fuel consumption, while taking into account the structure and specifications of the sea craft as well as weather conditions. Apart from that, action



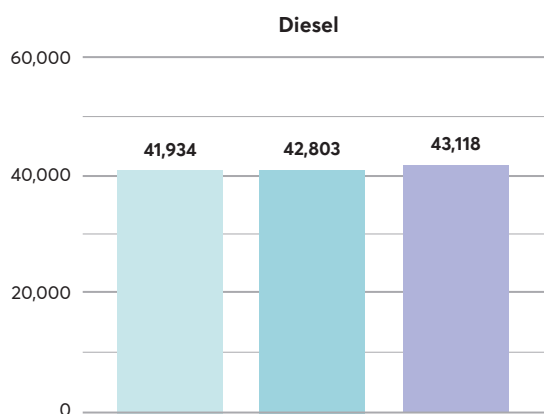
plans to optimize fuel consumption of vessels are developed during the testing of thermal equipment aboard the vessels and implemented accordingly by the relevant ship crew members and associated personnel.

Priority is given to the renovation of ASCO fleets, which has a positive impact on energy efficiency, fuel consumption and emissions reduction. Therefore, old vessels and those with higher fuel consumption are gradually decommissioned and vessels equipped with modern technology and lower fuel consumption are launched. The renewal of the fleets is a very serious issue, demanding huge capital expenditures, and at the same time of crucial importance for sustainable development. More detailed information on the renewal of the fleets

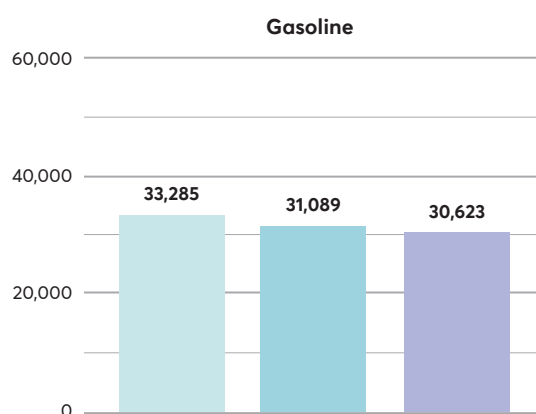
was provided in previous sections of this report.

All vessels owned by ASCO which have a total water capacity of more than 400 register tons have been registered with a document titled Energy Efficiency Plan, which meets the requirements of international convention MARPOL 73/78 and ISO 50001:2011 on energy efficiency management. Information on the volume of fuel received and consumed by the vessel and the fuel volume transferred to other vessels each month, including information on remaining fuel at the beginning and end of each month, is recorded in this document. Thereafter, the information is analyzed by ASCO's Department of Technical Operation of the Fleet and adequate measures are taken to increase fuel consumption efficiency.

Volume of fuel used in fleet activities, tons



2017 2018 2019





The implementation of the above measures resulted in engine fuel consumption savings during 2018 and 2019 compared to 2017. The volume of fuel used by ASCO's fleet in 2017-2019 is presented in the chart below.

In addition to the fleets, fuel is also consumed by specialized equipment and vehicles on the ASCO balance sheet. As a result of optimization work carried out on the operation of vehicles during the reporting period, 3% savings in diesel fuel consumption and 11% savings in gasoline consumption were achieved compared to 2017. The volume of fuel used by the Company's vehicles during 2017-2019 is presented in the table below.

Fuel consumption by vehicles in 2017-2019, tons

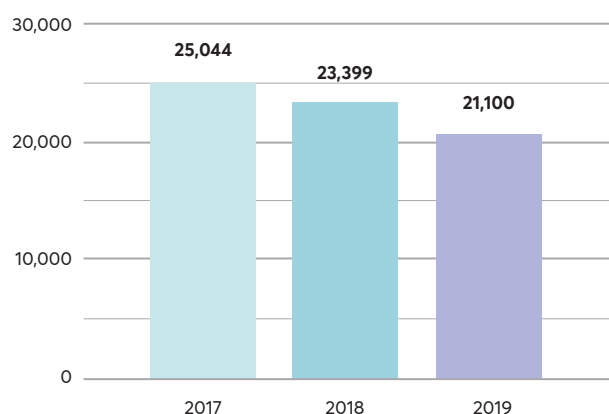
Fuel type	2017	2018	2019
Diesel	574	580	555
Gasoline	568	540	507

Electricity is used to power administrative buildings of coastal facilities, including ASCO's head office, fleets, ship repair and construction yards, and other production facilities. It powers the equipment and lighting systems used in shipyards, as well as systems to obtain thermal energy. An additional point is that safer and cost-effective natural gas energy is used by ASCO to supply coastal facilities with heat and hot water. In this regard, a new boiler house was built and launched at Zygh Ship Repair and Construction Yard in 2018, thus the yard's heating and hot water

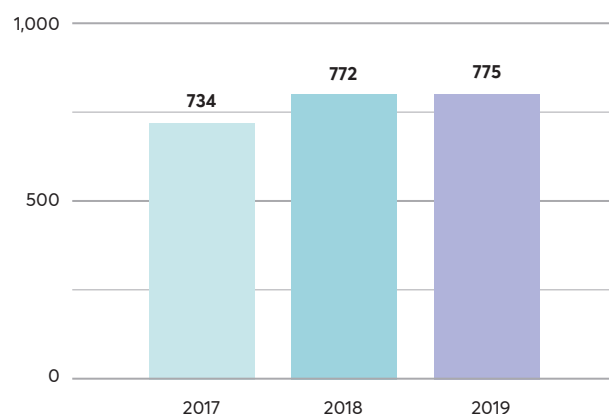
were transferred from electricity to natural gas. Thanks to the work to improve energy efficiency, 16% savings in electricity consumption were observed at ASCO in 2018 compared to 2017 versus only a 6% increase in natural gas consumption. Further, as a result of the work performed, a positive reduction was achieved in the energy intensity ratio, in other words, in the electricity consumption rate measured in kWh per Company employee. The Company's energy intensity ratio hence decreased by 5% in 2018 and by another 7% in 2019.

Electricity and gas consumption by ASCO for 2017-2019, as well as its energy intensity ratio, are reflected in the following graphs and table.

Electricity consumed by ASCO, thousand KWh



Natural gas consumed by ASCO, thousand KWh



Energy intensity ratio for 2017-2019 (thousand kWh of electricity used per employee)

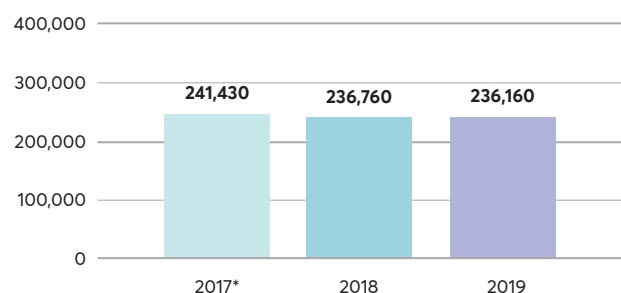
	2017	2018	2019
ASCO	2.81	2.68	2.50

EMISSIONS

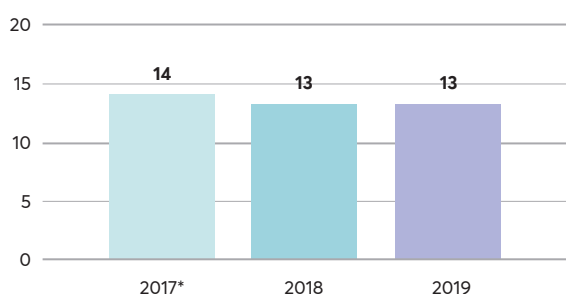
Currently, climate change is one of the global problems in the spotlight of countries around the world. The Paris Agreement under the United Nations Framework Convention on Climate Change was adopted by the United Nations to prevent global climate change and global warming by reducing gas emissions which result in the greenhouse effect. The Republic of Azerbaijan signed up to the Agreement in 2016. To contribute to initiatives to reduce the negative impact of global climate change, our country aims to reduce greenhouse gas emissions by 35% by 2030 compared to 1992.

Greenhouse gases and other emissions from ASCO-owned vessels and onshore facilities are constantly monitored by the Company and continuous measures are taken to reduce these emissions. The amount of emissions generated from the activities of the Company is presented in the following graphs.

Direct emissions (CO₂), tons



Indirect emissions (CO₂), tons



* Due to the application of a more advanced methodology to calculate the annual volume of greenhouse gas emissions more accurately, the figures for 2017 were recalculated and added to this report.

The volume of direct emissions, including emissions into the atmosphere generated as a result of activities of fleets and vehicles owned by ASCO, is

calculated based on their fuel consumption during the year in accordance with the rates provided by the International Maritime Organization (IMO). As mentioned in the energy section, the Company uses engine and diesel fuel in the course of its business operations as determined by the technical specifications of its vessels and vehicles. Diesel fuel is more environmentally friendly than engine fuel and contains less harmful substances. With this in mind, the Company prefers to use diesel fuel instead of motor fuel where applicable. At the same time, measures are taken to save fuel consumption and achieve more optimal fuel consumption on ships that can only run on engine fuel. As a result of the measures taken, about 2.7 thousand tons of engine fuel economy was achieved during the reporting period compared to 2017 (this was reported in the energy section). All these initiatives led to a decrease of 2.2% in direct emissions generated from ASCO's business operations. Further, indirect emissions are also calculated by the Company, based on electricity consumption, and the savings in energy consumption resulted in a decrease of indirect emissions by 8.8% compared to 2017.

Hazardous emissions into the atmosphere resulting from fleet operations in 2017-2019, tons

Emission type	2017*	2018	2019
Carbon dioxide (CO ₂)	237,870	233,270	232,840
Nitric oxide (NO ₂)	3,210	3,234	3,252
Carbon monoxide (CO)	1,249	1,256	1,258
Hydrocarbons (CH)	0.756	0.769	0.775
Particulate materials (PM)	0.256	0.260	0.262
Sulfur oxide (SO ₂)	1,521	1,434	1,416

* Due to the application of a more advanced methodology to calculate the annual volume of hazardous emissions into the atmosphere more accurately, the figures for 2017 were recalculated and added to this report.

As can be seen from the table above, the total volume of greenhouse gas emissions of CO₂ and SO₂ emissions decreased by 2.1% and 6.9%, respectively, at the Company compared to 2017. At the same time, there was an increase in the ratio of CO₂ emissions per mile*ton in 2019 as a result of merchant fleet activities. (Information is provided in the table below.) The mile*ton is calculated as the sum derived from multiplying the volume of cargo carried (in tons) by the distance sailed (in nautical miles) by a ship on each voyage. The total mile*ton indicator of the Company in 2019 was lower due to factors such as



shorter distances travelled by the vessels operating beyond the Caspian Sea and a decrease in the volume of cargo transportation by oil-carrying vessels in the Caspian Sea. This led to an increase in the CO₂ / mile*ton indicator for ASCO, even though a decrease was observed in the total amount of CO₂ emissions.

CO₂ emissions per mile*ton as a result of activities of the merchant fleet in 2017-2019, CO₂ / mile*ton

	2017	2018	2019
CO ₂ / mile*ton	0.02	0.02	0.12

The Company also strictly controls the volume of emissions into the atmosphere deriving from the operation of vehicles on the balance sheet of ASCO. These emissions are calculated based on the fuel consumption of vehicles. As noted in the energy section, vehicle operations were optimized, leading to a decrease in fuel consumption during the reporting period. Consequently, the volume of emissions into the atmosphere from vehicles decreased by 6.7%. At the same time, the amount of emissions from these vehicles is monitored during annual state technical inspections conducted jointly by the State Traffic Police and the Ministry of Ecology and Natural Resources.

Carbon dioxide emissions into the atmosphere resulting from the operation of vehicles in 2017-2019*, tons

	2017	2018	2019
CO ₂	3,560	3,490	3,320

* The amount of carbon dioxide emitted into the atmosphere was calculated based on the IPCC methodology for fuel consumption (2006 IPCC Guidelines for National Greenhouse Gas Inventories). The amount of other greenhouse gas emissions generated by motor vehicles has not been taken into consideration, as it does not account for a significant share of total emissions.

ASCO's carbon intensity ratio for 2017-2019 is presented in the table below. There was a slight increase in the amount of CO₂ emissions per employee in 2019 compared to 2017-2018, which is due to a relative decrease in the number of employees at the Company during the reporting period.

Carbon intensity ratio for 2017-2019 (emissions in CO₂ equivalent divided by the number of employees), tons

	2017	2018	2019
ASCO	27.1	27.1	27.9

OIL SPILLS AND EMERGENCY MEASURES

International shipping practices demonstrate that there is a risk of contamination of both the sea surface and coastal areas with oil and oil products during the transportation of oil and oil products and bunker operations by vessels. Given that ASCO owns the largest permanent fleet in the Caspian Sea basin and it is involved in the transportation of oil and oil products in the Caspian basin, it constantly takes appropriate action in this area to prevent oil spills and similar incidents to protect the ecosystem of the Caspian Sea.

For this purpose, the Company each year adopts an Annual Action Plan for the Protection of the Environment, as well as an Environmental Safety Program for Emergencies and Accidents, which reflect the relevant measures aimed at preventing oil spills. At the same time, as noted in previous sections of this report, appropriate seals have been installed at the discharge points on all ASCO vessels operating in the Caspian Sea to prevent the discharge of household waste from ships into the sea.

During the reporting period, ASCO participated in a number of events to exchange experiences in oil spill prevention. In particular, an employee from ASCO's QHSE Department participated in a seminar on cooperation in preventing and liquidating oil spills, organized by the Ministry of Emergency Situations of the Republic of Azerbaijan, and gave a presentation on the topic of Preventive Measures Against Marine Pollution in 2019.

During 2018-2019, no significant spills of oil or oil products were reported at the Company. As such,

only a small amount of diesel fuel spilled into the sea during a bunker operation from the Bunkerovshik-7 vessel in 2019. Meanwhile, no other oil spill case was reported at ASCO in 2019. The small amount of spilled fuel was immediately removed from the water surface and no injury or damage was reported.

FUTURE PLANS

As a continuation of the measures taken in respect of environmental protection and management, the Company intends to introduce many innovations in the future.

These include the installation of special equipment on 3 platform-supply vessels owned by ASCO, which will enable them to take rapid measures to prevent environmental accidents. Furthermore, in order to decrease the consumption of drinking water by fleets in the future, we plan to install

water treatment and desalination plants to collect rainwater and reuse technical water generated by local wastewater treatment onboard the vessels. In addition, the Company intends to install mobile wastewater treatment plants with a high purification capacity onboard vessels performing international voyages, as well as to create an environmental floating station equipped with a mini-laboratory by modifying an existing large-capacity tanker-type vessel in the fleet.

Moreover, ASCO is exploring the possibility of vehicles running on compressed natural gas (CNG) in order to minimize air pollution from hazardous gas emissions, and to reduce fuel consumption by motor vehicles owned by the Company. To this end, Company plans to initially install special equipment in a number of vehicles, analyze the results obtained and ensure the transition of the entire fleet of vehicles to this system if the Company achieves positive results.



GRI STANDARDS TABLE

GRI 306

GRI 203

... type and
... method

GRI 102

203-2.
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102-1.
Name of the
organization

GRI Standard and Disclosures (indicators)	Page / Note
GRI 102: General Disclosures – Organizational profile	
102-1. Name of the organization	page 8
102-2. Activities, brands, products, and services	page 28
102-3. Location of headquarters	page 104
102-4. Location of operations	page 32-33
102-5. Ownership and legal form	page 34-35
102-6. Markets served	page 32-33
102-7. Scale of the organization	page 14-15, 32-33
102-8. Information on employees and other workers	page 63-64
102-9. Supply chain	page 39
102-10. Significant changes to the organization and its supply chain	page 39
102-11. Precautionary Principle or approach	There are no aspects of ASCO's activities which could be regulated by Precautionary Principle. ASCO does not support activities that are not considered scientifically feasible, whose the results are uncertain and may result in unrecoverable damage.
102-12. External initiatives	Throughout the report.
102-13. Membership of associations	page 38
GRI 102: General Disclosures – Strategy	
102-14. Statement from senior decision-maker	page 8
102-15. Key impacts, risks, and opportunities	page 54-55
GRI 102: General Disclosures – Ethics and integrity	
102-16. Values, principles, standards, and norms of behavior	page 25, 55
102-17. Mechanisms for advice and concerns about ethics	page 55-56
GRI 102: General Disclosures – Governance	
102-18. Governance structure	page 34-35
102-19. Delegating authority	Authorized body of the Company is its executive board. Relevant members of the executive board are responsible for economic, social and environmental issues.
102-20. Executive-level responsibility for economic, environmental, and social topics	The Chairman, Deputy Chairmen, heads of Departments and Divisions pay special attention to economic, environmental and social issues, understand their importance, and carry out continuous improvement activities in these areas.
102-21. Consulting stakeholders on economic, environmental, and social topics	page 38
102-22. Composition of the highest governance body and its committees	page 50, 65, 69

GRI Standard and Disclosures (indicators)	Page / Note
102-23. Chair of the highest governance body	Chairman of ASCO is the Chair of the highest governance body - executive board.
102-24. Nominating and selecting the highest governance body	Chairman and Deputy Chairmen are appointed by the president of the Republic of Azerbaijan.
102-25. Conflicts of interest	When drafting new procedures, opening new workplaces and during other cases within the Company, conflict of interest issue is analyzed and appropriate preventive measures are taken.
102-26. Role of highest governance body in setting purpose, values, and strategy	page 25, 49
102-27. Collective knowledge of highest governance body	Trainings on different topics in economic, environmental and social areas are organized on a regular basis in the Company, and highest governance body participates in these trainings as well.
102-29. Identifying and managing economic, environmental, and social impacts	Executive board of the Company monitors and manages the economic, environmental and social aspects during each reporting period.
102-30. Effectiveness of risk management processes	page 54-55
102-31. Review of economic, environmental, and social topics	Executive board of the Company monitors and manages the economic, environmental and social aspects during each reporting period.
102-32. Highest governance body's role in sustainability reporting	The Chairman and Deputy Chairman on strategic development, investments and logistics controls the preparation process of Sustainable Development Report and approves the report when it is completed.
102-33. Communicating critical concerns	Executive board of the Company conducts a general meeting with heads of departments weekly, and all important issues are raised and solutions are discussed during these meetings.
102-35. Remuneration policies	page 52-53
102-36. Process for determining remuneration	page 52-53
GRI 102: General Disclosures – Stakeholder engagement	
102-40. List of stakeholder groups	page 38
102-41. Collective bargaining agreements	page 62
102-42. Identifying and selecting stakeholders	page 16-17, 38
102-43. Approach to stakeholder engagement	page 16-17, 38
102-44. Key topics and concerns raised	page 16-17, 38

GRI Standard and Disclosures (indicators)	Page / Note
GRI 102: General Disclosures – Reporting practice	
102-45. Entities included in the consolidated financial statements	page 41-42
102-46. Defining report content and topic boundaries	page 16-17
102-47. List of material topics	page 16
102-48. Restatements of information	page 84-89
102-49. Changes in reporting	Compared to the previous reporting period, no significant changes in the scope of the report and the scope of the aspects have been made.
102-50. Reporting period	page 1, 8, 16
102-51. Date of most recent report	page 8
102-52. Reporting cycle	page 8, 16, 50
102-53. Contact point for questions regarding the report	page 104
102-54. Claims of reporting in accordance with the GRI Standards	page 16
102-55. GRI content index	page 92-99
102-56. External assurance	page 100-101
GRI 103: Management Approach	
103-1. Explanation of the material topic and its Boundary	page 16
103-2. The management approach and its components	page 8, 19
103-3. Evaluation of the management approach	page 52
GRI 201: Economic Performance	
201-1. Direct economic value generated and distributed	page 41-42
201-3. Defined benefit plan obligations and other retirement plans	Payments to the State Social protection Fund (SSpF) by ASCO are regulated by the labor Code of the Republic of Azerbaijan. The Company pays SSpF a mandatory state social insurance fee of 22% of the labor payment fund and 3% of its calculated salary for its employees. In addition, according to the Collective agreement, ASCO pays one-time allowance in amount of 2 months salary to employees retired because of age. Additional payments for retired employees not covered in the labor Code requirements are not applied in the Company.
GRI 202: Market Presence	
202-2. Proportion of senior management hired from the local community	page 65

GRI Standard and Disclosures (indicators)		Page / Note
GRI 203: Indirect Economic Impacts		
203-1. Infrastructure investments and services supported		page 42-46
203-2. Significant indirect economic impacts		page 16
GRI 204: Procurement Practices		
204-1. Proportion of spending on local suppliers		page 39
GRI 205: Anti-corruption		
205-1. Operations assessed for risks related to corruption		page 56-57
205-2. Communication and training about anti-corruption policies and procedures		page 56-57
205-3. Confirmed incidents of corruption and actions taken		No corruption cases were detected during the reporting period.
GRI 206: Anti-competitive Behavior		
206-1. Legal actions for anti-competitive behavior, anti-trust, and monopoly practices		ASCO is a 100% state-owned company, and it is impossible to have any unhealthy competition, non-confidence, or monopoly cases.
GRI 301: Materials		
301-1. Materials used by weight or volume		The materials used in the main operating areas (fuel and lubricants, water, etc.) are disclosed in the report. Considering the significance, other materials with less volume are not included.
301-2. Recycled input materials used		During the reporting period there were no recycled materials.
GRI 302: Energy		
302-1. Energy consumption within the organization		page 88
302-3. Energy intensity		page 88
302-4. Reduction of energy consumption		page 88
302-5. Reductions in energy requirements of products and services		page 87-88
GRI 303: Water		
303-1. Water withdrawal by source		page 85-86
303-2. Water sources significantly affected by withdrawal of water		There were no cases of water sources being affected during the reporting period. page 85-86
303-3. Water recycled and reused		No technology using recycled or circulated waste water is used during the reporting period. page 85-86

GRI Standard and Disclosures (indicators)	Page / Note
GRI 304: Biodiversity	
304-1. Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	No operational area of the Company covers areas protected or of high biodiversity value.
304-2. Significant impacts of activities, products, and services on biodiversity	No operational area of the Company covers areas protected or of high biodiversity value.
304-4. IUCN Red List species and national conservation list species with habitats in areas affected by operations	During the reporting period, no animal or plant species listed in the Red list of international union for Conservation of nature has been identified in the Company's operating areas.
GRI 305: Emissions	
305-1. Direct (Scope 1) GHG emissions	page 89
305-2. Energy indirect (Scope 2) GHG emissions	page 89
305-4. GHG emissions intensity	page 90
305-5. Reduction of GHG emissions	page 89
305-7. Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	page 89
GRI 306: Effluents and Waste	
306-1. Water discharge by quality and destination	page 83-85
306-2. Waste by type and disposal method	page 84
306-3. Significant spills	page 90-91
306-4. Transport of hazardous waste	page 84
306-5. Water bodies affected by water discharges and/or runoff	No relevant cases have occurred during the reporting period.
GRI 307: Environmental Compliance	
307-1. Non-compliance with environmental laws and regulations	No relevant cases have occurred during the reporting period. page 83-91
GRI 308: Supplier Environmental Assessment	
308-2. Negative environmental impacts in the supply chain and actions taken	No cases of significant negative impacts in the supply chain were identified during reporting period. page 39
GRI 401: Employment	
401-1. New employee hires and employee turnover	page 64
401-2. Benefits provided to full-time employees that are not provided to temporary or part-time employees	All payments, discounts and privileges applicable to full-time employees are also applicable to temporary and part-time employees.
GRI 402: Labor/Management Relations	
402-1. Minimum notice periods regarding operational changes	page 62

GRI Standard and Disclosures (indicators)	Page / Note
GRI 403: Occupational Health and Safety	
403-2. Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	page 81
403-3. Workers with high incidence or high risk of diseases related to their occupation	There is no risk of high occupational diseases in any category of workers in the Company.
403-4. Health and safety topics covered in formal agreements with trade unions	The Collective Agreement, signed with the Trade Union, covers health and safety issues for employees.
GRI 404: Training and Education	
404-1. Average hours of training per year per employee	page 61
404-2. Programs for upgrading employee skills and transition assistance programs	page 60-61
404-3. Percentage of employees receiving regular performance and career development reviews	page 60, 65
GRI 405: Diversity and Equal Opportunity	
405-1. Diversity of governance bodies and employees	page 63-65
GRI 406: Non-discrimination	
406-1. Incidents of discrimination and corrective actions taken	No relevant cases have occurred during the reporting period. page 62-63
GRI 407: Freedom of Association and Collective Bargaining	
407-1. Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	During the reporting period there were no suppliers and operations in which the right of freedom of association and collective bargaining might be at risk.
GRI 408: Child Labor	
408-1. Operations and suppliers at significant risk for incidents of child labor	During the reporting period, no child labor issue was found in the operations of the Company or in the operations of suppliers and contractors collaborating with the Company.
GRI 409: Forced or Compulsory Labor	
409-1. Operations and suppliers at significant risk for incidents of forced or compulsory labor	No relevant cases have been detected during the reporting period.
GRI 410: Security Practices	
410-1. Security personnel trained in human rights policies or procedures	Relevant trainings, including human rights policies and procedures are being held for security personnel as part of employment procedure.

GRI Standard and Disclosures (indicators)	Page / Note
GRI 411: Rights of Indigenous Peoples	
411-1. Incidents of violations involving rights of indigenous peoples	No relevant cases have occurred during the reporting period.
GRI 412: Human Rights Assessment	
412-1. Operations that have been subject to human rights reviews or impact assessments	There were no human rights violations during the reporting period. page 55-56
412-2. Employee training on human rights policies or procedures	page 55-56
GRI 413: Local Communities	
413-2. Operations with significant actual and potential negative impacts on local communities	No relevant cases have been detected during the reporting period.
GRI 414: Supplier Social Assessment	
414-2. Negative social impacts in the supply chain and actions taken	No relevant cases have been detected during the reporting period.
GRI 415: Public Policy	
415-1. Political contributions	During the reporting period, the Company had no political payment.
GRI 416: Customer Health and Safety	
416-1. Assessment of the health and safety impacts of product and service categories	The Company does not offer services that adversely affect health and safety.
416-2. Incidents of non-compliance concerning the health and safety impacts of products and services	The Company does not offer services that adversely affect health and safety. No relevant cases occurred during the reporting period.
GRI 417: Marketing and Labeling	
417-2. Incidents of non-compliance concerning product and service information and labeling	No relevant cases have occurred during the reporting period.
417-3. Incidents of non-compliance concerning marketing communications	No relevant cases have occurred during the reporting period.
GRI 418: Customer Privacy	
418-1. Substantiated complaints concerning breaches of customer privacy and losses of customer data	No relevant cases have occurred during the reporting period.
GRI 419: Socioeconomic Compliance	
419-1. Non-compliance with laws and regulations in the social and economic area	No relevant cases have occurred during the reporting period.

Independent Assurance Report on the Sustainability Report for 2018-2019

To the Management and Stakeholders of "Azerbaijan Caspian Shipping" CJSC

Identification and description of the subject matter

At the request of "Azerbaijan Caspian Shipping" CJSC (hereinafter 'the Company'), we have provided a limited level assurance on the qualitative and quantitative information disclosed in Sustainability Report for 2018 and 2019 (hereinafter 'the Report') of the Company except the forward-looking statements on performance, events or planned activities.

Identification of the criteria

The criteria of our engagement were the Global Reporting Initiative Sustainability Reporting Standards (hereinafter 'GRI Standards') and the Company's sustainability reporting principles as set out in the section 'About the Report'. We believe that these criteria are appropriate given the purpose of our assurance engagement.

Management's responsibilities

The management of the Company is responsible for the preparation of the Report and the information therein in compliance with GRI Standards and the Company's sustainability reporting principles. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation of the sustainability report that is free of material misstatements, selecting and applying appropriate reporting principles and using measurement methods and estimates that are reasonable in the circumstances.

Our responsibilities

Our responsibility is to independently express conclusions that:

- the information in the Report is in all material respects a reliable and sufficient representation of sustainability policies, activities, events and performance of the Company for the years ended December 31, 2018 and December 31, 2019.
- the Report is consistent with the principles and requirements of Core option of the GRI Standards.

Summary of work performed

Our engagement was conducted in accordance with International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information, issued by IFAC, and accordingly included the following procedures:

- Interviews with the representatives of the Company's management responsible for its sustainability policies, activities, performance and relevant reporting,
- Analysis of key documents related to the Company's sustainability policies, activities, performance and relevant reporting,
- Benchmarking of the Report against sustainability reports of selected international peers of the Company,
- Review of a selection of corporate and external publications on the Company's sustainability policies, activities, events, and performance in 2018 and 2019,
- Identification of sustainability issues material of the Company based on the procedures described above and analysis of their reflection in the Report,

- Review of data samples regarding human resources, environment, social investments and procurement expenditures for key indicators as well as data collection processes to assess whether these data have been collated are reported appropriately at the central office level,
- In order to validate the Company's policies, activities, measures and performance results in the Sustainability Report, we collected evidence from the Sea Transport Fleet and the Caspian Sea Oil Fleet,
- Assessment of compliance of the Report and its preparation process with the Company's sustainability reporting principles, and
- Assessment of compliance of information and data disclosures in the Report with the requirements of Core option of the GRI Standards. A member firm of Ernst & Young Global Limited

We believe that our procedures provide a basis on which we can provide limited assurance. Our evidence gathering procedures are more limited than for a reasonable assurance engagement, and therefore, less assurance is obtained than in a reasonable assurance engagement.

Conclusions

Based on our work described in this report, nothing has come to our attention that causes us to believe that the information in the Report, in all material aspects does not provide a reliable and sufficient representation of sustainability policies, activities, events and performance of the Company for the years ended December 31, 2018 and December 31,

2019 in accordance with the GRI Standards and the Company's sustainability reporting principles. Nothing has come to our attention that causes us to believe that the Report does not meet the requirements of Core option of the GRI Standards.

Ernst & Young Holdings (CIS) B.V.

Baku
April 14, 2020



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