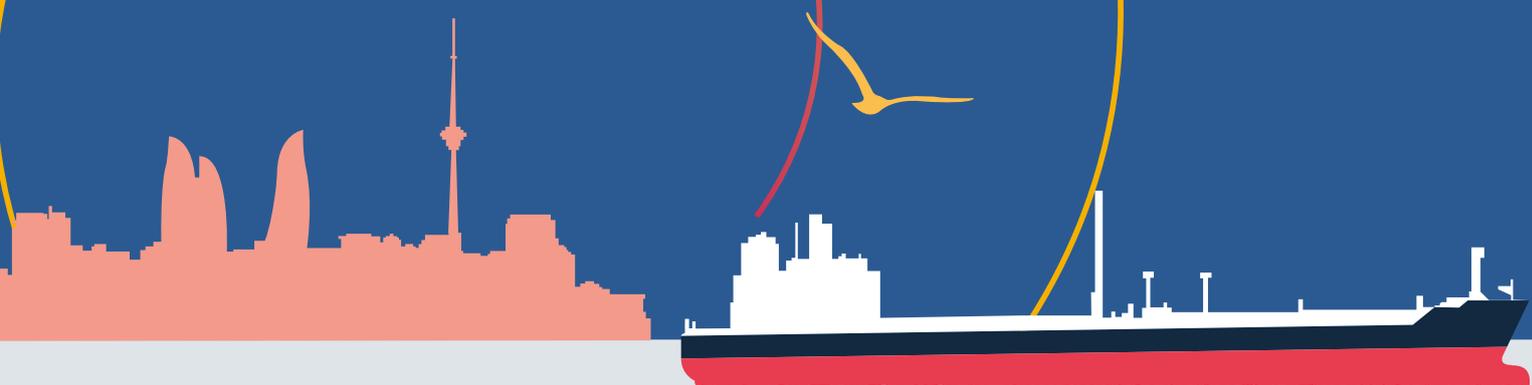


SUSTAINABLE  
DEVELOPMENT  
REPORT

2016-2017



AZERBAIJAN  
CASPIAN SHIPPING COMPANY









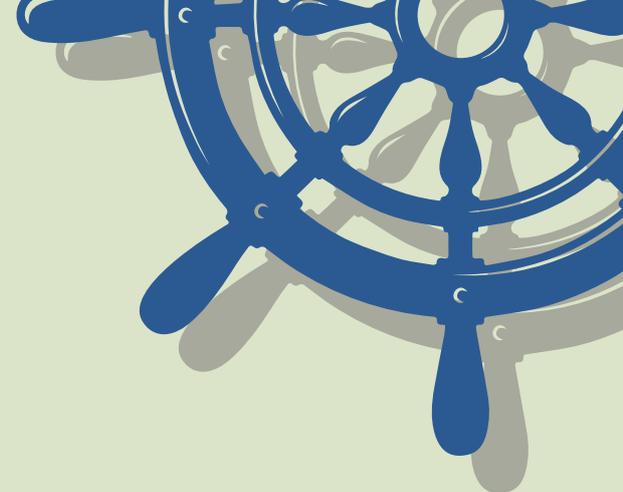
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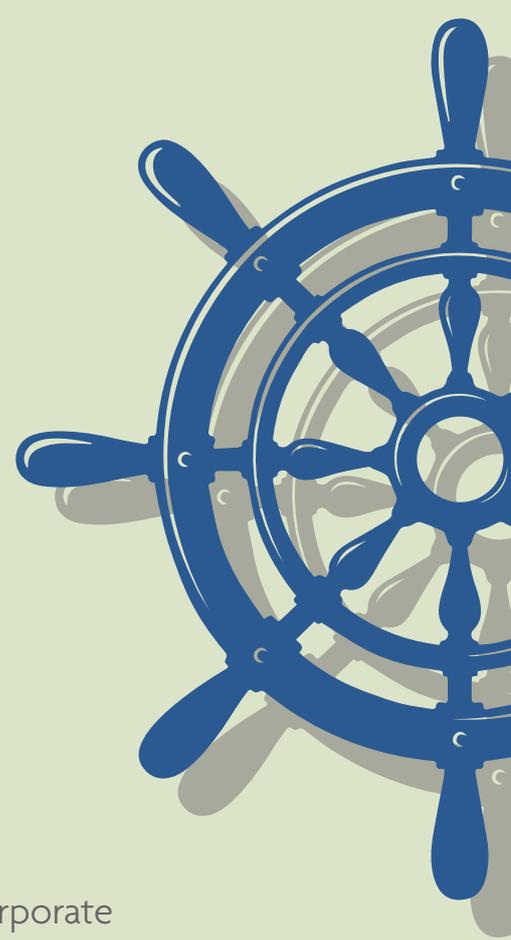
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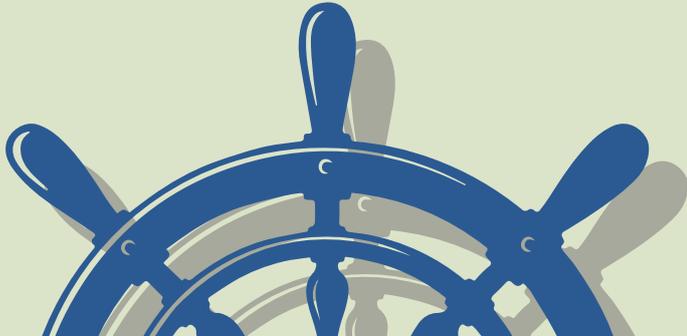


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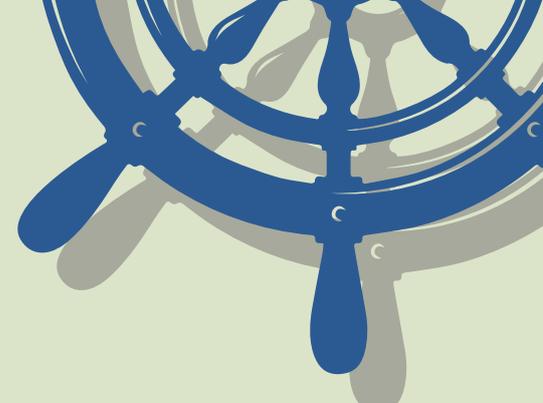
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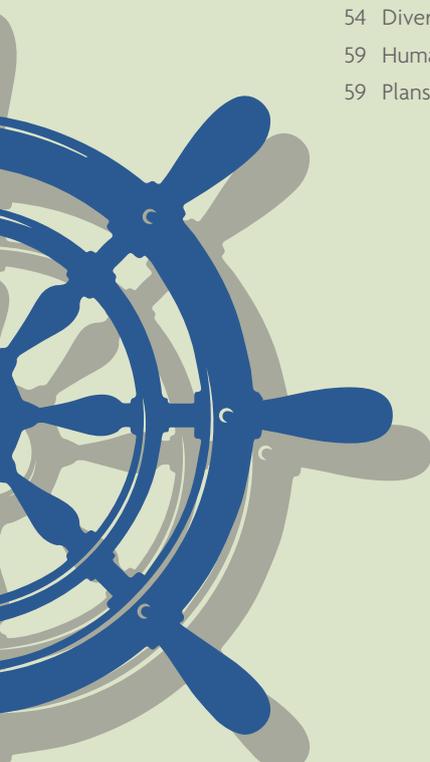
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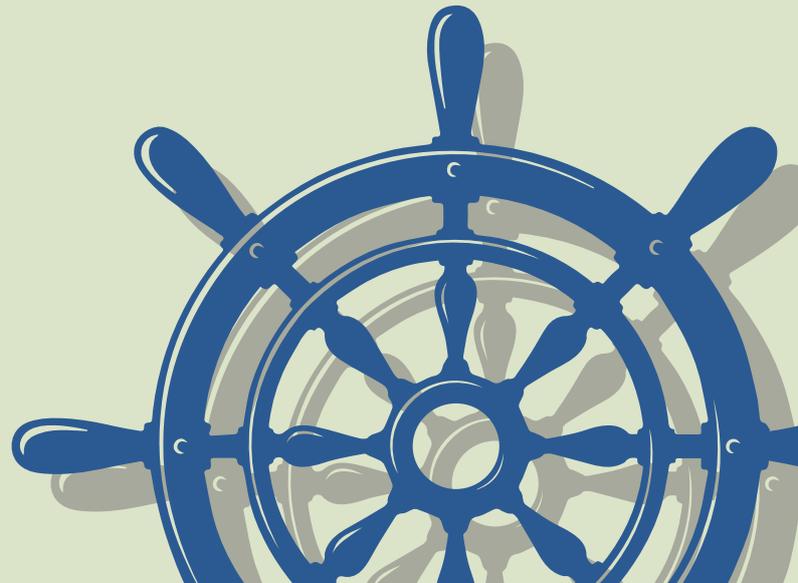
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## CHAIRMAN'S FOREWORD

### Dear readers,

I am delighted to introduce the second Sustainable Development report, for 2016-2017, of Azerbaijan Caspian Shipping Closed Joint-Stock Company. The sustainable development concept aims to ensure the effective use of resources, as well as provide a sustainable environment for both the present and future generations. In other words, while using natural resources, we must ensure that they are not used up, and that they can be restored and serve the society. Our business involves both offshore and onshore activities. Our major goal is to keep the impact of our operations on the Caspian Sea, the coast of the Caspian Sea and the atmosphere to a minimum level in accordance with sustainable development principles.

The period 2016-2017 was quite productive for the Azerbaijan Caspian Shipping Company. During that period, several significant social and economic projects were implemented in environmental protection, occupational health and safety, human resources management, and corporate governance. Despite serious difficulties in the shipping industry due to ongoing economic crises around the world, as well as the rapid decrease in overall trade turnover, positive results were obtained from transit transportation and shipping operations in Azerbaijan due to preventive measures taken under the leadership of the President of the Azerbaijan Republic. As a good example of the care and attention devoted to the shipping field, the State Program for the Development of Shipping in the Azerbaijan Republic for the period of 2016-2020 was approved and set in motion.

The Company's business model was analyzed by an international rating agency in 2016, its robustness and sustainability was confirmed, and ACSC obtained a credit rating for the first time in its history. For the purpose of continuous improvement of the corporate governance system, a roadmap was developed for ACSC by an international consulting company, and projects outlined in the roadmap were implemented during 2016-2017. Moreover, a remuneration system based on performance was designed and implemented in the Company effective since January 1, 2017. In addition, regular internal audits were conducted under ISO and ISM certificates with 5 years of validity, and compliance of ACSC's Qualitative Management System of Safety with the requirements of international standards was confirmed.

Renewal of the fleet, the construction of modern, fuel-efficient ships with a low impact on the environment and commissioning those ships all play an important role in both sustainable development and services which meet modern requirements. It should be noted that, over the 5 years since the establishment of ACSC, 20 new modern ships were purchased for the Company's fleet and commissioned. At the same time, ACSC expanded its operations in international waters beyond the Caspian Sea to diversify its business and reduce dependence on a single market. At present, 13 vessels operate under the Azerbaijani flag beyond the Caspian Sea.

Being one of the largest and fully state-owned companies, ACSC realizes its social corporate responsibility in the country and focuses on implementing projects in this area. Thus, ACSC has supported various social projects and work has continued to improve the welfare of personnel, providing medical services, promoting the seafarer's profession in the country and creating opportunities for young seafarers to study abroad.

Azerbaijan Caspian Shipping Company will celebrate its 160th anniversary this year. Shipping in Azerbaijan has come along a glorious historical path since 1858. Today, ACSC embodies years of experience, while its corporate governance system has been established in compliance with the requirements of modern times. We and future generations are committed to ensuring the development of the Azerbaijani fleet, part of the national wealth of our country, and to using this wealth for the sake of the sustainable development of our republic. I consider that the strategy and activities of Azerbaijan Caspian Shipping Company in sustainable development will allow us to bequeath the wealth of our country to future generations, as well as to ensure support for young seafarers.

Respectfully,

**Rauf Valiyev**  
**Chairman**

# REPORT SUMMARY

Azerbaijan Caspian Shipping Closed Joint-Stock Company pays special attention sustainable development principles and their development in its business activities. Since 2014, ACSC issues bi-annual reports on sustainable development activities, which are audited by international audit company and openly published available for the society. The report covers activities and the results obtained in social, economic, and environmental protection, health and occupational safety, human resources management, corporate management spheres.

## Corporate governance system

Since its establishment, ACSC has focused on applying international practices and on ensuring the compliance of operations with international corporate governance standards in order to support transparency and efficiency in its business. Relevant normative documents were drafted and implemented in the Company in accordance with the requirements of international corporate governance systems. Further, committees in the relevant areas have been established to make collective decisions on the Company's activities in compliance with leading international corporate governance principles.

In 2016, international audit and consulting firm EY was engaged for the purpose of further improving the corporate governance system. The current state of the corporate governance system was assessed and a roadmap was prepared covering the necessary measures to be taken for further improvement. A Project Management Office was established to conduct the activities outlined in the roadmap and all projects in the roadmap have been implemented. Thus, documents were drafted and applied including the Corporate Governance Code, Business Ethics Code, Anti-Corruption Guidelines, Hotline Contact Center, Disclosure Policy for Financial and Operating Results and other important documents. At the same time, business process maps were drawn up encompassing all major business processes and their sub-processes existing in the Company, a Motivation and Remuneration Policy was approved and a bonus compensation system based on meeting Key Performance Indicators (KPIs) was deployed.



As a follow-up to corporate governance projects, to obtain a corporate governance rating for the Company international audit firm Deloitte analyzed the corporate governance system at ACSC, considering both internal and external factors, and a positive corporate governance rating was issued for the Company.

## Human Resources

Certain measures have been taken to increase the effectiveness of human resources management, prepare a strong personnel team, and track the career development of young personnel during the reporting period. Procedures for evaluating staff performance were improved during 2016-2017. Thus, individual and professional qualities of subordinate employees have been evaluated, the qualities of staff to be developed have been identified, and the performance evaluation results have been analyzed to build a map of future career development for the employees and develop training programs for them.



In addition, electronic systems were introduced in human resources management, a test system was deployed for the objective verification of theoretical knowledge during recruitment, and we arranged a digitalization process for training matrices to facilitate the organization of required courses for 4,000 sailing personnel. At the same time, seafarers have the opportunity to send electronic requests for documents through a single window system while at sea and obtain the requested documents on the coast without losing time.

ACSC regularly organizes special international training courses to improve personnel skills. It cooperates closely with internationally outstanding companies, such as the American Bureau of Shipping, EY and business academies of BIMCO, and international shipping association. These companies regularly conduct training sessions on various topics such as international conventions, QHSE requirements and recommendations, financial accounting, effective management and decision-

making, effective communication, and operating performance management and so on.

ACSC focuses specially on the training of young personnel, their motivation and career development. A letter of guarantee from the Chairman is presented to Azerbaijan State Marine Academy's (ASMA) students who distinguish themselves in their academic performance and discipline. Students distinguished with top education results are sent on internships on vessels in the Black and Mediterranean seas. In addition, the Company provided master's scholarships for two ASMA students at the World Maritime University in Malmö, Sweden, as part of the 2017 exchange program.

### Social activities



ACSC continued to implement social projects within the framework of social corporate responsibility during the 2016-2017 reporting period.

The improvement of personnel's social conditions and welfare is one of ACSC's main targets in the social sphere. To this end, salaries of both onshore and offshore seafarers were increased on several occasions during 2016-2017. Furthermore, food supplies continued to be provided to personnel working in ACSC's structural units and on vessels. The Company strictly controls the quality of supplied food. As a follow-up to the process of employee welfare improvement, the construction of a residential building in Khatai district was commenced to provide apartments to the employees who have been on the waiting list since the Soviet period.

All appropriate measures were taken by the Company to assist internally displaced families, refugees and families of martyrs, children in custody and veterans, to support youth and promote the seafarer profession.

### Quality, Health, Occupational Safety and Environmental Protection

Special attention is paid to implementing all activities in the Company in a safe manner without damaging the health of the employees and the environment. ACSC acts in compliance with the requirements of international standards in this area and has gained relevant certificates: ISO 9001:2008 (Quality Management), ISO 14001:2004 (Environmental Management), ISO 50001:2011 (Energy Efficiency Management), OHSAS 18001:2007 (Occupational Health and Safety Management), and ISM code (International Safety Management System) standards. Moreover, conventions such as SOLAS (International Convention on the Safety of Life at Sea), MARPOL (Marine Pollution), STCW (International Convention on Standards of Training, Certification and Watchkeeping), QHSE, and the Qualitative Management System of Safety are followed. Relevant improvement procedures were carried out within the Qualitative Management System of Safety according to the requirements of international standards during 2016-2017, and a subsequent external audit was conducted by the American Bureau of Shipping in 2017, as a result of which the compliance of ACSC's management system with international management standards was confirmed.

Significant improvements were achieved in waste disposal, the use of potable and sea water, energy resources, and the management of atmospheric emissions across a number of parameters.

In this Sustainable Development Report for 2016-2017 Azerbaijan Caspian Shipping Company presents the results of its activities to all stakeholders and reviews the economic, social and environmental aspects of sustainable development. ACSC focuses on each of the aspects listed above, and more detailed information and comments are included in the relevant sections of the report.

# AZERBAIJAN CASPIAN SHIPPING COMPANY



1.3% savings in electrical energy consumption

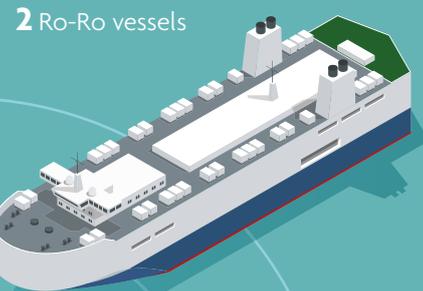
Number of employees in 2017  
**8,921**



0.9% decrease in CO<sub>2</sub> emissions,  
1.1% decrease in CO<sub>2</sub> emissions



13 Ferries



2 Ro-Ro vessels

Transportation fleet, 52 vessels



22 Tankers



15 Dry cargo vessels

## ACSC's main business lines are the following:

- Cargo transportation
- Specialized offshore services in the oil industry
- Ship repair and construction
- Education and training

## Additional business lines include:

- Logistics services
- Dry cargo port services
- Agency services

# Specialized oil fleet, 212 vessels

- 22 Crane vessels
- 25 Passenger ships
- 19 Anchor handling tug supply vessels
- 7 Platform supply vessels
- 3 Tug boats
- 8 Port-tug boats
- 11 Diving vessels
- 6 Firefighter vessels
- 6 Barges
- 8 Liquid cargo ships (tankers)
- 5 Engineering-geological vessels
- 12 Surface cleaner and sewage water collector vessels
- 2 Underwater pipe-laying vessels
- 68 Supporting boats
- 3 Ship repair workshops
- 1 Floating workshop
- 6 Dredger ships and convoy



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



Revenue in 2016:  
455 million AZN

Revenue in 2016:  
474 million AZN

## Volume of cargo, tons

2016	2017
5,801,651	8,347,366

## Hours worked by specialized oil fleet

2016	2017
519,316	507,003

## Number of repair jobs carried out by ACSC facilities

2016	2017
601	764

# ABOUT THE REPORT

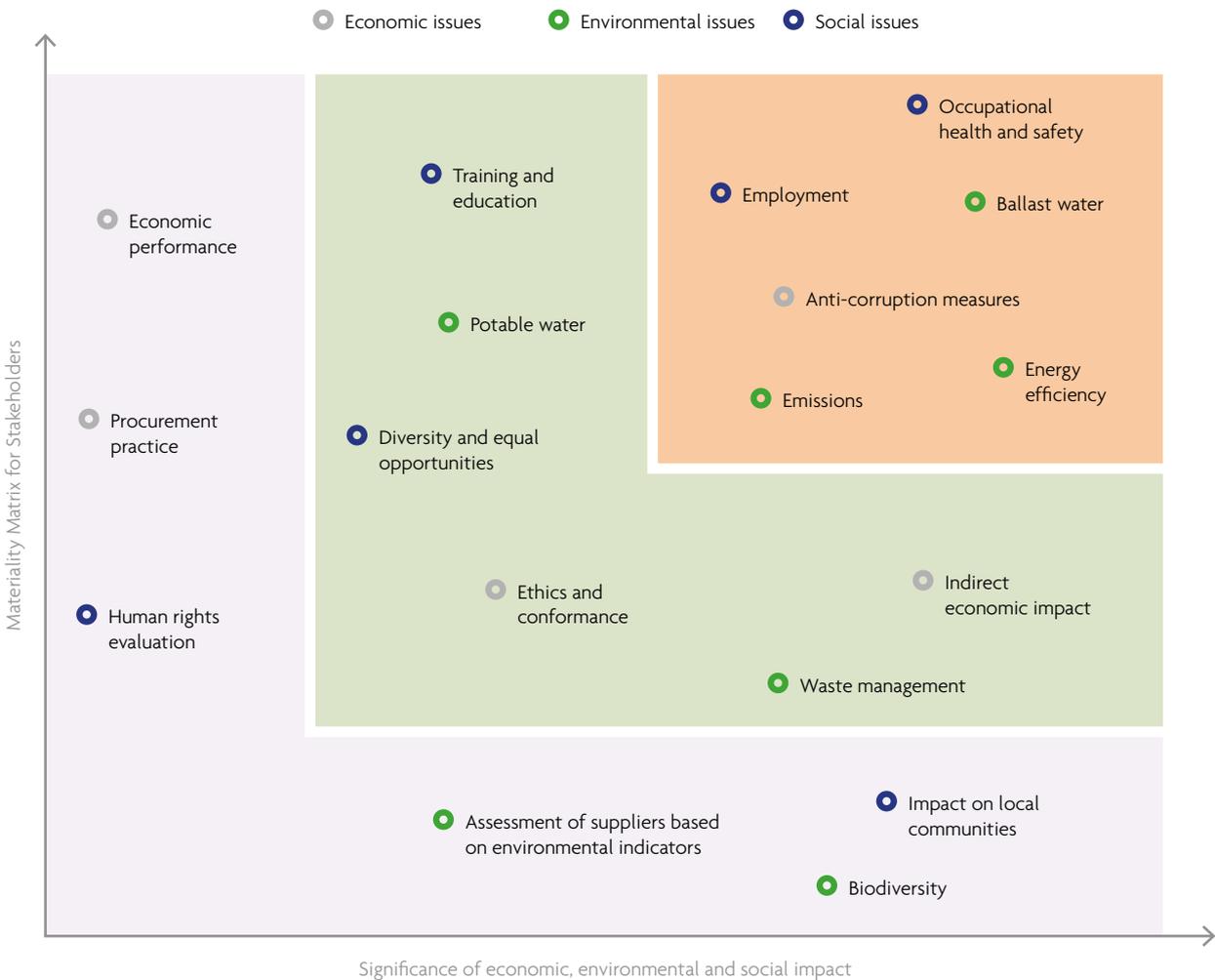
This report describes social, ecological and economic activities and work carried out by Azerbaijan Caspian Shipping Closed Joint-Stock Company (hereafter referred to as “ACSC” or the “Company”) in the field of sustainable development within the period of 2016-2017. The report was prepared in accordance with “Core” compliance criteria for reporting standards of the Global Reporting Initiative (hereafter referred to as “GRI”) and covers the above-mentioned aspects. At the end of the report, page XX contains a table of GRI standards and explanations.

Regular inspections carried out by internal control mechanisms at ACSC and independent auditors ensure that the information presented in this report is accurate and precise. Audit opinion by EY was described on page XX of the report.

During the preparation of the report, all indicators for the 2016-2017 annual report were analyzed separately to address

ecological, social and economic aspects. Interviews were conducted with the relevant responsible employees on each of the three aforementioned aspects. Moreover, relevant procedures were implemented during the report’s preparation to take into account the opinion of interested third parties outside the Company on the structure and information disclosure of the report. An online survey was conducted via the official ACSC website to determine the Company’s business areas which are the most important for customers, partners, suppliers, the public, media and other stakeholders. A “Materiality Matrix” was prepared for the issues highlighted in ACSC operations, based on interviews and analyses.

## Significance of economic, environmental and social impact





# ACSC'S GLOBAL COMMITMENTS AND CONTRIBUTIONS TO SUSTAINABLE DEVELOPMENT GOALS (THE SDGS)

17 sustainable development goals and 169 related targets were established by the United Nations in 2015 in order to address poverty reduction, inequality and injustice, as well as to prevent climate change.

The Paris Agreement to eliminate climate change ratified by 174 countries, including Azerbaijan, entered into force in November 2016. The central aim of this convention is to keep the global temperature rise below 2 degrees Celsius as a result of serious work by the signatories through their nationally determined contributions. Our countrywide target is to reduce gas emissions that warm by 35% by 2030 compared with 1990, in accordance with nationally determined contributions submitted by the government of the Republic of Azerbaijan.

As the leading shipping company of the country and the Caspian region, we understand our commitment to reaching the goals set by our state aimed to eliminate climate change. ACSC works towards achieving sustainable development goals in Azerbaijan and in other areas where it operates. We understand that the Company has the ability to influence many sustainable development goals directly through its own activities and its value chain. Because of this, we build our business in a way to make positive changes. Sustainable development goals that ACSC can positively influence and those which are relevant to the shipping business are listed below.



## GOAL 1

Our employees are paid a salary above the minimum wage, covering their living and necessary costs, while also providing them with a modern life style. Furthermore, we give financial support to our employees who need it, refugees and internally displaced persons. (Page 61)



## GOAL 3

We continuously make sure that our employees get professional medical treatment and their work conditions are sufficiently safe for their health. (Page 67)



## GOAL 4

ACSC's employees are continuously provided with technical, occupational and personal development training. Moreover, Azerbaijan State Marine Academy prepares future specialists by participating in exchange programs and cooperating with international organizations. (Page 52)



## GOAL 5

The same career opportunities are created for female and male employees at Azerbaijan Caspian Shipping Company irrespective of their gender. Further, the salaries paid to male and female employees only depend on their positions and performance without any discrimination. (Page 54)



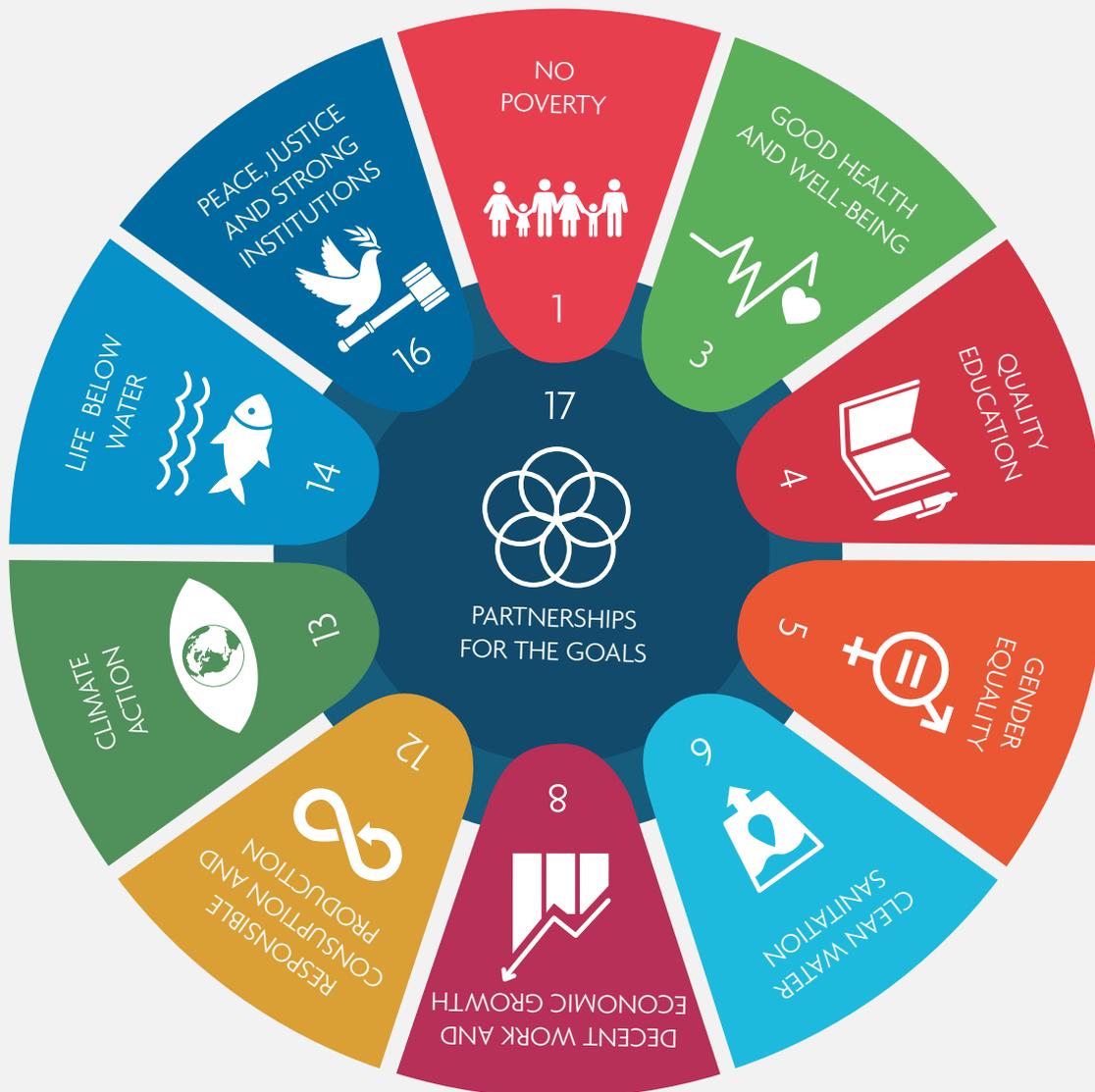
## GOAL 6

We understand that there is a potable water problem in the world. Potable water resources are very limited in Azerbaijan as well. Therefore, we use potable water resources efficiently, and periodically monitor the quality of potable water on our coasts and ships. (Page 71)



## GOAL 8

We regularly evaluate the working conditions and safety of our employees' work places (page 67). In addition, we carry out our activities to improve the economic and commercial status of our shipping company; at the same time, by expanding shipping operations, we contribute to Azerbaijan's transformation into a transport and trade hub in the region.



**GOAL 12**

When rendering our services, we pay strict attention to efficient and responsible use of resources. Meanwhile, we have increased our energy efficiency as a result of reevaluation procedures and have set a goal to continue such activities. (Page 72)



**GOAL 13**

As shown on page 73, ACSC has managed to reduce the volume of emissions and has undertaken to maintain optimal levels in the future.



**GOAL 14**

By improving waste management in vessels, we try to minimize the potential negative impact on the marine ecosystem. (Page 71)



**GOAL 16**

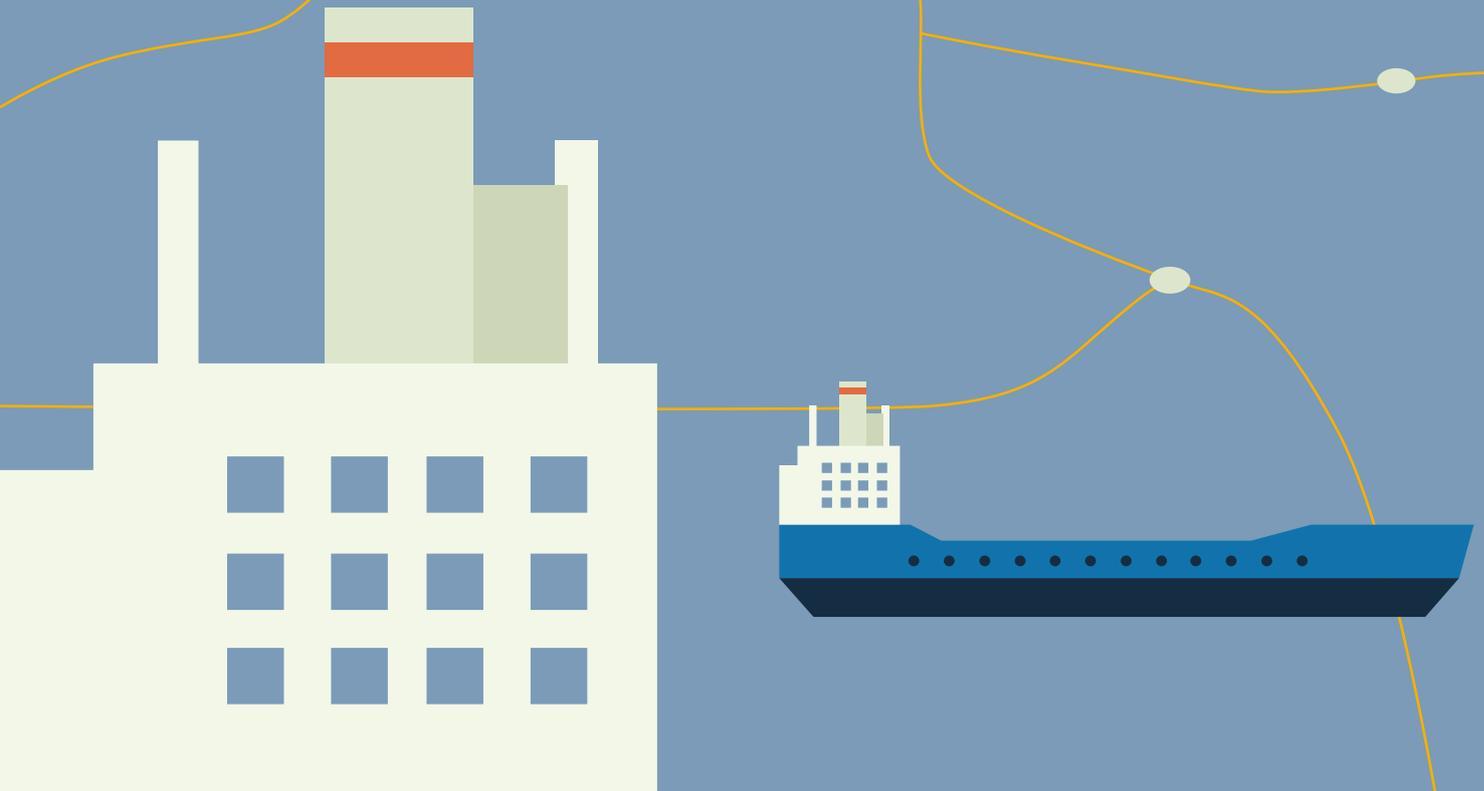
We have established equal opportunities for everyone at the company and the fairness principle is an important factor in our relationship with employees and in decision-making. We know that corruption has the potential to exercise a great negative impact not only on our operations, but also on all of the Company. In this regard, an anti-corruption policy was introduced in ACSC. In addition, we continually conduct training to increase awareness in this area. (Page 49)



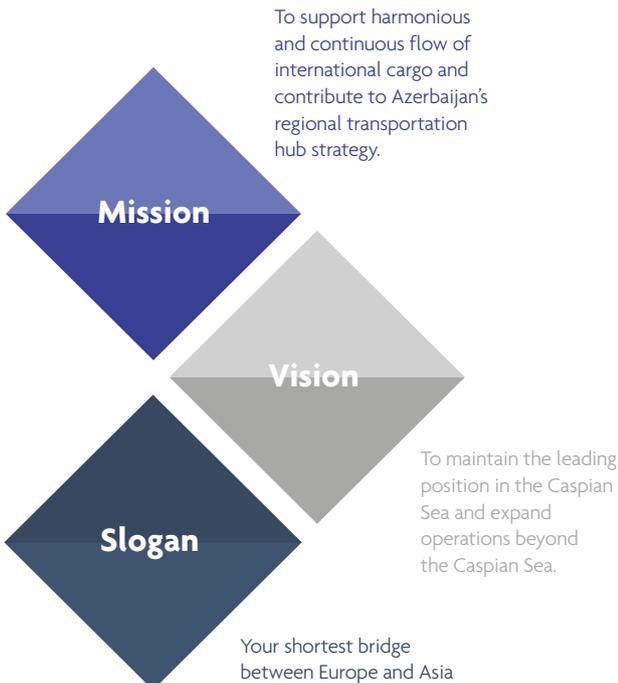
**GOAL 17**

We believe that all sustainable development goals can be achieved through exchanging experience and knowledge among companies, organizations and governments. You can find information on ACSC's partnerships with various stakeholders in the report. (Page 33)

# ABOUT ACSC



# OUR VALUES, MISSION AND GOALS



## PURPOSE OF SUSTAINABLE DEVELOPMENT

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

## STRATEGIC TARGETS

- Target 1:** To establish a modern shipping company which can operate efficiently and ensure sustainable development.
- Target 2:** To conduct operations in a safe manner and without environmental damage.
- Target 3:** To grow and train strong local professionals.
- Target 4:** To expand and diversify operations.
  - To maintain the leading position in cargo transportation in the Caspian Sea
  - To restore and expand operations beyond the Caspian Sea
  - To expand the geography of offshore support services
  - To increase ship repair services for outside companies
  - To extend other business areas, as well as increase profitability.

# HISTORY OF ACSC

Azerbaijan Caspian Shipping Closed Joint-Stock Company, which was originally founded as The Caucasus and Mercury Joint-Stock Company, celebrates its 160th anniversary this year. Today, ACSC is the oldest shipping company with the richest history on the Caspian Sea. Our 160 years of rich 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.

**1858** Foundation of The Caucasus and Mercury Joint-Stock Company

**1866** Foundation of a mechanical plant by The Caucasus and Mercury Joint-Stock Company in Baku

**1873** Launch of the Alexander, the world's first ever oil barge, in the Caspian Sea

**1878** Launch of the Zoroaster, the world's first ever oil tanker, in the Caspian Sea

**1881** Organization of Baku Maritime classes to train seafarers to meet the ships' requirements

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

**1908** Launch of the Delo, the first vessel with two reversible engines, in the Caspian Sea

**1960** Caspian Shipping Company vessels sail out of the Caspian Sea via the Volga-Baltic Waterway



Azerbaijan State Caspian Shipping Company



Caspian Sea Oil Fleet



Azerbaijan Caspian Shipping Closed Joint-Stock Company



**2004**  
Launch of a major tanker named President Heydar Aliyev, with 13,000 tons deadweight, in the Caspian Sea

**1975-1985**  
Purchase and construction of new tankers, universal dry-cargo vessels and ferries for the merchant fleet

**2005-2012**  
Renewal of the ferry fleet

**2013**

**2005**

**2004**

**1975-1985**

**2003-2011**

**2003-2011**  
Renewal of the tanker fleet

**2013**  
Establishment of the Azerbaijan Caspian Shipping Closed Joint-Stock Company by merging Azerbaijan State Caspian Shipping Company and the Caspian Sea Oil Fleet of the State Oil Company of Azerbaijan Republic

**1962**

**1962**  
Construction of the first major ferry crossing in the Caspian Sea (Turkmenbashi) and the launch of ferries operating along it

**1970-1980**



**1970-1980**  
Construction of over 300 specialized offshore ships, at a rate of 20-30 ships per year. Rapid development stage of the specialized oil fleet

**1949**

**1949**  
Foundation of the Caspian Sea Oil Fleet by establishing the Floating Vehicles division serving the Azerneft Union

# MAIN BUSINESS OPERATIONS



## CARGO TRANSPORTATION:

ACSC transports cargo both in the Caspian Sea and beyond, especially in the Black and Mediterranean sea basins. Cargo is transported by the ACSC merchant fleet. Tankers, universal dry cargo vessels, ferries and Ro-Ro vessels are included in the merchant fleet. Currently, the ACSC merchant fleet consists of 52 vessels: 22 tankers, 15 dry cargo vessels, 13 ferries and 2 Ro-Ro vessels.

### Structure of the merchant fleet, vessels

Type of ship	Quantity
Tankers	22
Dry cargo vessels	15
Ro-Ro vessels	2
Ferries	13
<b>Total</b>	<b>52</b>

The ACSC’s tanker fleet transports oil and oil products. Most liquid cargo is transported across the Caspian Sea by ACSC’s tankers. In accordance with its strategy to diversify business lines and eliminate dependence on a single market, ACSC has offered cargo transportation with tankers outside the Caspian Sea since 2017. Currently, ACSC operates 2 tankers outside the Caspian Sea, on the Black and Mediterranean sea basins.

ACSC’s universal dry cargo vessels operate in the Caspian Sea, as well as on the Black and Mediterranean sea basins. ACSC’s dry cargo vessels in the Caspian Sea allow Azerbaijan to maintain its position on the dry cargo transportation market and to meet demand for transit container volumes, which is predicted to increase.

Overall, ACSC operates 13 vessels, 11 dry cargo vessels and 2 tankers outside the Caspian Sea. They are operating under the Azerbaijani flag.



Today, ACSC is the only shipping company that operates ferries in the Caspian Sea. ACSC’s ferries transport railcars, trucks and container cargo along the Trans-Caspian corridor by connecting railways on the east and west coasts of the Caspian Sea. Two ACSC’s Ro-Ro vessels, Composer Fikrat Amirov and Gara Garayev, transport various wheeled vehicles, including big trucks, along the Kazakhstan-Azerbaijan and Turkmenistan-Azerbaijan routes.



## MAIN BUSINESS OPERATIONS

### SPECIALIZED OFFSHORE SERVICES FOR THE OIL INDUSTRY

ACSC's specialized oil fleet consists of 212 vessels and it serves several important oil and gas projects in the Caspian Sea region.

Its operations include oil and gas production processes, the construction of marine platforms, geological exploration, laying oil and gas pipelines and their repair during operations, firefighting at oil facilities, delivering oil workers to their workplace on time, and other activities involving the exploration and extraction of mineral resources at the bottom of the sea. This fleet is also involved in the development of the Shahdeniz, Bahar-Gum-Deniz and Azeri-Chirag-Gunashli fields in the Caspian region.

#### Structure of specialized oil fleet, vessels

Type of vessel	Quantity
Crane vessels	22
Passenger ships	25
Anchor handling tug supply vessels	19
Platform supply vessels	7
Tug boats	3
Port tug boats	8
Diving vessels	11
Firefighting vessels	6
Barges	6
Liquid cargo ships (tankers)	8
Geological engineering vessels	5
Underwater pipe-laying vessels	2
Surface cleaner and sewage water collector vessels	12
Support boats	68
Ship repair workshops	3
Floating workshop	1
Dredger ships and convoys	6
<b>Total</b>	<b>212</b>





## SHIP REPAIR AND CONSTRUCTION

The Zygh Ship Repair and Construction Yard (Zygh SRCY) and the Bibiheybat Ship Repair Yard (Bibiheybat SRY) repair the vessels and technical equipment of both ACSC and other shipping companies. They prepare spare parts, special paint and technical tools according to orders. At the same time, Zygh started to provide shipbuilding services with the relevant certification in 2017. Other services carried out in these yards include the installation and tuning of ship systems and equipment, electric and radio-navigation equipment, engines, and devices; diving and underwater hydro-technical works; the inspection, cleaning and painting of underwater hulls, steering wheels and screws by lifting the ships on to the dock; the inspection and repair of hydrostatic separating devices, individual rescue vehicles, and the maintenance of ASV type isolating breathing apparatuses.

Three berths, a new administration building, a new warehouse complex, a canteen building, a social building and a changing room were built and commissioned at Zygh in 2016-2017 in order to improve the quality of repair works and speed up the repair processes. In addition, a mechanical workshop, repair shop, compressor building, blacksmith workshop, boiler building, potable water pumping station, transformer substation, heating network, and new crossing points were built and commissioned; power and potable water supply networks were set up and blacksmith workshops and a boiler house were connected to gas system.

Infrastructure expansion works, including the overhaul of the coastal bridge and the construction of substations for dockyard berths, were carried out at Bibiheybat. It is planned to extend the berths and roads for cranes, overhaul current cranial roads and renew the yard's equipment at the next stage.



## MAIN BUSINESS OPERATIONS

### EDUCATION

Azerbaijan State Marine Academy (ASMA), which is part of the ACSC structure, has 130 years of experience in marine education. The academy prepares seafarers for shipping companies in Azerbaijan, as well as in other countries of the region. Currently, the Academy serves students with 3 faculties and 16 departments.

ASMA is recognized by the International Maritime Organization (IMO). Considerable reforms have been carried out at the Academy. Academy graduation standards and specializations have been adjusted to meet ACSC's requirements and preference has been given not to quantity but to quality in education and graduation standards since 2013.

In addition to this, the Academy has a Training and Education Center (TEC) to increase the professionalism and qualification level of seafarers, and to provide certification. This Center is equipped with training facilities and simulators, and special courses are organized for certification of the seafarers. Study courses provided by the Center fully meet the standards of the International Maritime Organization (IMO). A Dynamic Positioning Simulator (DP2) used by the latest modern vessels began operating at the TEC in 2016. DP2 allows to control the



position and course of the vessel in difficult and unfavorable weather conditions. It plays a great role in training seafarers. Moreover, TEC has obtained certificates to enhance the quality of training held in the Center. Bureau Veritas and American Bureau of Shipping (ABS) have certified 40 training courses held at TEC. At the same time, The Nautical Institute has certified its DP Induction and DP Simulator training courses, as a result of which TEC has become one of 95 training centers around the world and the only one in the Caspian region with the authority to deliver these courses.

Azerbaijan Marine College, which also provides education within the ACSC structure, was established in 2016. According to the respective decision of the Cabinet of Ministers of the Republic of Azerbaijan, Azerbaijan Marine Fisheries College was subordinated to the ACSC and it became the basis of the Azerbaijan Marine College, which has been established under Azerbaijan State Marine Academy. This college trains specialists in the fields of operating power devices, energy equipment and automatic machines, ship steering, ship repairs, and installation of ship equipment.

## SUPPORTING BUSINESS OPERATIONS

Apart from the main operations mentioned above, ACSC also has several supporting shipping operations:

- Logistics services
- Dry cargo port services
- Agency services

### Logistics services

ACSC Logistics LLC operates within the ACSC structure and it provides a full range of logistics services. ACSC Logistics



transports cargo from the starting point to the destination in a safe, effective manner and in a short period of time via a number of transport modes. Moreover, ACSC Logistics provides consultation services to shippers to select the optimal route and transport mode, as well as providing documentation, convoy, customs clearance and insurance services required during cargo transportation.

### Dry port services

The Zygh dry port facility operates within the ACSC structure. The main purpose of this port facility is the organization, operation and management of port activities using advanced techniques and technologies, the provision of high-level port services to both local and foreign shipping companies, conducting cargo operations, serving vessels and passengers, as well as other relevant port services.

### Agency services

Inflot Marine Agency provides documentation and clearance services on arrival, during stay and on departure of vessels at Azerbaijan sea ports. It can officially represent ship owners, freighters or other parties operating vessels with relevant organizations, as well as carry out financial operations on their behalf.

# OPERATION ROUTES

Operation routes beyond the Caspian Sea



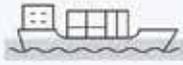
Azerbaijan Caspian Shipping Company operates both in the Caspian Sea and beyond, in particular, in the Black and Mediterranean sea basins.

ACSC has 160 years of rich experience in shipping in the Caspian Sea. ACSC re-established its operations in the basins beyond the Caspian Sea in 2014. Currently, 13 vessels operate under the Azerbaijani flag on basins beyond the Caspian Sea: 11 dry cargo vessels and 2 tankers.

## Operation routes in the Caspian Sea



Operation routes of **tankers** in the Caspian Sea:



Operation routes of dry **cargo vessels** in the Caspian Sea:



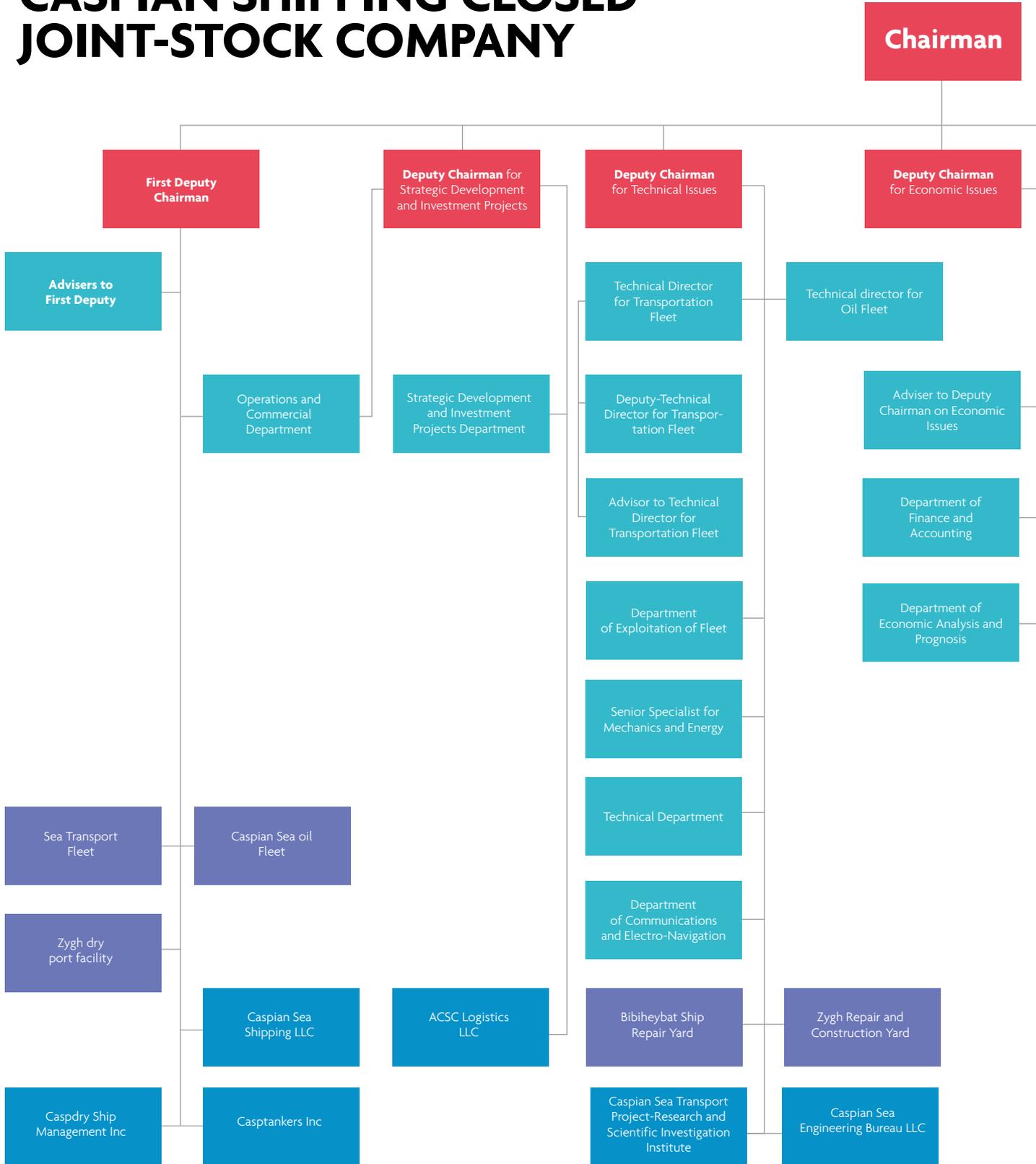
Operation routes of **ferries**:



Operation routes of **Ro-Ro** vessels



# ORGANIZATIONAL STRUCTURE OF AZERBAIJAN CASPIAN SHIPPING CLOSED JOINT-STOCK COMPANY





- Management
- Structural units
- Departments and divisions
- Enterprise with status of legal person

# SUBSIDIARIES, JOINT VENTURES AND REPRESENTATIVE OFFICES

Azerbaijan Caspian Shipping Closed Joint-Stock Company pays special attention to organizing and continually optimizing its management structure to ensure prompt decisions and effective management. In this regard, taking into account the recommendations of international advisory companies, the Company took measures to optimize its structure several times during the reporting period.

In particular, non-core structural units which are not directly related to the Company's core business were handed over to the relevant authorities. ACSC has handed over housing and utilities, an event center for the seafarers, the Danizchi auxiliary agricultural enterprise, as well as land used for agriculture to the relevant authorities. Further such initiatives are ongoing. ACSC currently owns or has stakes in the following subsidiaries, joint ventures and representative offices:

#### **Subsidiaries:**

- Caspdry Ship Management Inc (The Republic of Turkey)
- Casptankers Ship Management Inc (The Republic of Turkey)
- Azerbaijan State Marine Academy
- ACSC Logistics LLC
- Caspian Sea Transport Project-Research and Scientific-Investigation Institute
- Danizchi Housing Cooperative
- Danizchi Repair-Construction LLC
- Seamen Polyclinic LLC
- Azerbaijan Caspian Shipping Limited (the Republic of Malta)
- Yacht Club LLC

#### **Joint ventures:**

- Caspian Sea Shipping LLC
- Caspian Marine Engineering Bureau LLC

#### **Representative offices of ACSC operate in the following countries:**

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

In January 2017, ACSC established Caspdry Ship Management Inc and Casptankers Ship Management Inc in Turkey as legal entities in order to effectively manage vessels operating in the Black and Mediterranean sea basins. The main objectives of these companies consist of organizing efficient operations of ACSC's vessels sailing under the Azerbaijani flag in basins beyond the Caspian Sea, and helping resolve promptly issues that arise during cargo transportation. Caspdry Ship Management Inc manages dry cargo vessels operating beyond the Caspian Sea, while Casptankers Ship Management Inc manages tankers operating beyond the Caspian Sea.

Caspian Sea Shipping LLC, a joint venture in which ACSC is a partner, started operations in Astrakhan, the Russian Federation, at the end of 2015. The Company promotes effective access for Azerbaijan Caspian Shipping Company's vessels to foreign markets along the Volga-Don Canal. The main reason for the establishment of the Company was to increase cargo transportation between the ports of Azerbaijan and Russia, as well as to resolve promptly issues that arise during cargo transportation in Russian inland waters.

Caspian Sea Transport Project-Research and Scientific-Investigation Institute operates within the ACSC structure. It provides engineering, design and construction services in shipping. To expand this business line, the Caspian Marine Engineering Bureau LLC joint venture was established in December 2016 by ACSC and Odessa Marine Engineering Bureau, which is a major global player in ship design and construction operations. This joint venture allows the exchange of experience and implementation of joint projects between Caspian Sea Transport Project-Research and Scientific-Investigation Institute and Odessa Marine Engineering Bureau. The main purpose of establishing the joint venture was to provide engineering and construction services in maritime and river transport, conduct design and construction operations, build, reequip and modernize ships and floating vehicles, as well as carry out operations and other scientific research activities.

The personnel of Caspian Sea Transport Project-Research and Scientific-Investigation Institute have made a worthy contribution to the development of the ferry connection. The projects for the ferry complexes at the Baku, Turkmenbashi and Bekdash ports were prepared by this very institute. The Vanino – Kholmok, Ilichevsk – Varna (Ukraine – Bulgaria) and Klaipėda – Mukran (Lithuania – Germany) ferry crossings as well as ferry crossings which connect Sakhalin Island with the mainland were also constructed using the institute's designs. Works conducted by this institution include the construction of hydro technical devices of the Baku Deep Water Jacket Factory located in the Garadagh district of Baku, the reconstruction of ship repair yards and vessel navigation canals, as well as the construction of public and residential buildings. In addition, some research

and design activities have been carried out in Syria, Libya, Iran, Bulgaria and Afghanistan.

In April 2016, ACSC established Danizchi Housing Cooperative to meet the needs of former and current Company employees who have queued to receive an apartment for many years. The main responsibility of the Housing Cooperative is to accelerate the procedures to provide apartments to these employees, as well as to improve their housing conditions. At the same time, ACSC established Danizchi Repair-Construction LLC in November 2017. This company is responsible for the construction of a housing estate in accordance with urban development and building legislation.

The main objective of multi-profile Seamen Polyclinic, which operate under the structure of ACSC, is to provide high-quality diagnostics, outpatient and inpatient care to all Company

employees and their family members, as well as to third parties. Detailed information about Azerbaijan State Marine Academy and ACSC Logistics LLC is provided in the Main business operations section of this report. ACSC's representative offices in the Republic of Turkey, the Republic of Kazakhstan, the Republic of Turkmenistan and the Islamic Republic of Iran provide effective assistance to resolve issues arising at the ports of those countries or other relevant places.



# INTEGRATION OF SUSTAINABLE DEVELOPMENT PRINCIPLES INTO THE BUSINESS



ACSC assigns special importance to sustainable development and has focused on these principles since the date of its foundation.

The Company decided to prepare, audit and publish reports covering a period of two years describing its achievements in sustainable development starting from 2014. As in the 2014-2015 reporting period, ensuring the effective management of environmental protection, social and economic issues, occupational health and safety, and human resources was identified as one of the major objectives during the current reporting period. ACSC's operations were focused on achieving positive outcomes in these areas, as well as on expanding the business by providing high-quality services.

ACSC aims to maintain sustainable development in its key business lines. Periodically modernizing its fleets which provide cargo transportation and specialized services, economizing on fuel consumption via the efficient operation of vessels, managing waste disposal on vessels, in factories and other production

facilities and handing the waste to the relevant bodies, continuous personnel improvement and training and other similar actions are examples of the integration of sustainable development principles into ACSC's daily operations. At the same time, the Company's Strategic Plan focuses on sustainable development at ACSC. Sustainable development goals were identified in the Strategic Plan and ACSC's management organizes initiatives to implement these goals.

The G102-11 Precautionary Principle standard, one of the GRI standards that the preparation of this report is based on, considers the submission of information in areas in which the "prudent approach" principle is applied in the current section of the report. In this regard, we inform you that there are no aspects of ACSC's activities which could be regulated by the G102-11 Precautionary Principle. Thus, there are no operating areas within ACSC that can be considered feasible from the scientific point of view but whose results are uncertain and may result in unrecoverable damage. In each case, ACSC adheres to the principle of a prudent approach in its activities and avoids steps that could result in such damage.

# MAJOR STAKEHOLDERS AND RELATIONS WITH THEM

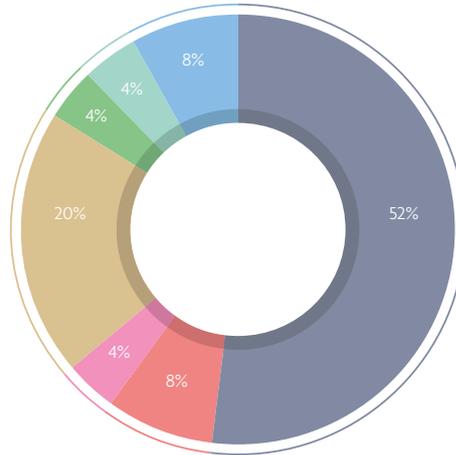
Azerbaijan Caspian Shipping Closed Joint-Stock Company is a fully state-owned shipping company. In this regard, the main stakeholder in ACSC is the government of the Republic of Azerbaijan.

The Company reports its operating results to the government and agrees the budget for the upcoming years. Moreover, ACSC cooperates closely with other relevant governmental bodies involved in cargo transportation in order to increase local and international transportation, and increase competitiveness and the country's transit potential. These organizations also act as stakeholders.

**Other main internal and external ACSC stakeholders include but are not limited to the following:**

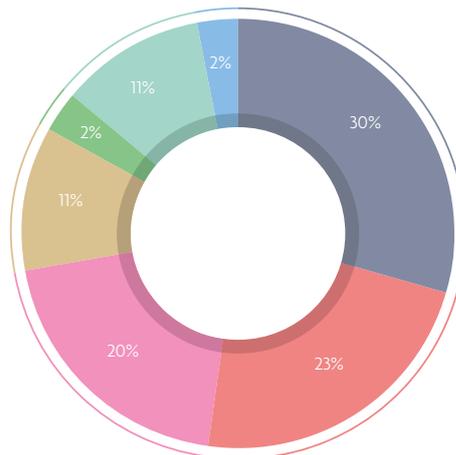
- ACSC personnel – the number of ACSC employees was 8,921 as at 31 December 2017. They are among the main parties interested in ACSC's business and the Company works to improve the social and financial wellbeing of its personnel.
- Clients – ACSC cooperates with various companies in cargo transportation, specialized offshore services, ship repairs, and other areas.
- Suppliers – ACSC's broad scope of operations makes cooperation with both local and foreign companies inevitable. ACSC's supply chain involves local and international material and service suppliers. The selection of suppliers is carried out in accordance with the procurement regulations of ACSC and business ethics covering sustainable development, anticorruption, transparency and other factors considered seriously.
- International organizations – as the Company's operations are considered international ones, ACSC cooperates with international organizations, bodies and authorities, and joins the relevant conventions.
- Other market participants – ACSC's stakeholders are also other shipping companies, ports, cargo transportation companies operating in the Caspian Sea and beyond the Caspian Sea, competitors, partners, the media and non-governmental organizations.

During the preparation of this report covering the period 2016-2017, ACSC conducted a survey to obtain the opinions of different categories of stakeholder and describe this information in the report. The survey was conducted online on the official ACSC website in three languages (Azerbaijani, Russian and English). The results of the survey were used during the present report's preparation. Below is a summary of the survey results.



**1 Please select the stakeholder group you belong to**

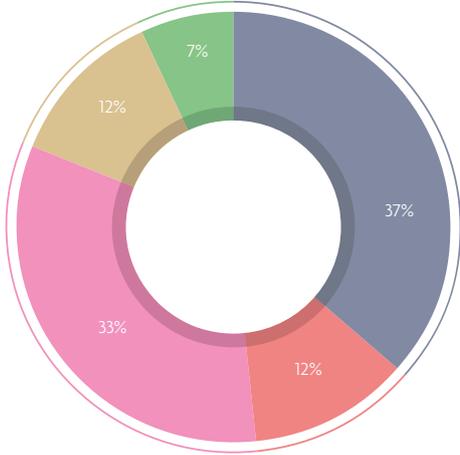
- 52% Employees of ACSC
- 8% Customers
- 4% Suppliers
- 20% Media
- 4% Government bodies
- 4% Partners
- 0% International organizations
- 0% NQO
- 8% Other



**2 Which issues concerning the Company's overall activities are important to you?**

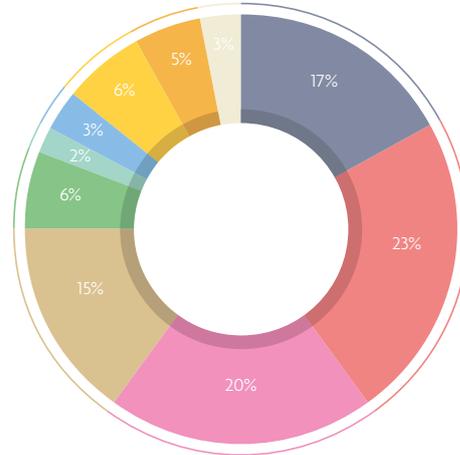
- 30% Major services and products of ACSC
- 23% Strategy and risks of ACSC
- 20% Ethical behavior
- 11% Corporate governance
- 2% Supply chain
- 11% Changes and newly approved documents
- 2% Other

## MAJOR STAKEHOLDERS AND RELATIONS WITH THEM



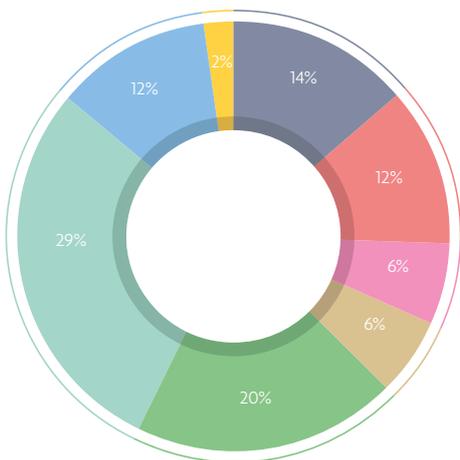
### 3 Which issues are important to you related to economic activities?

- 37% Profits
- 12% Indirect economic impact
- 33% The Company's markets and regions of presence
- 12% Anti-corruption
- 7% Procurement practices
- 0% Anti-monopoly
- 0% Other



### 5 Which social issues are important to you?

- 17% Employment
- 23% Relations between company employees and management
- 20% Occupational health and safety
- 15% Training and education
- 6% Diversity and equal opportunities
- 2% Freedom of association and collective agreements
- 0% Forced or child labor
- 3% Local population
- 6% Evaluation of human rights
- 0% Evaluation of social activities of suppliers
- 5% Public policy
- 3% Customer safety and health
- 0% Other



### 4 Which environmental issues are important to you?

- 14% Use of energy
- 12% Use of water
- 6% Biodiversity
- 6% Emissions
- 20% Waste
- 29% Conformity with laws and standards on environmental protection
- 12% Evaluation of suppliers' environmental actions
- 2% Other

Although there is no policy regulating relations with stakeholders, ACSC's management pays special attention to relations with stakeholders, taking their opinions into account in the report and taking measures to carry out relevant stakeholder activities in accordance with GRI standards in each subsequent publication of the report.

## COOPERATION WITH SUPPLIERS

ACSC pays special attention to maintaining sustainable development principles and emphasizes the importance of managing the activities of its suppliers in this area.

ACSC realizes the contribution which a well-organized, efficient and transparent supply chain can make to sustainable development of the Company. Since sustainable development is gained not only in different parts of supply chain, but rather in a complex manner, when selecting suppliers ACSC considers the extent to which they adhere to the sustainable development concept. It applies various sustainable development criteria during the selection process. The Company expresses a preference for suppliers that carry out operations safely and to a high quality and that adhere to sustainability principles, especially those focused on the protection of human rights. The evaluation of suppliers is carried out collectively by the ACSC Procurement Committee. ACSC does not cooperate with high-risk suppliers that do not follow transparency and sustainable development principles, and about which information is not complete or accurate. No negative ecological or social impact from suppliers with whom ACSC cooperates was identified during the reporting period. Generally, there were no significant changes in the structure of the supply chain during the reporting period.

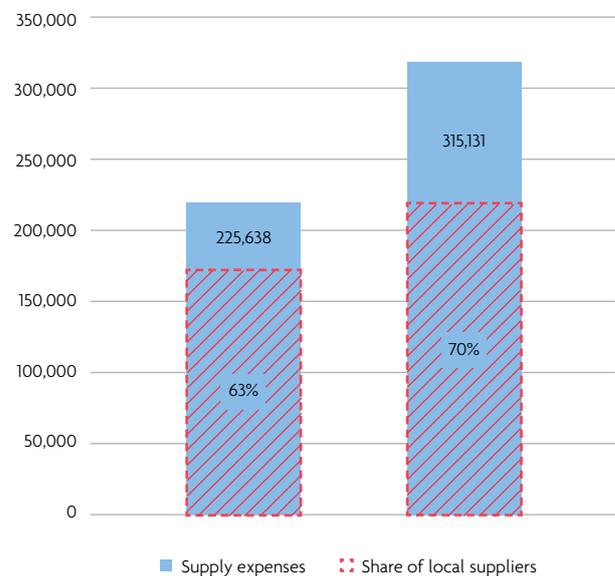


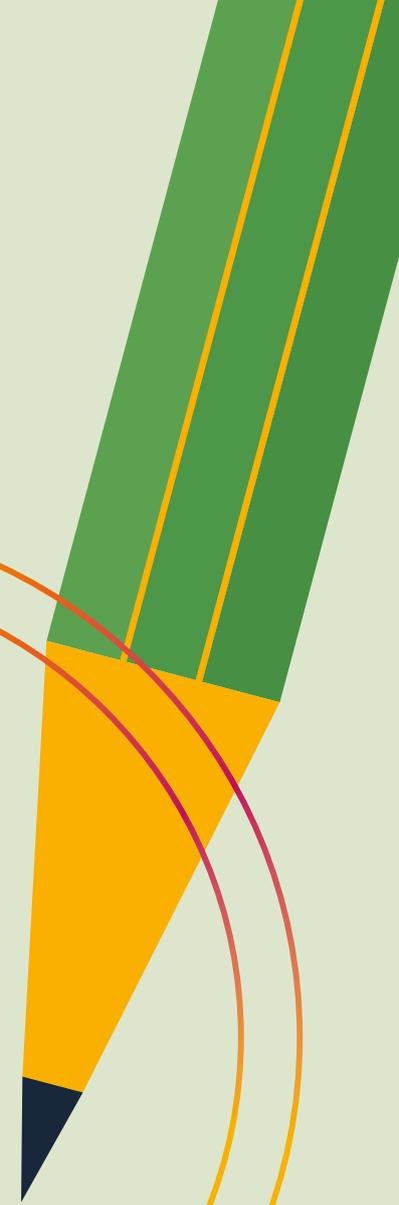
The planning and management of the procurement process with suppliers is regulated by legislation of the Azerbaijan Republic, as well as the following ACSC documents: Procurement Committee Regulations, ACSC's Procurement Planning and Management Rules, Invitation to Bid Documents, Agreement Template for the Procurement of Goods, Work and Services, and Final Protocol on Bid Results.

ACSC's supply chain includes both local and foreign companies. The main suppliers are companies engaged in the construction and repair of vessels, supply of materials, engineering, communications, port services, insurance and other services. ACSC seeks mutual benefit when cooperating with suppliers and mainly focuses on local suppliers. Local suppliers are companies that are registered in the Republic of Azerbaijan and are taxpayers in accordance with Azerbaijan legislation.

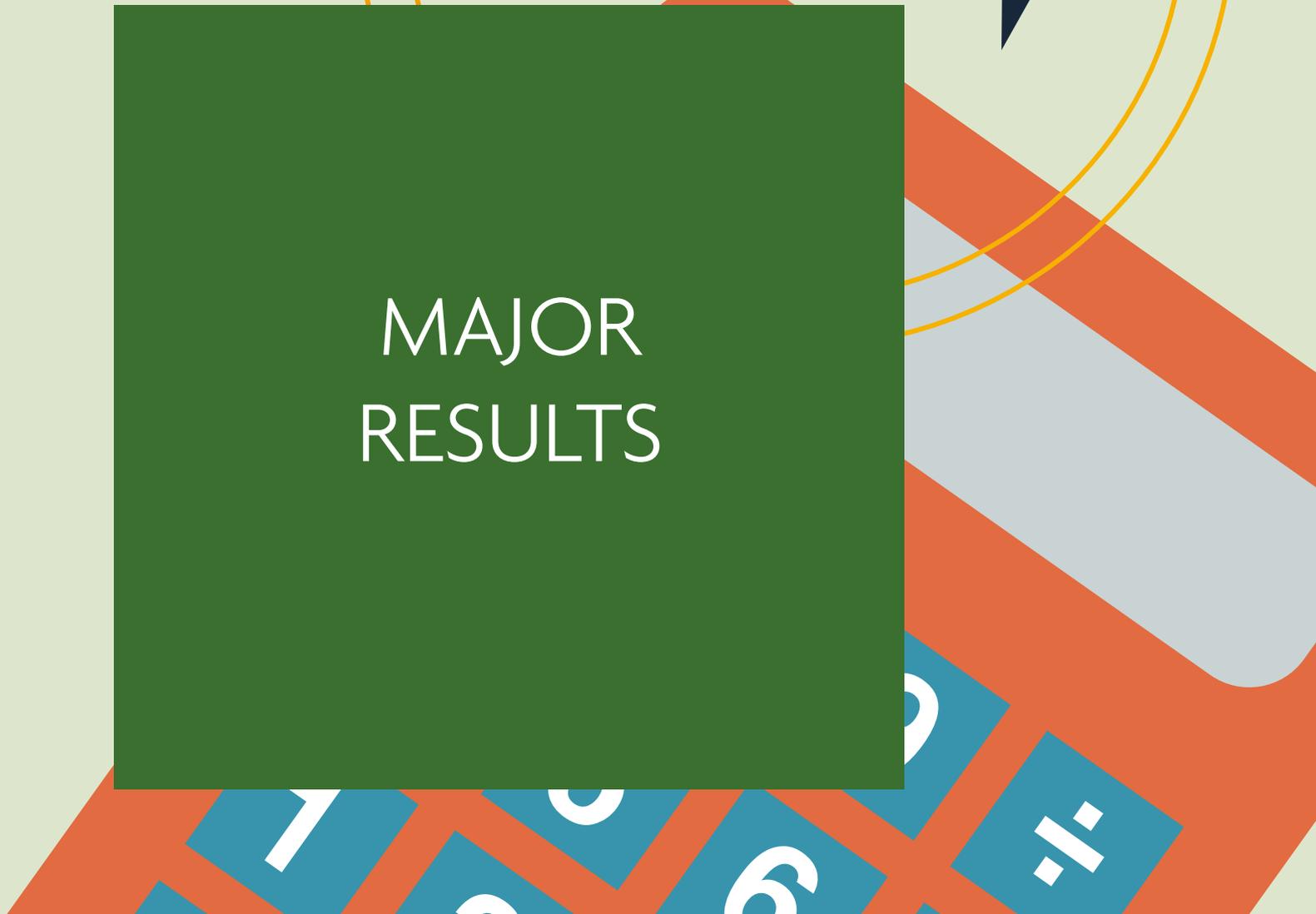
	2016	2017
<b>Supply expenses, thousand AZN</b>	<b>225,638</b>	<b>315,131</b>
Share of local suppliers in total supply expenditures	63%	70%

Supply expenses, thousand AZN





# MAJOR RESULTS



# FINANCIAL RESULTS FOR 2015-2017

ACSC's financial standing and resources are important factors for the Company's sustainable development. A healthy financial standing promotes the successful implementation of many projects in the environmental, social and economic spheres supporting sustainable development and improving staff welfare. From this point of view, ACSC continuously works to optimize expenses, eliminating surplus costs, efficiently spending revenue, improving the financial situation and taking appropriate and serious measures.

In recent years, due to economic crises in the world, global trade turnover has declined, including cargo transportation. Consequently, serious problems occur in the shipping field. However, positive results were obtained in transit transportation and shipping operations in Azerbaijan due to predictive measures taken under the leadership of the President of the Azerbaijan Republic.

ACSC's financial statements are prepared in accordance with International Financial Reporting Standards and annually audited by international audit firm EY. Audited financial statements are published on the Company's website in accordance with transparency principles. The consolidated financial statements cover all of ACSC's departments and subsidiaries. Over the last 4 years, ACSC has managed to gain a strong financial model with sustainable development trends.



Financial results for 2015-2017 (IFRS), thousand AZN

<b>Economic indicators, thousand manats</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Economic value generated	366,698	501,291	514,807
Operating expenses	(184,435)	(236,866)	(238,565)
Social expenses	(1,123)	(2,397)	(2,025)
Salary, bonuses and other employee benefits	(65,089)	(82,965)	(101,306)
Payments to State budget, including	(44,334)	(67,956)	(70,533)
Property tax	(5,527)	(5,155)	(4,684)
Withholding tax	(381)	(720)	(1,134)
Land tax	(134)	(192)	(186)
Tax penalties	(8)	(687)	(800)
VAT charges	(1,305)	(2,440)	(2,606)
22% SSPF charges	(15,210)	(18,604)	(23,123)
Road tax	-	-	-
Income tax	(21,769)	(40,158)	(38,000)
Payments on debt	(2,145)	(1,596)	(1,410)
Net losses	(575)	(1,245)	(837)
<b>Economic value retained</b>	<b>68,997</b>	<b>108,266</b>	<b>100,131</b>

# OPERATING RESULTS FOR 2015-2017

## CARGO TRANSPORTATION

2016-2017 was a successful period for cargo transportation. There was an increase in cargo transportation in 2017 compared with both 2015 and 2016. This contributed to the expansion of cargo transportation volumes through Azerbaijan. See the following tables and graph:

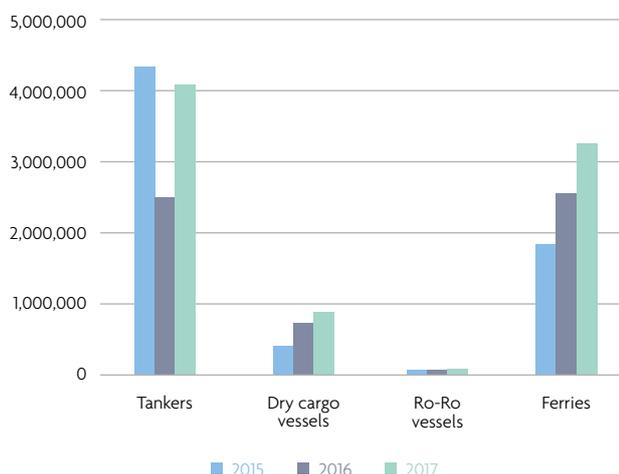
Volume of cargo transportation per year, tons:

	2015	2016	2017
<b>Total cargo transportation</b>	<b>6,625,864</b>	<b>5,801,651</b>	<b>8,347,366</b>
including			
Transportation via tankers	4,298,615	2,411,594	4,064,416
Transportation via dry cargo vessels	383,932	746,248	867,105
Transportation via Ro-Ro vessels	91,589	106,851	157,910
Transportation via ferries	1,851,728	2,536,958	3,257,935

Transportation of railway wagons and trucks, pieces:

	2015	2016	2017
Number of transported railway wagons	31,400	37,086	46,624
Number of transported trucks	6,679	18,407	17,220

Cargo transportation, tons



Since its foundation, ACSC has focused on establishing reliable and enduring relations with customers in order to increase transit through Azerbaijan. The Company cooperates closely with the relevant bodies of Azerbaijan and other countries involved in cargo transportation, in order to help drive the country's transport logistics hub strategy. During the reporting period, ACSC offered discounts on some types of cargo transportation in order to bring additional cargo to routes through Azerbaijan. Initiatives were made to establish more favorable conditions for freighters. As a result of these activities, there was an increase in cargo transportation via the Caspian Sea. ACSC is one of the key permanent members of the Trans-Caspian International Transport Route international association which has been operating since 2014, and which works to attract container cargo between China and Europe to the Trans-Caspian Corridor.

## SPECIALIZED OFFSHORE SERVICES TO THE OIL INDUSTRY

During 2016-2017, ACSC's specialized oil fleet provided a variety of services and implemented several projects to SOCAR and other companies involved in oil and gas projects in the Caspian region, especially in the Azerbaijani sector of the Caspian. Hours worked by specialized oil fleet vessels in various oil and gas projects are given below:

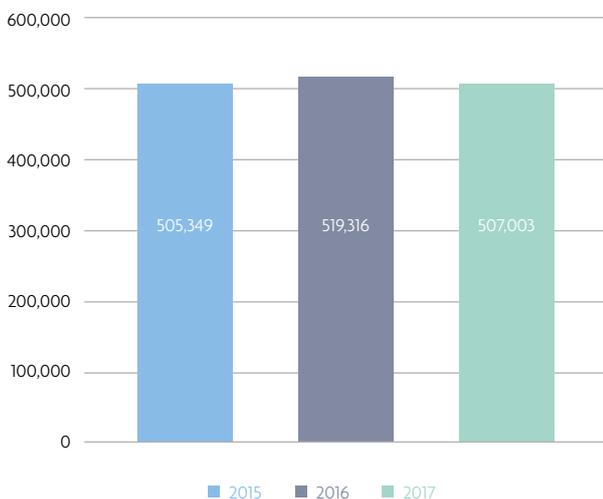
### Specialized oil fleet, hours worked:

Type of vessel	2015	2016	2017
Crane vessels	60,757	66,117	73,405
Passenger ships	85,746	89,505	89,903
Anchor handling tug supply vessels (AHTSV)	55,405	3,881	39,622
Platform supply vessels (PSV)	4,654	48,651	7,358
Tug boats	12,392	5,628	7,368
Port-tug boats	3,841	996	1,272
Diving vessels	27,420	39,649	36,949
Firefighter vessels	24,133	20,181	20,875
Barges	19,558	19,194	16,976
Liquid cargo ships (tankers)	13,450	12,883	13,153
Engineering and geological vessels	12,513	26,966	14,633
Underwater pipe-laying vessels	4,149	7,029	3,773
Cable layer and supply vessels	2,746	2,821	4,641
Surface cleaner and sewage water collector vessels	194	539	550
Supporting boats	178,391	175,276	176,525
<b>Total hours worked</b>	<b>505,349</b>	<b>519,316</b>	<b>507,003</b>

Dredger vessels and convoys, m<sup>3</sup> of land

2015	208,860	2016	6,624	2017	347,032
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### Specialized oil fleet, hours worked



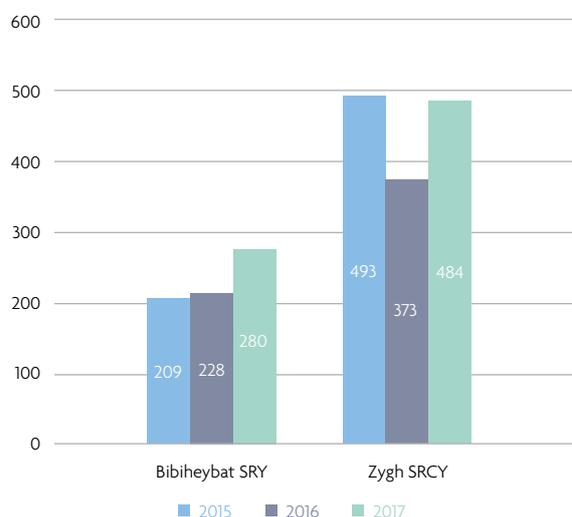
## SHIP REPAIRS

Zygh Ship Repair and Construction Yard and Bibiheybat Ship Repair Yard, which belong to ACSC's structure, provide class, dock, current and navigation repairs between voyages, as well as repairs during vessel breakdowns. Dockyard services are rendered both to the ACSC fleet as well as third-party shipping companies. The following operations were carried out by Zygh Ship Repair and Construction Yard and Bibiheybat Ship Repair Yard:

### Ship repairs, number of repairs:

Type of repair	Bibiheybat SRY			Zygh SRCY		
	2015	2016	2017	2015	2016	2017
Class repair	24	12	11	13	8	9
Dock repair	27	27	27	17	17	7
Current repair	0	4	12	5	9	6
Repair due to breakdowns	13	21	13	2	0	0
Navigation repair between voyages	109	148	196	456	339	460
Dockyard service	36	16	21	0	0	2
<b>Total</b>	<b>209</b>	<b>228</b>	<b>280</b>	<b>493</b>	<b>373</b>	<b>484</b>

### Number of ships repaired



## OPERATING RESULTS FOR 2015-2017

### EDUCATION

Azerbaijan State Marine Academy (ASMA) and Azerbaijan Marine College, which belong to ACSC, are responsible for preparing seafarer personnel in Azerbaijan. The Company focuses on training well-educated young specialists who can work with modern techniques and keep up with technological innovations. The quality of education and maintaining the education system in compliance with modern requirements at ASMA are critical issues for the Company.

Institutional reforms continued at ASMA in 2016-2017. Azerbaijan Marine College and Training and Education Center were subordinated to the Academy. Initiatives continued to improve the quality of education and identify and support the best students. Graduation standards from this educational institute was adapted to ACSC's personnel requirements and graduation quality control was enhanced. As a consequence of the efforts made, the minimum entrance score required to gain a place at the Academy was raised. Previously, this figure was around 150 points, but in more recent years the minimum score has become 300. There was also a rise in the number of entrants admitted to ASMA with a score over 500 in 2016-2017.

The curriculum and programs taught at the Academy meet international standards. In order to make the curriculum and programs successful, the Training and Education Center's most up-to-date radiolocation and dynamic positioning systems (DP2) are used at the Academy. An international audit was conducted at the Academy in 2016, as a result of which an international ISO certificate for quality management was awarded by the American Bureau of Shipping.

In order to motivate students with the best academic performance, discipline and personality traits, letters with ACSC' Chairman signature guaranteeing employment, were provided to 11 students in 2016 and 21 in 2017. After graduation, these students were given jobs at ACSC. In addition, the Company financed master scholarships for two ASMA students at the World Maritime University in Malmö, Sweden, as part of the 2017 Exchange Program. Moreover, top performing students have been sent on internship on vessels in the Black and Mediterranean seas.

ASMA became a member of the International Association of Maritime Universities in 2016. At the same time, open lectures have been delivered at the Academy by professors from outstanding foreign universities. Mutual cooperation agreements have been signed with Istanbul Technical University and Klaipeda University. ACSC started to cooperate with international auditing and consulting company EY over conducting sustainable development training for ASMA students in 2018.





## MODERNIZATION OF THE FLEET

Since its foundation, ACSC has focused on upgrading its fleet and maintaining its condition in accordance with cargo owners' requirements. In this regard, vessels that failed to meet technical and safety matters were withdrawn from fleet and new vessels were purchased in their place.

In 2016, ACSC put into operation 3 passenger ships constructed at Baku Shipyard and 6 dry cargo vessels. A supply vessel with a loading capacity of 1,600 tons and two tug supply vessels with 1,700 tons loading capacity each were purchased by ACSC in 2017. Overall, over the last 5 years 20 new, modern vessels were bought for the Company fleet and began operating.

In addition, 4 vessels are currently being built at Baku Shipyard: 2 new generation Ro-Pax/Ferry type vessels for transporting railway wagons, trucks and passengers, and 2 tankers with a loading capacity of 8,000 tons each. The steel cutting ceremony for the Ro-Pax/ferry vessels was conducted in March 2017. New generation Ro-Pax/Ferry vessels have a capacity of 100 passengers, 56 railcars or 50 trucks (TIR). These new generation vessels with a unique concept will be built at Baku Shipyard exclusively for ACSC's fleet. The new vessels will further drive the prompt transportation of transit cargo through our country. These vessels are planned to begin operation in 2019-2020.



CORPORATE  
GOVERNANCE

# CORPORATE GOVERNANCE SYSTEM

The corporate governance system is a crucial factor in ensuring sustainable development.

ACSC focuses on the application of international practices in the compliance of operations with international corporate governance standards in order to ensure transparency and efficiency of its activities.

In this respect, ACSC's strategic development priorities were set and approved by decree of the Cabinet of Ministers of the Republic of Azerbaijan. ACSC's short-term targets covering the period of 1-3 years, medium-term targets covering the period of 3-6 years and long-term targets covering the period of 6-10 years were set in accordance with the strategic development priorities, following which the Company's Strategic Development Program was approved. The Strategic Development Program is constantly reviewed, and targets and objectives are also regularly monitored and updated where necessary. In addition, the State Program for the Development of Shipping in the Azerbaijan Republic for the period of 2016-2020 was approved by decree of the President of the Republic of Azerbaijan in November 2016. The implementation of the State Program will ensure the timely renewal of the fleets by adding the required vessels and carrying out other works to support the strategic development priorities.

**In compliance with international corporate governance system, the following regulatory documents were prepared and adopted in the Company:**

- Executive Board Regulations
- Strategic Plan of the Company
- Corporate Governance Code
- Internal Discipline Rules
- Business Ethics Code
- Anti-Corruption Guidelines
- Guidelines on Operating a Hotline Service Center and Conducting Internal Investigations
- Financial and Operating Results Disclosure Policy
- Information Disclosure Rules
- Public Consultation Council Regulations

- QHSE (Quality, Health, Safety and Environmental Protection) and human resources documents
- Internal audit documents
- Risk management documents

ACSC pays special attention to ensuring transparency, taking into account the opinions of stakeholders when making important decisions. Therefore, a Public Consultation Council was established in ACSC. The Council consists of civil society institutions operating in the country, non-governmental organizations (public associations and foundations), the mass media, trade unions, groups of campaigners, international experts and consultants, seafaring elders distinguished for their skills and experience, and also young seafarers. Meetings of the Council are held at least once a year. In the event that many issues are on the agenda for discussion, meetings of the Council can be organized more than once a year. The following committees were established in order to make collective decisions in accordance with leading international corporate governance principles:

- Procurement Committee
- Risk Committee
- Remuneration Committee

International standards have been applied in the ACSC financial statements since 2014. Financial statements prepared in accordance with these standards are audited annually by international audit firm EY. A positive audit opinion was obtained on the Company's financial statements for 2014, 2015, 2016 and 2017. In accordance with transparency principles, the audited financial statements are published on the official website of ACSC and also provided to the relevant stakeholders.

Since 2014, ACSC has cooperated with the American Bureau of Shipping, which is considered one of the strictest companies in international certification practice, in order to obtain international certificates. The QHSE internal management system was audited by the American Bureau of Shipping and compliance of this system with international management standards was confirmed. As a consequence, ACSC, Azerbaijan State Marine Academy and Training and Education Center were certified for compliance with the ISO and ISM standards for a period of five years.

In accordance with its strategic development priorities, ACSC has cooperated with internationally renowned Fitch Ratings to obtain a credit rating. ACSC's business model was analyzed by Fitch Ratings, investigations were carried out by holding numerous meetings. The Company's liquidity and ability to fulfill its credit obligations were considered sustainable, as a result of which a credit rating was assigned in August 2016.

## CORPORATE GOVERNANCE SYSTEM



Information Disclosure Rules were approved in 2016 to ensure transparency and awareness about the Company's business, to create a level playing field for all stakeholders who want to receive relevant information, to eliminate inaccurate information about the Company and to increase the Company's prestige. Information is disclosed through ACSC's official website and other internet resources, press agencies, television and radio channels. In accordance with regulations, the Company discloses the below information:

- Financial indicators of the reporting period;
- Attracted funds;
- Significant transactions that the Company concludes with related parties;
- The Company's management bodies and officials;
- Shareholders of the Company;
- Dividends;
- Acquisitions and disposals of significant stakes;
- Business results;
- Sustainable development activities.

In addition, the Financial and Operating Results Disclosure Policy was approved by the Company in 2016. The main objectives of this policy are the following:

- To ensure a consistent approach to the disclosure of financial and operating results and related procedures;

- To ensure transparency and eliminate inaccurate information that might damage the image of the Company;
- To ensure that all stakeholders, as well as the public, obtain complete information on the financial situation at ACSC and gain a complete and precise picture of the Company;
- To ensure that optimal decisions are taken regarding business policies, financial and economic activities, as well as the clear identification of future priorities;
- To attract potential investors and partners to participate in real projects.

ACSC holds international training courses regularly in order to help personnel master the principles of international corporate governance systems and to improve their training level. ACSC cooperates closely with internationally outstanding companies – American Bureau of Shipping, international audit and consulting firm EY and business academies of international shipping association BIMCO<sup>1</sup> in this field. Training courses on international conventions, requirements and recommendations of QHSE standards, financial accounting, effective management, effective communication and business performance management are held by these companies.

<sup>1</sup> BIMCO - The Baltic and International Maritime Council

Since electronic systems are essential for effective corporate management, ACSC focuses on the application of these systems. The establishment of a central electronic corporate network covering all divisions of ACSC through fiber-optical channels was one of the first steps to support this aim. Following this, programs and systems important for modern management were applied. These programs and systems include the application of the SAP system, the establishment of a central electronic dispatch system, the application of a fleet position program which allows the detection of the position of vessels at any time on electronic maps, and the application of an electronic document flow system. At the same time, constant communication of vessels with the coast was established, while old paper maps used by vessels were replaced with updated electronic maps. Moreover, the electronic ticket sales system was introduced in 2016. This system allows the purchase of tickets for passengers and cargo by online payment.

The financial accounting, human resources, material resources management, sales, treasury and cost calculation modules of the SAP management system, which have been applied in numerous leading companies all over the world, were successfully introduced at the Company. Work is being carried out presently to implement the SAP repair and business intelligence modules.

In order to further improve the corporate governance system in 2016, international audit and consulting firm EY was engaged, the current state of the corporate governance system was assessed and a roadmap covering necessary actions to improve it was prepared. All projects described in the roadmap were successfully implemented during 2016-2017. Business process maps were drawn up for all major business processes and their sub-processes existing in the Company, and a matrix of internal control mechanisms to address potential risks in processes was developed. Furthermore, the Motivation and Remuneration Policy was approved and key performance indicators (KPIs) identified in 2016. The bonus payment system based on business results has been applied since January 1, 2017.

As a continuation of the large-scale corporate governance projects, a process to obtain a corporate governance rating for ACSC was conducted. For that purpose, ACSC's corporate governance system, existing documents and their development level, the process of making strategic and other important decisions, risk management, internal control and audit, and the transparency level of operations, were analyzed by international audit company Deloitte. It considered both internal and external factors and as a result a positive opinion/rating was awarded on ACSC's corporate governance system.



## CORPORATE GOVERNANCE SYSTEM

### COMPENSATION AND REMUNERATION SYSTEM

The role of human capital, ACSC's most valuable resource, is significant in ensuring sustainable development. In this regard, special attention is paid to personnel development and their motivation. As part of ongoing work to improve corporate governance system at the Company, a remuneration system based on employees' annual performance and which is broadly used in international practice was introduced at ACSC. The main objective in applying this system is continuous business improvement and increasing efficiency.

Initially, the Motivation and Remuneration Policy was approved in September 2016. Later, the balanced Key Performance Indicators system and KPI scorecards were developed to meet the Company's strategic goals and targets in accordance with this policy. Three levels of KPIs were developed: corporate, functional and individual.

#### ACSC employs a KPI system to achieve the following:

- To motivate the Company management to grow and improve, as well as to increase the efficiency and effectiveness of operations;
- To attract highly qualified personnel and to retain them at the Company;
- To align the interests of company executives with those of its shareholders;
- To ensure long-term and sustainable development of the Company.

#### The KPI system meets the below criteria:

- Consistent with and linked to the Company's;
- Development Strategy;
- Aims to achieve strategic goals and targets;
- Ensures transparency of the system;
- Complies with the current market's situation and advanced international practice.

The Remuneration Committee was established at the Company to implement the necessary measures described in the Motivation and Remuneration Policy and to manage the process. The Remuneration Committee updates the Motivation and Remuneration Policy to reflect the current situation, makes recommendations when the compensation budget is set, and carries out other regulatory functions. The application of the bonus payment system (KPI system) based on performance, began on January 1, 2017.

The Cabinet of Ministers of the Azerbaijan Republic was tasked with designing a results-based compensation system for governing bodies of legal entities, together with relevant legal acts, by decree of the President of the Republic of

Azerbaijan "On additional measures to increase efficiency in the activities of legal entities whose controlling stake belongs to the government" dated September 5, 2016. The Motivation and Remuneration Policy developed by ACSC and the KPI system applied at the Company ensure the implementation of these measures.

### INTERNAL CONTROL SYSTEM

Internal control and audit play a significant role in ensuring sustainable development. These functions are carried out by the Internal Audit Department at ACSC. The Internal Audit Department reports directly to the ACSC Executive Board. Internal auditors are involved in the audit, as well as consulting services of different operating areas within the Company. These consulting services are appointed by the Executive Board and included in the Company's annual internal audit plan. The audit plan for the upcoming year is prepared at the end of the present year. Recommendations are made on eliminating deficiencies detected during the auditing process and measures taken to address these deficiencies are monitored regularly.

#### The main documents governing the internal auditing process are listed below:

- Internal audit policy
- Internal audit guidance
- Guidelines for collecting and storing audit assignment documents and transferring them to both internal and external parties

In addition, all main business processes, sub-processes and process owners were identified, and maps of all identified business processes were drawn up, in which the process owners were also indicated. Risks existing in these business processes were identified, relevant control mechanisms to address these risks were established, a risks and control mechanisms matrix was developed and relevant process owners were assigned to implement this matrix. The Internal Audit Department monitors the compliance of operations with the business process maps and control mechanisms in the processes, as well as carrying out regular assessments of internal control mechanisms.

### RISK MANAGEMENT

The Risk Management Department and Risk Committee were established to organize, ensure and supervise the functioning of the Risk Management System (RMS), as well as to promptly manage risks arising at ACSC. Members of the Committee are appointed by the Company Chairman. Risk management process matters are discussed and risk management actions are evaluated

during quarterly meetings of the Committee. Moreover, the ACSC Corporate Risks Map is reviewed by the Committee and submitted to the Company Chairman for approval.

The Risk Committee collects and analyzes data and explanations about the causes of risks that materialize during a certain period. Since 2016, risk owners have submitted monthly data on risks for which they are liable to the Committee in a pre-agreed format. In case a risk actually materializes, information describing this materializing of the risk, its causes, updated risk management procedures, actual performance status with respect to the materialized risk and the impact of the materialized risk are all analyzed and documented. In order to prevent repetition of a risk materializing, the risk's profile is reviewed and updated based on analytical data. In fact, no environmental or sustainable development risks or related penalties materialized pursuant to the Risk Management System in 2016-2017.

**The risk management system at the Company is based on the following key regulatory documents:**

- Risk Committee Charter
- Risk Management Policy
- Risk Management Concept
- Risk Management Guidelines
- Risk Identification, Evaluation and Monitoring Guidelines

Special attention is paid to preparing and regularly updating the Corporate Risks Map. The number of medium-level risks in the Corporate Risks Map was 33 in 2016, with minor risks totaling 86. The equivalent numbers were 35 and 90 in 2017, respectively. The category breakdown of medium-level risks during the reporting period was as follows:

**Category breakdown of medium-level risks, numbers:**

Risk	2016	2017
Strategic risks	6	8
Staff	2	0
Supply of material and equipment	3	3
Commerce and transportation	3	3
Information	3	4
Safety	6	9
Market risks	5	3
Financial risks	3	3
Environmental	0	2
Maintenance	2	0
<b>Total</b>	<b>33</b>	<b>35</b>



## CORPORATE GOVERNANCE SYSTEM



The risk management system in our Company is based on COSO's<sup>1</sup> Enterprise Risk Management (ERM) methodology. This system has been integrated into the Company's operating results and strategy and is intended to ensure that the Company's targets are achieved.

Together with other risks, the Corporate Risk Map encompasses sustainable development risks, environmental risks and occupational safety risks. Special measures are described to minimize such risks, and a working group monitors their implementation and prepares reports.

In order to systemize the risk monitoring process and increase its frequency, two new monitoring forms – risk management monitoring and updated risk monitoring forms – were developed and implemented at the Company starting 2016. Starting from 2017, initiatives have been taken towards improving the Corporate Risk Map, simplifying risk scorecards and drafting them for users. Furthermore, training courses have been organized with the purpose of informing the Company's management and other staff about risk management.

To address risks, ships have been supplied with insurance certificates in accordance with the 2001 Convention on Civil Liability for Bunker Oil Pollution Damage and the 1992 Nairobi Convention on Civil Liability for Oil Pollution Damage. Moreover, compulsory insurance policies have been taken out against work incapacity as a result of accidents or occupational diseases. Compulsory insurance of employees in case of work incapacity is provided by an insurance company which works with the latest system in the market and has the capacity to make major insurance payouts.

## BUSINESS ETHICS AND DISCIPLINARY RULES

The main internal regulatory instruments of the Company in this field are the Internal Disciplinary Rules and the Business Ethics Code. These documents set forth behavioral ethics, ethical norms and relationships arising from compliance therewith of all employees working in ACSC, as well as the main requirements for ethics principles in the course of professional activity. At ACSC, particular attention is paid to strict compliance with business ethics and disciplinary rules during day-to-day activities and relationships with stakeholders. In this regard, the Company's employees are regularly trained and educated with respect to business ethics. Disciplinary action is taken with respect to employees violating the norms and values defined by the aforementioned code as well as the requirements of applicable legislation in the manner prescribed in ACSC internal documents and applicable legislation.

In accordance with the business ethics and disciplinary requirements of GRI accountability standards, it is worth noting in respect of anti-monopoly requirements that a healthy competitive environment has been established in the country in shipping, and, in accordance with effective legislation, any company may engage in shipping operations upon registration for such activities. In addition, ACSC is not a central executive power entity with respect to marine transportation. Rather, it operates in competition with other shipping companies within and beyond the Caspian Sea, and it does not have administrative power to establish a monopoly.

<sup>1</sup> COSO - The Committee of Sponsoring Organizations of the Treadway Commission

## ANTI-CORRUPTION MEASURES

ACSC attributes particular importance to the absence of and zero tolerance towards corruption, in order to maintain sustainable development principles, healthy corporate management and the Company's sustainable development.

Anti-Corruption Guidelines and Guidelines Regarding the Hotline Call Center and Conducting Internal Investigations were approved and applied in 2014. The main principles of Anti-Corruption Guidelines are to strengthen trust between the employer and employee, to avoid duties that contradict the law, to enable conditions that exclude injustice and corruption issues being faced by professional staff, and to defend justice, human and civil rights, and freedom. ACSC's entire personnel are officially familiarized with the guidelines and properly instructed in this field. Compliance with the requirements of the Anti-Corruption Guidelines is strictly checked during internal audit. Moreover, new employees are also familiarized with the aforementioned guidelines and are properly instructed by the Human Resources Department and Legal Department in accordance with the Company's recruitment procedures.

The operation of the Hotline call centre was improved in 2016-2017 in order to investigate various grievances, check their truthfulness and take relevant actions. Information about the Hotline call centre and its telephone numbers are located at visible places at ACSC's headquarters and all of its structural departments, as well as on the Company's official website.

### **ACSC accepts grievances from the following sources and in the following manner:**

- Grievances received by state officials (the President, the First Vice-President, the Prime Minister etc.) and relevant state bodies (Ministries, Committees, state-owned companies or their local agencies and organizations) of the Republic of Azerbaijan and sent to ACSC for review are investigated at the Company. The Company sends a response to the complaining party and informs the state body which sent such grievance, if necessary.
- Grievances sent directly to the Company and those received through the Hotline call centre are investigated and the complainant is notified about the result of such investigation.

In case a breach is confirmed by the investigation into the relevant complaint, such breach is eliminated immediately, the complaint is upheld and action is taken against any person who breached his/her official duties. It is noteworthy that there were no corruption cases at ACSC in 2016-2017.

Furthermore, in accordance with the Company's procurement rules, due diligence is carried out on counterparties. In particular, due diligence is carried out on persons who have been registered as commercial entities or individual entrepreneurs with whom the Company plans to enter into an agreement. The purpose is to ensure the safety of transactions signed by the Company and minimize corruption risks, checking the reliability, financial stability and positive business reputation of the suppliers of goods, works and services (counterparties) with whom the Company plans to enter into a commercial relationship. Such due diligence is carried out either before or during the tender process. All contractors that work with ACSC are informed about the Company's zero tolerance towards corruption and relevant clauses are incorporated in commercial agreements.





HUMAN  
RESOURCES

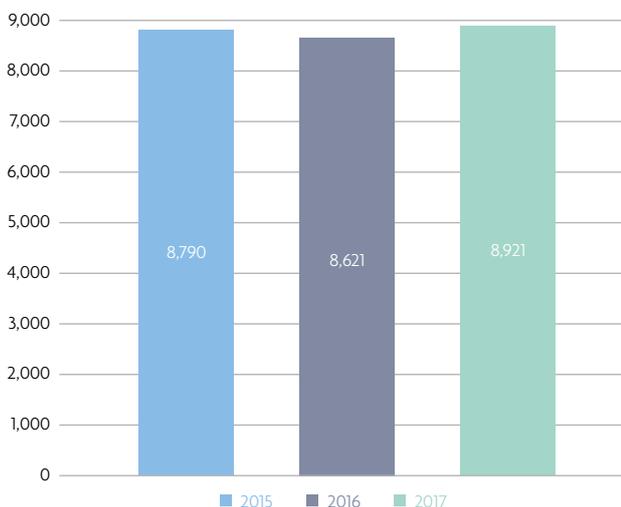
Personnel are the main values of the Azerbaijan Caspian Shipping Company. Strong, professional and skilled personnel are the foundation of sustainable development. ACSC realizes its responsibility to its employees and defends their rights in accordance with local legislation and international corporate governance standards, as well as ensuring their social and material welfare.

The Company acknowledges the important role that human resources management plays in sustainable development of the Company. In this regard, the targets set for the employees within the rewards process have been aligned with sustainable development goals and ACSC's general strategic development goals.

**Below we provide human resources information on the overall staff numbers, as well as the number of newly recruited personnel and leavers in 2016-2017:**

ACSC	2015	2016	2017
Total staff	8,790	8,621	8,921
Number of newly recruited employees	508	664	928
Number of leavers	699	833	628

Number of personnel



## HUMAN RESOURCES POLICY

The Human Resources Management Rules and Policy, which are in line with international requirements, were adopted by the Company in 2014 in order to ensure effective and transparent human resources management, and to provide equal opportunities for all employees. This policy regulates recruiting and performance assessment, including collecting applicants' documents, running candidate selections, appointing suitable

candidates, evaluating employees' performance and other important issues in this sphere.

ACSC's human resources management policy is based on the principles and objectives listed below and is aimed above all at forming a team to ensure the Company achieves its targets through employee satisfaction, including both material and non-material benefits from their job.

### The following are the major principles of human resources management policy at ACSC:

- Strict compliance with legislation of the Republic of Azerbaijan and the norms and rules regulating the rights and duties of employees;
- Ensuring personal responsibility of staff for their performance of service and employment duties;
- A respectful attitude towards employees, ensuring equal opportunities, a stable working environment, and impartial evaluation of their performance;
- Improving the personnel's level of professionalism while ensuring proper conditions for the performance of their duties;
- Productive interaction between experienced and young employees;
- Ensuring planned career moves of personnel and filling vacancies primarily through internal resources;
- Transparency in human resources matters, regularly keeping employees informed as appropriate.

### The following are the major objectives of human resources management policy at ACSC:

- Improving the human resources management mechanism;
- Ensuring the selection, employment and effective placement of knowledgeable and skilled persons based on demand;
- Ensuring proper conditions for the development of professionalism and comprehensive improvement of every employee;
- Effective division of labor, and establishing organizational and legal bases for personnel's activities;
- Monitoring the effective engagement of personnel;
- Achieving fair resolution to labor disputes;
- Selecting and training human resources for managerial positions.

During the 2016-2017 reporting period, initiatives continued to improve human resources management procedures and effectiveness. Evaluation of onshore personnel's activities was further developed and new forms were introduced in 2016. As a result of evaluation, managers assess personal and professional qualities of their subordinates and, consequently, qualities which need to be further developed are identified. Furthermore,

## TRAINING AND EDUCATION

the results of such evaluations are used in building future career development maps of employees and drafting training programs. Newly recruited employees are properly instructed at the Company. Newly recruited employees are informed about internal disciplinary rules of the Company, dress code, HSE rules, clerical rules, organizational structure, and how to work with senior personnel and other departments. Such instructions are intended to facilitate the adaptation of newly recruited employees and to prevent breaches during the initial period of their work due to a lack of information.

Motivation and development of sailing personnel, and further improvement of their material and social welfare, are among the areas accorded special attention. A test stage was established in the recruitment process for sailing personnel at ACSC in 2017 to objectively evaluate the theoretical knowledge of ASMA graduates and other candidates with higher maritime education. Test rules were adopted, a new examination program was drafted, measures were introduced to automatically notify applicants of their test results, and a system was created whereby field specialists produce, analyze and approve questions for the tests appropriate to the specializations applied for.

The process of digitalizing training matrices started in 2017. This process serves to monitor and extend the validity period of certificates held by almost 4,000 sailing personnel from fleets, as well as to facilitate the organization of training.

An electronic queuing system has been established at Human Resources Services (HRS) for fleet staff in order to facilitate services provided to employees. Initiatives were taken to automate the procedures for allocation of sailing personnel to ships and to decrease the average waiting time of seafarers. The employees are recorded in the electronic queue taking into account the time they have left before reaching the HRS headquarters. The monitors placed here display information about the number of seafarers in queue, the number of employees that have served during the day, the types of services provided, etc. Proper conditions and systems have been created for seafarers for sending electronic requests on required documents through a single window, which enables to avoid queues and time loss for seafarers.

Initiatives to improve the hiring process continued during the reporting period. Internal announcements about vacancies are circulated and placed on noticeboards of structural units. In this way, each employee of ACSC sees information on vacancies and may directly apply if he/she has relevant knowledge and skills.

Documentation flow between the Administration and structural units has been expedited. The circulation of hardcopies has been significantly reduced as a result of the application of the electronic document flow system and its efficiency has been raised through automating this process.

## TRAINING AND EDUCATION

Well trained employees able to work with state of the art equipment and technologies, who know the requirements of international standards and can apply them at work and are ready to face modern challenges, are the driving force behind sustainable development. In this regard, particular attention is paid to improving knowledge and skills, professionalism and competency of personnel at the Company. Training is organized in the relevant areas.

Special international trainings are held at ACSC on a regular basis in order to teach the principles of international corporate management systems and increase personnel's skills. ACSC closely cooperates with reputable international companies in this field – American Bureau of Shipping, EY and international maritime association BIMCO's Business Academy. These companies provide training on international conventions, QHSE standards, financial accounting, effective management and decision making, effective communication and performance management.

Trainings in the fields of requirements of international conventions including SOLAS-74, MARPOL, STCW, and in the Quality Safety Management System were provided at ACSC in 2016-2017. In addition to local training, 352 employees of ACSC attended seminars and training courses on the latest updates in international maritime conventions, quality management, labor and environmental protection standards, and risk management, held in such countries as the USA, Russia, Great Britain, Denmark, Turkey, Spain and Greece.

65 employees of the Company were trained during the reporting period in such areas as maritime economy, international conventions, charter agreements, bills of lading<sup>1</sup>, damage to

<sup>1</sup> Bill of lading is a document that shows the cargo's owner and regulates the relationship between the cargo owner and the carrier.

cargo and claims, safety, payments, agents and brokers, fraud, etc. through cooperation with the internationally reputable BIMCO (Baltic and International Maritime Council).

New courses were registered at the ASMA TEC and the center was recognized by several international organizations. TEC was provided with relevant certificates, by BUREAU VERITAS with respect to ISO 9001:2015 quality standard, and by ABS with respect to 40 training courses held at the center in accordance with the 1978 International Convention on Standards of Training, Certification and Watchkeeping for seafarers (STCW). 13,589 people attended these training courses in 2017.

TEC's Dynamic Positioning Simulator was certified following inspection by the reputable Nautical Institute of Great Britain. This certificate allows us to run the DP Induction and DP Simulator courses. Consequently, TEC has become one of 95 centers in the world and the only center in the Caspian region authorized to run DP Induction and DP Simulator courses.

ACSC always pays particular attention to employment, career progress, further education as well as welfare improvement of young people in general, and of ASMA graduates in particular. 11 and 23 upper course students of the Academy, who stood out for their academic performance and discipline, were employed by ACSC by virtue of a guarantee letter from the Company's Chairman in 2016 and 2017, respectively. 10 third-year students at the Academy were sent for internships, with all their costs covered by the Company, on the Company's ships sailing in the Black and Mediterranean sea basins during the reporting period.

Two employees of the Company are studying for a master's degree at World Maritime University located in Malmö, Sweden, thanks to cooperation between the ACSC and the University.

## EMPLOYEES AND EMPLOYEE RELATIONS

Employees of the Company play a significant role in achieving its goals and successful implementation of its strategy. Personnel are the main value of the Company and their development plays an important role for ACSC. ACSC pays particular attention to mutual and strong relationships in order to strengthen liaison and professional relationships between ACSC's management and employees, and to hear the employees' opinions, proposals and problems. It is extremely important for the Company to establish a healthy working environment as well as form and maintain a strong team.

In order to ensure reliable and direct communication between employees, email, electronic communication and electronic document flow are all widely used at ACSC. Information about updates, structural changes, new appointments and similar events at ACSC is delivered to employees through orders of

the Company, email notifications, announcements on the Company's internal portal and other means.

Special attention is paid to personnel motivation at ACSC. Motivation involves career development, training, education as well as improvement of social, material and spiritual welfare. ACSC has been applying a bonus payment system based on key performance indicators since 2017. This system is aimed at improving employees' performance as well as motivating them and achieving the Company's strategic objectives.

Further measures are taken towards taking into account the opinions and proposals of the Company's employees. Currently, a special box is organized for proposals, comments and opinions of the fleet's sailing personnel. Both anonymous and public requests are reviewed on a monthly basis. Question and answer exchanges are held and, consequently, final proposals and comments are delivered to senior management by the relevant structure.

A transparent complaints mechanism is in place at ACSC. Complaints to ACSC can be made in verbal, electronic and written form. It is extremely important for ACSC to investigate and resolve all complaints and grievances. Applicants are responded to no matter what the form and subject of the complaint. Incoming complaints and grievances are first registered and then responded to within no more than 15 days. Verbal complaints are registered on the spot and a time is set for a meeting with the relevant managers. Disabled people, war veterans and the elderly can register for a meeting with the Chairman without queuing.

The collective agreement applies to all employees of ACSC. The collective agreement has been drafted with due consideration of provisions of the Labor Code of the Republic of Azerbaijan and of the International Labor Organization's conventions on working conditions, working regimes and catering for seafarers. In accordance with international standards, it is required that employees be notified in advance if significant changes are expected to take place at the Company. In accordance with the requirements of the collective agreement applied at ACSC, ACSC shall notify the Trade Union Committee at least 2 months in advance on measures that will lead to significant redundancies.

The allocation process of seafarers to ships is based on their education, knowledge and skills in a transparent manner. The allocation period is checked by HRMD and HRS of the structural units for compliance with legislation and internal documents, meetings are held with the sailing personnel, and necessary conditions are maintained.

## DIVERSITY AND EQUAL OPPORTUNITIES

### DIVERSITY AND EQUAL OPPORTUNITIES

ACSC provides a healthy working environment for its employees, with equal opportunities for them to improve their professionalism and achieve career development regardless of their race, religion and group affiliations.

An evaluation of the Company’s employees is carried out without any discrimination and is based solely on the employee’s skills, level of professionalism and actual performance.

Male employees are in the majority in ACSC because shipping is a comparatively difficult and labor intensive area. In 2016-2017, 12% of all employees were females and 88% were males. Keeping

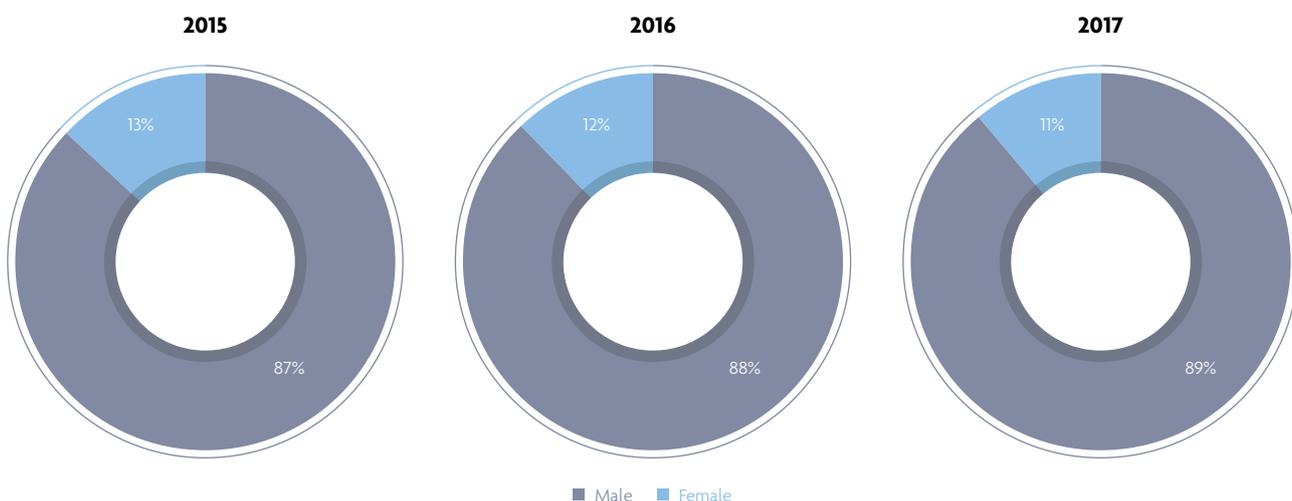
in mind that gender equality is one of the major conditions for sustainable development and efficient management, ACSC works toward minimizing vertical gender segregation and increasing the number of females among senior management.

Non-discrimination and equal opportunities are regulated in accordance with the Business Ethics Code of the Company, the Law of the Republic of Azerbaijan on ensuring gender equality, and the Convention based on the equal pay for equal work principle of the UN and International Labor Organization.

No discrimination case took place and no such complaint was registered at the Company during the reporting period.

Number of employees by category and gender in 2015-2017

Categories	2015		2016		2017	
	Female	Male	Female	Male	Female	Male
Management	58	1,572	42	1,496	51	1,455
Specialists	570	1,421	575	1,447	580	1,537
Technical specialists	75	37	71	42	68	53
Workers	457	4,600	316	4,632	318	4,859
<b>Total</b>	<b>1,160</b>	<b>7,630</b>	<b>1,004</b>	<b>7,617</b>	<b>1,017</b>	<b>7,904</b>



#### Number of employees by age

	2015			2016			2017		
	Up to 30	30-50	Above 50	Up to 30	30-50 yaş	Above 50	Up to 30	30-50	Above 50
Number of employees by age	1,403	4,244	3,143	1,356	4,137	3,128	1,431	4,243	3,247

#### Number of employees hired in 2015-2017 by gender

Category	2015		2016		2017	
	Female	Male	Female	Male	Female	Male
Total number of employees hired	74	434	91	573	98	830

#### Number of employees hired in 2015-2017 by age

	2015			2016			2017		
	Up to 30	30-50	Above 50	Up to 30	30-50	Above 50	Up to 30	30-50	Above 50
Total number of employees hired	163	250	95	349	198	117	445	293	190

#### Number of employees leaving in 2015-2017 by gender

Category	2015		2016		2017	
	Female	Male	Female	Male	Female	Male
Total number of employees leaving	100	599	236	597	92	536

#### Number of employees leaving in 2015-2017 by age

	2015			2016			2017		
	Up to 30	30-50	Above 50	Up to 30	30-50	Above 50	Up to 30	30-50	Above 50
Total number of employees leaving	185	254	260	125	310	398	119	206	303





## DIVERSITY AND EQUAL OPPORTUNITIES

### Composition of the Executive Board by age

	2015			2016			2017		
	Up to 30	30-50	Above 50	Up to 30	30-50	Above 50	Up to 30	30-50	Above 50
Executive Board	0	6	0	0	5	1	0	4	2

### Composition of the Executive Board by gender

Category	2015		2016		2017	
	Female	Male	Female	Male	Female	Male
Executive Board	0	6	0	6	0	6

### ACSC Executive Board

Name Surname	Title	Birth
Rauf Goyush oglu Valiyev	Chairman	1965
Mubariz Mustafa oglu Jabbarov	1st Deputy Chairman	1968
Farhad Tofiq oglu Guliyev	Deputy Chairman for Strategic Development, Investment Projects and Logistics	1981
Jalal Hasanaga oglu Farajli	Deputy Chairman for Economic Issues	1967
Jabrayil Idris oglu Mahmudlu	Deputy Chairman for Procurement, Transport, and Social Issues	1966
Nazraddin Murad oglu Ahmadzada	Deputy Chairman for Security Issues	1982

All members of ACSC's supreme governing body are citizens and residents of Azerbaijan.



## HUMAN RIGHTS

Guided by the European Convention for the Protection of Human Rights and Fundamental Freedoms, ACSC pays special attention to the protection of human rights and carries out work in this area. There were no cases of infringement of employees' freedoms or personal immunity, slavery, use of forced or child labor, as well as no cases of breach of human rights with respect to suppliers during the reporting period. The essence of human rights within the Company is explained to each new employee during induction. Each person within ACSC has equal rights regardless of his/her race, nationality, religious beliefs and gender, and this is regulated in accordance with the requirements of the Company's Business Ethics, the Constitution of the Republic of Azerbaijan and other international conventions. ACSC pays special attention to the continuous protection of human rights in every field of activity and, therefore, each Company employee is entitled to demand his/her rights without any legal or social pressure exerted on them.

In its activities the Company is guided by the principle of ensuring and maintaining safe working condition for employees, contractors and other counterparties working within the territory of the Company. The Company mobilizes all of its resources to exclude accidents, injuries, occupational diseases and emergencies. Moreover, the QHSE department holds monthly Safety Meetings with ACSC's onshore and offshore personnel in order to provide information on previous accidents and incidents, educate personnel on safety principles, and form appropriate habits. Additionally, employees have been trained in the Business Ethics Code that covers human rights, disciplinary rules and other applicable principles. Newly recruited employees were also instructed in this area during the reporting period.

All employees of the Company are familiarized with the Business Ethics Code, and their level of knowledge of business ethics, human rights and disciplinary rules is tested within internal audit procedures. During internal audit inspections the level of compliance with the Business Ethics Code is evaluated at the Company, selective interviews are held with senior and other categories of employee, and their level of knowledge of Business Ethics Code is verified. The monitoring results are reflected in the report, and, if necessary, additional training courses are held at the audited entity on human rights, anti-corruption, disciplinary rules and business ethics.

## PLANS FOR 2018

HRMD continuously analyzes business processes to properly manage, improve and optimize human resources management in the future. If necessary, relevant changes are made to these processes, employees are familiarized with new business processes, and each year training plans are prepared for the following year.



One of HRMD's plans for 2018 is to establish an Electronic HRMD Portal (an electronic database of human resources, questions and answers, documents, etc.). Furthermore, we envisage improving the compensation and remuneration system and career development plans for promising employees to continuously develop both material and immaterial motivation at the Company. Keeping in mind that human resources play an exceptional role in the life of enterprises and other organizations, we plan to identify promising employees through evaluation, attestation and other means, and to carry out work to ensure that decent conditions are provided for further development of successful employees.



SOCIAL  
ACTIVITY

## SOCIAL ACTIVITY

ACSC is aware of its corporate responsibility to society and believes that the social factor is an inalienable part of good management.

### We highlight the following initiatives in the Company's social activities:

- Financial aid and charity
- Support for employees' welfare and health
- Support for children and veterans under protection
- Support for youth
- Promotion and propagation of the sailor profession in the country and support for sailors' education.

## FINANCIAL SUPPORT AND CHARITY

The Regulation on Granting Financial Assistance was approved in 2014 in order to provide the needy with financial assistance within the framework of ACSC's corporate social responsibility program.

In accordance with this Regulation, homeless children, families facing severe financial problems, war veterans and disabled people are provided with financial support.

### Information on financial support provided by the Company in 2015-2017 is presented below:

#### Amount of financial support (AZN)

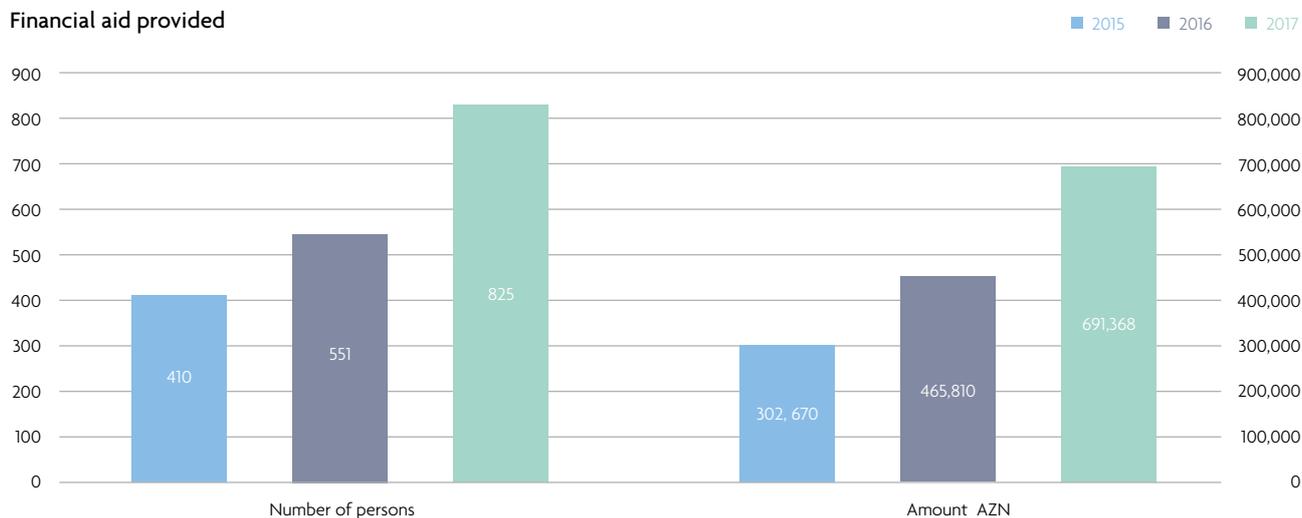
Organization	2015	2016	2017
Sea Transportation Fleet (STF)	78,465	92,100	100,348
Caspian Sea Oil Fleet (CSOF)	62,950	103,700	174,650
Onshore organizations	127,200	219,510	363,658
Former employees	29,655	31,200	44,212
Other persons	4,400	19,300	8,500
<b>Total</b>	<b>302,670</b>	<b>465,810</b>	<b>691,368</b>

#### Number of people received financial support

Organization	2015	2016	2017
Sea Transportation Fleet (STF)	120	110	120
Caspian Sea Oil Fleet (CSOF)	67	104	196
Onshore organizations	179	271	440
Former employees	40	48	62
Other persons	4	18	7
<b>Total</b>	<b>410</b>	<b>551</b>	<b>825</b>

Further, food aid is provided on state and religious holidays to the families of 3,350 internally displaced people and refugees from Khojaly, Kalbajar, Lachin, Aghdam and Shusha, who have settled in Goranboy. Moreover, financial aid is provided to family members of employees who died and to each employee who was left disabled (128 persons in total) during the battles for independence and the territorial integrity of Azerbaijan during the 20th of January tragedy.

#### Financial aid provided







## EMPLOYEES' WELFARE AND THEIR HEALTH SUPPORT

Employees of ACSC are sent to the Danizchi recreation center for holidays with their family members during the summer. Employees of the ACSC were provided with 1,982 vouchers in 2016 and 2,072 vouchers in 2017.

The construction of an apartment building started in the Khatai district in order to provide 1,080 persons in the apartment queue with accommodation. Meetings are held with those in the apartment queue and work is being carried out so that they become members of a cooperative.

The Company's employees and their family members are provided with medical services, free of charge and with a 20% discount, respectively, at three medical facilities (Seafarers' Polyclinic LLC, Ahmadli Medical-Sanitary Station and Children's Polyclinic), which belong to ACSC. In total, 36,845 and 45,382 persons used the services of these medical facilities in 2016 and 2017, respectively. Furthermore, regular preventive epidemiological, deratization, disinfection and pest control measures are taken on the Company's ships and at onshore facilities.

A blood donation event took place at ACSC in 2017. Donated blood was delivered to the Central Blood Bank of the Ministry of Health. This social initiative was intended to support measures within the framework of the State Program On Care for Children Suffering from Hemophilia and Thalassemia approved by the President of the Republic of Azerbaijan and the Life without Thalassemia project of the Heydar Aliyev Foundation. The main objective is to support the Central Blood Bank to ensure that thalassemia patients receive the necessary amount of blood.

Measures to supply ships belonging to ACSC with high quality and required amounts of food are under constant supervision. In this regard, an appropriate act is drawn up by the ship crew and submitted to the social development and transportation department of the Company. Moreover, the department regularly inspects the canteens at ACSC's structural units to monitor the quality and storage conditions of food.

In 2016, a new park was built at ACSC's Radio Center, which had not been used for a long period. Great conditions were created at the park for recreation and leisure of Baku residents and visitors with a total area of 6,300 square meters. A special recreation area and various attractions were established at the park for kids. In addition, more than 200 different trees, flowers and decorative bushes were planted and a fountain complex was built.

Annual clean up days are held by ACSC employees at BSRY in order to make the environment healthier and improve environmental conditions. Restoration works are carried out, and many trees and decorative bushes are planted during clean up days.



## SUPPORT FOR CHILDREN UNDER PROTECTION AND VETERANS

In addition to social assistance, the ACSC has taken on responsibility for employees and children in need under protection. Dependent children are those whose parents have either died or become incapable of working. All university expenses of those children are paid by ACSC. Financial aid is provided to dependent children in the amount of two times the minimum salary.

### Information on children under protection:

Business unit	2015	2016	2017
ASMA	0	1	1
STF	19	24	21
ZSRCY	1	1	1
BSRY	21	9	9
CSOF	71	75	76
PSD	0	5	6
<b>Total</b>	<b>112</b>	<b>115</b>	<b>114</b>

ACSC highly appreciates the services and commitment of veterans to our society and state, and in this regard, on the eve of 9 May – Victory Day – provides financial aid to veterans who fought in the frontline or worked on the home front.

## YOUTH SUPPORT

Recognizing that young specialists play an important role in sustainable development of the Company, ACSC pays particular attention to growing and developing young specialists. Growing

young and professional specialists, improving their knowledge and skills, following the career development of promising and young employees as well as their encouragement are among the objectives set before the Company.

Annual meetings are held with young employees working at different ACSC structural units and pro-active students of ASMA and Maritime College on the eve of 2 February, Youth Day. During the meeting, information is provided on the Youth Policy of Azerbaijan and the Company, reforms at the Company, its growth prospects, significant initiatives taken towards the transformation of ACSC into a company meeting contemporary international standards, and the role of youth in this process. Furthermore, questions from the youth are answered by the Company management, and those who have stood out in service and education are rewarded.

Additionally, ACSC organizes festivities for children on International Day for the Protection of Children, 1 June. In these events mainly participate disabled children who receive care at the community rehabilitation center, study at schools for children that need special care, attended the Khazar and Dalga kindergartens or come from low-income families. Games, musical entertainment programs and contests are arranged for the children. In addition to that, a trip on the Ufug ship was arranged for children during the reporting period.

The Fourth International Children and Teenagers Painting Festival was held with the support of ACSC in 2016. In addition to painting studios and art schools from our country, works by 3-16 year-old children from Turkey, France, Cuba, Korea, China, Belarus and other countries were displayed at the event.

A number of meetings were held with young employees working at ACSC in 2016-2017. They were informed about the concept of the career map. A Career Group was founded at the Academy in order to support ASMA students in successfully building their future careers. Furthermore, open days are organized at the Company. Problems of the youth and their proposals are discussed with the structural unit managers and HRMD employees during the open days.

## PROMOTION OF THE SEAFARER PROFESSION AND SUPPORT FOR SEAFARERS' EDUCATION

The ACSC's Azerbaijan State Marine Academy is involved in educating seafarers in the region. Increasing ASMA's resource base together with the provision of educational programs meeting high standards supports the training of professional seafarers in the country. In addition, promotional programs and



campaigns are run to attract skilled and knowledgeable youth to the seafarer profession.

The educational base and infrastructure of the Academy are constantly improved. The second ASMA building was opened in September 2016. Classrooms are fully supplied with internet access, projector equipment and study materials, while the heating system was renovated in the new education building consisting of 20 classrooms as well as a computer room, a large events hall, and a canteen for 240 people

Two ACSC employees who are also ASMA graduates are studying for a master's degree in shipping management and logistics at World Maritime University. Study and living costs of both students are met by ACSC.

The Company participated in the Alumni Career Exhibition held at Azerbaijan State Oil and Industry University and informed attendants about vacancies at ACSC with the purpose of hiring students.

## PLANS FOR 2018

The aforementioned events are also planned to be held in 2018. Furthermore, sports events are planned to be held to promote healthy lifestyles. An annual sports plan for 2018 has been approved in this regard.



HEALTH  
AND SAFETY

## HEALTH AND SAFETY MANAGEMENT

ACSC pays special attention to work being carried out without damage to employees' health, in a safe manner and without accidents.

QHSE management is regulated in accordance with the laws of the Republic of Azerbaijan, international conventions and ACSC's internal documents. The application of and compliance with international conventions SOLAS, MARPOL, STCW and of the ILO are ensured through the integrated QHSE Qualitative Management System of Safety (QMSS). Relevant improvements were made to QMSS and some policies were updated in accordance with the requirements of international standards in 2016-2017.

ACSC is inspected and audited by the International Maritime Organization (IMO), State Maritime Administration, the Russian Classification Society and the American Bureau of Shipping with respect to compliance with IMO requirements. Another external audit was carried out by ABS in 2017 to evaluate the ACSC's internal management system and to check the compliance of its activities with SMS (Safety Management System) and international ISO standards. The audit confirmed that QMSS is in conformance with the requirements of international management standards of ISM-2010, SOLAS, MARPOL, ISO 14001-2015, ISO 18001-2007, ISO 9001-2015 and ISO 50001-2011.

Procedures in line with QMSS requirements are constantly applied to individual operations to identify threats, assess risks, carry out regular monitoring and measurements, and to provide the necessary supervision with the aim of ensuring safe work at the Company. Preventive measures are taken to prevent threats that may negatively affect employee safety due to human behavior or other factors.

ACSC assigns great importance to constant improvement of QMSS and maintaining it at a level that meets the requirements of international certificates held by ACSC, i.e. ISO 9001, ISO 14001, OHSAS 18001, ISO 50001 and ISM Code. In this regard, inconsistencies in the application of QMSS during the previous reporting period were resolved during this reporting period as a result of the QHSE department's efforts, continuous work, methodical assistance, meetings with personnel and relevant training. As a result of work carried out, the number of inconsistencies identified by the external audit in 2017 was 25% lower than that of 2016.

**ACSC pays particular attention to improving working conditions, personal protection of employees and the provision of all means necessary for safety. The following expenditures on occupational health and safety measures were made in 2016-2017:**

Expenditures on occupational health and safety measures in 2016-2017, AZN

Expenditures	2015	2016	2017
Occupational health and safety measures, including	2,761,417	2,174,592	2,618,284
improvement of working conditions	1,766,311	1,522,510	1,768,922
personal protective equipment	995,106	652,082	849,362

Expenditures on occupational health and safety measures, AZN



In comparison with 2016 there was a 20% increase in expenditures on occupational health and safety measures during 2017, which arose from the renewal of more personal protective equipment and the improvement of working conditions in different areas.

## EXISTING POLICIES AND REGULATIONS

The work done at ACSC with respect to health and safety is performed in accordance with the laws of the Republic of Azerbaijan, international conventions, requirements of ISM-2010, SOLAS, MARPOL, ISO 14001-2015, ISO 18001-2007, ISO 9001-2015 and ISO 50001-2011 international management standards held by ACSC, QHSE policy, regulatory documents, procedures and the requirements of the relevant production guidelines. Preliminary

information forms are used at ACSC to register, investigate and resolve incidents that occur. These forms are drafted and submitted to the QHSE department, and they may contain information on incidents that include working days lost, injuries, occupational diseases, lethal accidents, traffic accidents, ship collisions, environmental events, equipment stoppages, losses of equipment, near misses, fire, damage to equipment or stranding of ships. Thereafter, such events are investigated with the participation of relevant specialists and QHSE employees. As a result of the investigation, documents such as a full report form, decree, circular, and or safety bulletin are drafted.

ACSC has introduced a special policy on drugs, gambling and alcohol, complementing the QHSE policy outlined in the internal management system. All information and requirements of this policy are displayed on visible places in all structural units and ships as well as on the official web-page. All employees have been informed on this matter.

All newly recruited employees, regardless of the level of their education, profession, occupation or period of service in their position, including seconded employees, temporary workers and students at the enterprise on an internship, and other persons who have been admitted to the production sites, are provided with induction trainings and information about safety, health and environmental protection, energy and quality of work.

## EMERGENCIES

Preventing and minimizing the number of accidents and incidents is a priority for ACSC, and the Company takes all possible measures to that end.

Taking into account that landslides, the use of harmful substances, instrument malfunction, tool and materials failures, fires and explosions, occupational diseases and electric shocks are the main sources of danger, relevant instructions are provided to personnel and other preventive measures are taken.

There were four cases of fire, two cases of mechanical accident and one stranding at ACSC in 2016. All fire accidents were minor. Two of them happened on ships and the other two happened onshore. Two mechanical accidents happened on ships and were successfully resolved. The only case of stranding happened during a turning maneuver. The ship was examined by divers and no damage was detected in the hull. The cause of the incident was investigated and appropriate measures were taken.

There were four cases of fire, two cases of mechanical accident and two cases of stranding in 2017. The fires happened on ships, in ASMA's educational building and on a bus that belonged to ACSC. No injury or material damage occurred, as all fires were extinguished in a timely manner. The mechanical accidents happened on ships and were successfully resolved. The cases of stranding were related to the ships' steering. After the occurrence of each case, personnel examined the ships, inspected all departments and ensured that there was no risk to the ships' reliability.

There were two cases of injury to ACSC's employees in 2016. In one such case, an employee slipped in the corridor of the HQ and got injured. The other case happened on a ship, where in the process of cutting wood a tool slipped and injured a boatswain's leg.

There were six accidents resulting from breaches of safety rules by employees. Five of these cases happened during berthing, towing and technical inspections, and resulted in minor damage. The only case of death in 2017 resulted from a forklift driven by a dock engineer capsizing onto rails, when the dock engineer fell under the forklift and lost his life. The cause of the accident was non-compliance by the employee with the Guidelines on Dock Engineers' Safety. ACSC takes preventive measures and informs personnel about the accidents, their causes and results in order to prevent re-occurrences of similar events and any other accident in the future.

## PLANS FOR 2018

We plan to minimize any deficiencies through internal audit, monitoring and other methods, as well as by analyzing collected data and continuing to improve the system in 2018.

**In addition, the following actions are planned to be taken in the next reporting period:**

- Continue the Sanitary Attestation campaign in the Company's structural units and ensure the attestation of sites by bodies holding relevant permits and resources;
- Carry out medical examinations appropriate for seafarers and onshore employees by medical commissions at the Company's Polyclinic Number 1;
- Carry out medical examinations of members of CSOF's diving team at the newly established Diver Medical Commission at ACSC Polyclinic Number 1.

Furthermore, we plan to conduct more than 20 training courses on safety as per QMSS requirements in 2018.



#### Occupational health and safety data in 2015-2017

	2015	2016	2017
Total number of injured personnel	7	2	5
Total number of deaths	1	0	1
Total number of occupational diseases	0	0	0
Total number of days lost due to accidents	723	172	596
Total number of missed days due to diseases	18,546	17,916	16,497
Number of personnel	8,790	8,621	8,921
Total hours worked	14,110,000	15,092,627	13,551,328
Total days worked	1,763,750	1,886,578	1,693,916
Production injury rate (per 1,000,000 hours worked)	0.5	0.1	0.4
Lost days rate (per 1,000,000 hours worked)	51.2	11.4	44.0
Frequency rate of accidents (number of accidents per 1,000 persons)	0.9	0.2	0.7
Severity rate of accidents ((number of working days lost due to injuries per each accident)	103.3	86.0	118.2
Absence rate	10,515	9,497	9,739
Occupational disease rate (per 1,000,000 hours worked)	0.0	0.0	0.0



ENVIRONMENTAL  
PROTECTION

## ENVIRONMENTAL MANAGEMENT

Environmental protection is important not only for meeting sustainable development goals but also for the protection of the bio-ecological environment that we live and work in, leaving it as a legacy to future generations and shaping a healthy future.

Keeping the impact on the environment generated by the fleet and onshore facilities as well as pollution and emissions to a minimum, saving water and energy resources are some of the main objectives set before the Company. To that end, during the reporting period the environmental engineers of each structural unit at the Company have carried out daily environmental inspections on ships and onshore facilities. The results of such inspections are reflected in daily environmental control tables for environmental protection, and the elimination of the deficiencies identified is constantly monitored. There were no material environmental breaches at the Company and no penalty was applied by the relevant authorities in 2016-2017.

## WASTE

Liquid and solid waste (oily and sewage water, processed oil, sludge, dry waste and other pollutants) as well as gas emissions generated during the operation of the ships and onshore facilities can have an adverse environmental impact on the sea, air and land. In this regard, in order to minimize damage to the environment and maintain it at a low level, waste management efforts (removal of waste from the site and its recycling) are taken continuously and in this regard we cooperate with the relevant authorities. Waste generated by vessels is not thrown into the sea but is transported to the shore via designated SLV type ships (SLV-363, SLV-370, SLV-411, Bulag and others) and other tugs and supply vessels, and is handed over accordingly.

The amount of waste generated and handed over in 2015-2017 is presented in the following table:

Waste generated and handed over by the Company (tons)

Expenditures	2015*	2016	2017
Hazardous waste generated	4,966	4,466	6,215**
Non-hazardous waste generated	23,045	34,016***	17,612
Hazardous waste handed over	5,059	4,392	6,080
Non-hazardous waste handed over	21,174	32,330	16,318

\* ACSC is constantly improving its calculation methods to record the amount of waste and obtain more accurate results. In this regard, as a result of the application of an improved methodology for the calculation of the amount of waste generated and handed over in the current year, the numbers for 2015 were re-calculated and added to the current report.

\*\* One of the major reasons for the increase in waste in 2017 in comparison with the previous year is the increase in transportation of such cargo as benzol, mud and barite-cement mixture, as well as the cleaning of their remnants.

\*\*\* The increase in the number of ships written off and cut into pieces and the consequent increase in metal scrap increased the amount of non-hazardous waste.

In order to prevent pollution at onshore facilities owned by the Company and negative environmental impact, in addition to pollutants generated on ships environmental risks (environmental aspects) that can have a direct or indirect impact on the environment were identified and assessed, and the most significant ones were taken under control. Environmental aspects, especially the most significant ones, are reviewed and updated at least once a year. Furthermore, measures are taken to clean the sea surface from small and medium-sized trash and water-oil mixture. This type of waste is collected by the environmental ship Bulvar-1 and delivered accordingly.

## WATER

Clean and potable water is one of the major environmental problems in the world. Given the indispensable role of potable water in human life, ACSC constantly monitors the condition of potable water, sanitation and hygiene.

Along with clean and potable water, the protection of the Caspian and other water basins where ACSC operates is strictly managed by the Company. Thus, the protection of water basins is essential for the protection of ecosystems and biodiversity. Ballast water is used to regulate the position (balance) of the ship on the water surface when ACSC's cargo ships sail without cargo. If ballast water stored on ships travelling between different water basins is released into the water of a different basin, such release of ballast water can result in significant damage to biodiversity and the ecosystem. At the same time, if ballast water is polluted with oil or other types of waste, it can lead to pollution of the water surface. For this reason, when the ships are loaded or ballasted, the porous parts and ballast tanks are checked daily, compliance with standards is monitored



and relevant records are made by ACSC specialists. Records of potable water intake and consumption are recorded in each ship's journal. Both oil-bearing waste water and non-oil-bearing waste water are transferred to either SLV type environmental ships or coastal stations, with records made in the appropriate environmental ship journals. Currently, no technology using recycled or circulated waste water is used.

#### Potable water consumption of the Company in 2015-2017, m<sup>3</sup>

Expenditures	2015	2016	2017
Potable water consumed by ACSC	438	509	515

The reason for the relative increase in potable water used in 2017 in comparison with 2016 is the increased demand for potable water by onshore facilities and vessels.

Usually, sea water is used in the cooling of engines and in coastal properties in fire extinguishing systems. This process is regulated by Permitted Waste Water Levels and Special Permit For Use Of Water, which are documents approved by the State Expertise Office of the Ministry of Ecology and Natural Resources, as well as by annual 2-TG (water economy) official statistical reports of the State Statistics Committee of the Republic of Azerbaijan.

#### Below presented the use of seawater at the Company during 2015-2017:

##### Use of seawater at the Company in 2015-2017, thousand m<sup>3</sup>

	2015	2016	2017
STF	2,200	2,242	2,161
CSOF	10,722	10,722	10,722
ZSRCY	7.1	7.1	7.1
BSRY	394	394	174

## ENERGY

Saving and the efficient use of energy resources play an important role in the sustainable development concept. ACSC uses different types of energy in various places, including ships, onshore facilities, and production and administrative buildings. Ships mainly use fuel, while onshore facilities use electricity, gas and heat.

The production of necessary electricity in ships is ensured by means of fuel. To this end, the supply of power from onshore facilities to ships berthed at the port causes a reduction in harmful emissions from diesel engines and helps to save fuel.

Key measures in energy efficiency and energy saving are implemented through the application of the requirements of ISO 50001. Also, all ships with a total water capacity of over 400 tons have been provided with the Energy Efficiency Plan document. The senior engineering officer and first mate are responsible for the direct implementation of the energy efficiency management plan's requirements. At the same time, steps are taken to replace ships of ACSC's fleet which are old and consume more fuel with newer and more modern and fuel-efficient ones. In order to increase the efficiency of fuel consumption, necessary measures have been taken by the ship's crew. These measures, which allow a reduction in fuel consumption without changing the specifications of the ship, include taking weather information into account, as well as route selection, steering control optimization, speed optimization and other operations.

#### Consumption of fuel in fleet operations in 2015-2017, tons

	2015	2016	2017
Diesel	42,079	40,915	41,934
Engine fuel	33,087	36,049	33,285

Engine fuel consumption savings were achieved in 2017 in comparison with 2016. The reason for the increase in diesel fuel consumption is the increase in cargo transportation volumes in 2017 and, accordingly, more fuel consumption by the ships. Diesel is mainly used in tankers and dry cargo ships, where a significant increase in cargo shipments was recorded in 2017.

Consumption of fuel in vehicle transportation in 2015-2017 tons

	2015	2016	2017
Diesel	620	551	574
Gasoline	735	597	568

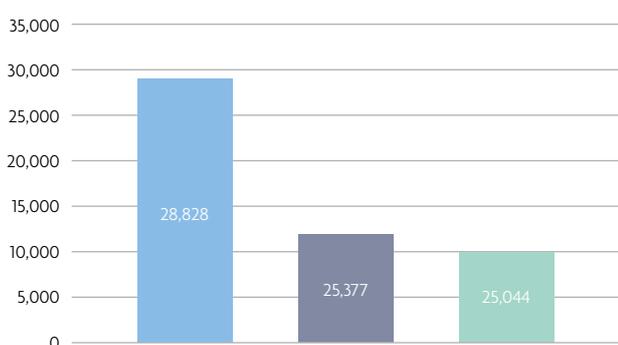
Electricity and Natural Gas Consumption in the Company in 2015-2017

	2015	2016	2017
Electricity consumed by ACSC, thousand Kwt/hr	28,828	25,377	25,044
Natural gas consumed by thousand m <sup>3</sup>	962	689	734

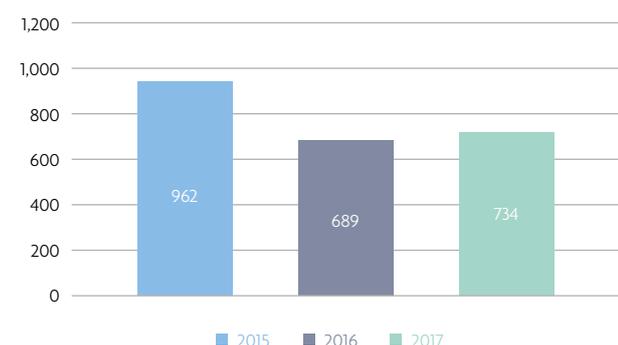
Energy intensity ratio for 2015-2017 (thousand Kwt./hr of electric power per employee):

	2015	2016	2017
ACSC	3.28	2.94	2.81

Electricity consumed by ACSC, thousand Kwt/hr



Natural gas consumed by ACSC, thousand m<sup>3</sup>



## EMISSIONS

Since the end of the twentieth century, global climate change has been one of the major problems concerning the world community.

The main reason for global climate change is the annual increase in greenhouse gas emissions. Relevant measures are taken by the United Nations (UN) and other global organizations to address this problem. The main purpose of the Paris Agreement within the UN Framework Convention on Climate Change, to which Azerbaijan is also a signatory, is the prevention of global climate change by reducing greenhouse gas emissions.

Azerbaijan Caspian Shipping Company also recognizes its role in this initiative and, in this regard, keeps track of the amount of emissions arising from operations, both offshore and onshore. Constant measures are taken by the Company to reduce negative effects on the environment, including the atmosphere, and to minimize emissions. Thus, the Company uses only clean and quality fuel, and keeps the timely replacement of gas, technical oil and fuel filters, and engine adjustment, under control. In addition, according to the requirements of the MARPOL 73/78 convention, special equipment for the measurement of SOx emissions has been installed on ships on international voyages or expected to go on them.

The number of ships operating, their activities at destination, and the quantity and quality of the fuel they use play an important role in the management of the amount of gas emissions. As the ships are sea-borne, unlike stationary units, emissions generated by fuel consumption cover larger areas and, therefore, have less environmental impact. The amount of emissions is calculated using specific calculation formulas based on information on the type, purity and quantity of fuel consumed. Monitoring of emissions is carried out by staff of the Caspian Complex Ecological Monitoring Department of the Ministry of Ecology and Natural Resources, which is the competent authority of the state in this area, with the participation of engineers and ecologists of the Company in accordance with the requirements of the MARPOL Convention.

The motor vehicles owned by the ACSC are examined by the State Traffic Police and the Ministry of Ecology and Natural Resources during the annual state technical inspections of gas emissions.

The table below summarizes emissions into the atmosphere by the Company during the reporting period:

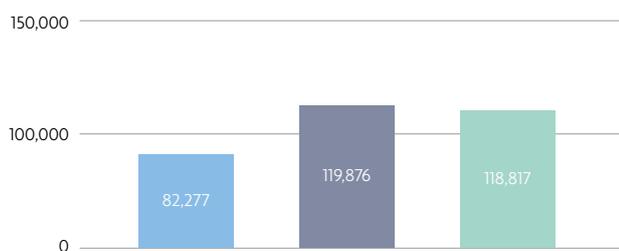
#### Greenhouse gas emissions in CO<sub>2</sub> equivalents from ACSC operations in 2015-2017 tons

	2015**	2016	2017
Direct emissions	83,277	119,876	118,817
Indirect emissions *	18.10	15.99	15.78

\* Indirect emissions are calculated based on electricity consumption.

\*\* In this regard, as a result of the application of an improved methodology for the calculation of the amount of greenhouse gas emissions in the current year, the numbers for 2015 were re-calculated and added to the current report.

#### Direct emissions (CO<sub>2</sub> equivalent, tons)



#### Indirect emissions (CO<sub>2</sub> equivalent, tons)



#### CO<sub>2</sub> emissions per one mile\*ton from STF operations in 2015-2017 (CO<sub>2</sub> / mile\*ton)

	2015	2016	2017
CO <sub>2</sub> /mile*ton	0.025	0.029	0.018

In comparison with 2015, there was an increase in direct emissions in 2016 due to the increase in cargo transportation. In 2017, a significant decrease in the amount of emissions per one mile\*ton compared to 2016 was observed. The main reason for this was the application of energy efficiency programs, and, as a result of these programs, the amount of CO<sub>2</sub> emissions decreased despite the increase in the mile\*ton indicator, which was due to the increase in ships' sailing distance and cargo transported.

The ratio of intensity of direct CO<sub>2</sub> emissions into the air in 2015-2017 is presented in the following table. Compared to 2016, there was a decline in intensity of CO<sub>2</sub> emissions in 2017.

#### Carbon intensity ratio for 2015-2017 (tons of CO<sub>2</sub> equivalent emissions per employee)

	2015	2016	2017
ACSC	9.474	13.905	13.319

#### Harmful emissions into the atmosphere as a result of operations by the fleet in 2015-2017\* (tons)

	2015**	2016	2017
Carbon Dioxide (CO <sub>2</sub> )	79,093	116,420	115,287
Nitrogen oxide (NO <sub>2</sub> )	2,171	2,569	2,731
Carbon oxide (CO)	850	1,016	1,076
Hydrocarbons (CH)	517	593	638
Volatile compounds	186	217	232
Sulphur oxide (SO <sub>2</sub> )	1,013	1,469	1,452

\* The calculation of atmospheric emissions was carried out in accordance with the coefficients provided by the International Maritime Organization (IMO) based on fuel consumption over the year.

\*\* In this regard, as a result of the application of an improved methodology for the calculation of the amount of hazardous emissions discharged into the atmosphere in the current year, the numbers for 2015 were re-calculated and added to the current report.

#### Carbon dioxide emitted as a result of the use of motor vehicles in 2015-2017\* tons

	2015	2016	2017
CO <sub>2</sub>	4,184	3,547	3,530

\* The amount of carbon dioxide discharged into the atmosphere was calculated by 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 have a significant share in total emissions.

As can be seen from the tables above, the CO<sub>2</sub> emissions into the atmosphere in connection with the operation of the fleet and use of motor vehicles have been gradually reduced.

## OIL SPILLS AND EMERGENCY MEASURES

ACSC accounts for a large share of the transportation of oil and oil products in the Caspian Sea. Special attention is paid to avoiding spillage and the prevention of pollution of the sea surface during transportation operations. In this regard, it is important that relevant technological processes be carried

out in accordance with the required rules. For this purpose, staff are regularly trained. At the same time, measures aimed at preventing oil spills are reflected in a document entitled Environmental Safety Program in Emergency and Accident Cases developed by the QHSE Department of the Company, as well as in the Annual Environmental Action Plan.

No significant oil spills occurred during transportation of oil and oil products during the reporting period. In 2016, only three small oil spills were registered, two of them on the coast and one in the sea. In 2017, there were no accidents involving oil or oil product spills.

Oil spots were identified on the asphalt road in Bibiheybat SRY in April 2016. The detected oil was approximately 5 liters, and the contaminated soil was collected, packed and handed over accordingly.

In June 2016, when engines and ballast pumps of a ship were being tested at the Zygh Ship Repair Yard, small volumes of oily water (up to 5 liters) were discharged into the sea. Oil on the surface of the sea was cleaned by the Bulvar-1 vessel and handed over accordingly.

In October 2016, when motor vehicles performed a line-up maneuver at a specially allocated parking area at Zygh Dry Cargo Port, the front left wheel of a truck got stuck in a pit designated for the collection of rain water and its diesel tank was damaged. As a result, 7-8 liters of diesel was spilled from the tank onto the concrete surface of the site. Absorbent was poured onto the spot, it was collected into a special container and handed over.

## EXISTING POLICIES AND REGULATIONS

In 2015, the Quality Management System of Safety was applied at the Company's HQ and on three types of ST vessel (tankers, dry cargo vessels and ferries). During the reporting period, the scope of the QMSS was expanded to encompass ships belonging to CSOF as well. In 2016-2017, improvements were made to the procedures and forms of the QMSS environmental management system, which meet the requirements of ISO 14001 (Environmental Management) International Standards. Updates were made to the environmentally-focused sections of QMSS procedures and the following documents were added:

- Daily Control Schedule for EP
- Monthly Waste Report Form
- Annual Report Form on Waste Management
- Comparative Analysis of Waste Form
- Unsealing and Sealing Form

In addition, given that new requirements applicable to the Waste Management Plan and Waste Operations Journal for ships under the Resolutions contained in MEPC.277 (70) and MEPC.295

(71) of the International Maritime Organization's (IMO) MARPOL International Convention were introduced, the following measures were carried out at the Company:

- A new version of the Waste Management Plan was drawn up for all vessels with total water capacity over 100 register tons and 15 or more people on-board;
- A new version of the Waste Operations Journal was drawn up for all vessels with total water capacity over 400 register tons and 15 or more people on-board.

In September 2017 the International Convention for the Control and Management of Ships' Ballast Water and Sediments came into force. Although the Republic of Azerbaijan has not yet acceded to the Convention, the following measures were undertaken by ACSC in 2016-2017 to ensure that our ships enter the waters and ports of Russia and other countries that have already acceded to the convention:

- All ships with a total water capacity over 400 register tons have been provided with the Ballast Water Management Plan document;
- All ships with a total water capacity over 400 register tons have been provided with the Ballast Water Operations Journal document.

At the same time, in 2017, within the framework of QHSE: Safe Working Practices, QHSE drafted and approved the Rules for Sealing, Unsealing and Control at Relevant Discharge Points to Prevent the Discharge of Liquid Pollutants from Ships into the Sea.

## PLANS FOR 2018

Continuation of improvements in the field of environmental management, the application of relevant documents and the implementation of continuous measures in accordance with the requirements of ISO 14001 certificate are envisaged in 2018. An Environmental Action Plan was prepared for each of ACSC's structural units and, based on them, a single environment-focused action plan was developed for the Company. The Action Plan on Environmental Protection has been agreed with and approved by the Environmental Protection Department, which is the state control body of the Ministry of Ecology and Natural Resources, and sent to structural units for implementation. The ACSC plans to strictly adhere to this plan and to implement the action plan as a whole. In 2017, an external international audit was conducted with respect to the conformity of the Quality Management System of Safety with ISO 9001/14001/50001 and OHSAS18001 international management standards. In this regard, we plan to take appropriate measures to improve the system and work with the observations identified during the audit.

# GRI STANDARDS TABLE



STANDARD AND DISCLOSURES (INDICATORS)	NOTE	PAGE
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## GRI 102: GENERAL DISCLOSURES

### ORGANIZATIONAL PROFILE

102-1	Name of the organization		page 10
102-2	Activities, brands, products, and services		page 20
102-3	Location of headquarters		page 88
102-4	Location of operations		page 26-27
102-5	Ownership and legal form		page 28-29
102-6	Markets served		page 26-27
102-7	Scale of the organization		page 10-11, 26-27
102-8	Information on employees and other workers		page 55
102-9	Supply chain		page 35
102-10	Significant changes to the organization and its supply chain		page 35
102-11	Precautionary Principle or approach		page 32
102-12	External initiatives		Throughout the report
102-13	Membership of associations		page 33

### STRATEGY

102-14	Statement from senior decision-maker		page 7
102-15	Key impacts, risks, and opportunities		page 46-47

### ETHICS AND INTEGRITY

102-16	Values, principles, standards and norms of behavior		page 17, 48
102-17	Mechanisms for advice and concerns about ethics		page 48-49

### GOVERNANCE

102-18	Governance structure		page 28-29
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.	page 28-29
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.	page 28-29, 32
102-21	Consulting stakeholders on economic, environmental, and social topics		page 33-34
102-22	Composition of the highest governance body and its committees		page 28-29, 43, 58
102-23	Chair of the highest governance body	Chairman of ACSC is the Chair of the highest governance body - Executive Board.	page 7, 58
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.	

STANDARD AND DISCLOSURES (INDICATORS)	NOTE	PAGE
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## GRI 102: GENERAL DISCLOSURES

### GOVERNANCE

102-26	Role of the highest governance body in setting purpose, value, and strategy		page 17,48
102-27	Collective knowledge of highest governance body	Trainings on different areas are organized on a regular basis in the Company, and highest governance body participates in these trainings as well.	page 52
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 46-47
102-31	Review of economic, environmental, and social topics	Executive Board of the Company monitors and manages the economic, environmental and social aspects.	Throughout the report
102-32	Highest governance body's role in sustainability reporting	Deputy Chairman on strategic development, investments and logistics controls the preparation process of Sustainable Development Report and approves the report when it is completed.	page 12
102-33	Communicating critical concerns	Executive Board of the Company conducts a general meeting with heads of departments every week, and all important issues are raised and solutions are discussed in these meetings.	page 12
102-35	Remuneration policies		page 46
102-36	Process for determining remuneration		page 46

### STAKEHOLDER ENGAGEMENT

102-40	List of stakeholder groups		page 33
102-41	Collective bargaining agreements		page 53
102-42	Identifying and selecting stakeholders		page 33-34
102-43	Approach to stakeholder engagement		page 33-34
102-44	Key topics and concerns raised		page 33-34

### REPORTING PRACTICE

102-45	Entities included in the consolidated financial statements		page 37
102-46	Defining report content and topic Boundaries		page 12
102-47	List of material topics		page 12
102-48	Restatements of information		page 71, 74
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 12
102-51	Date of most recent report		page 32
102-52	Reporting cycle		page 32
102-53	Contact point for questions regarding the report		page 88
102-54	Claims of reporting in accordance with GRI Standards		page 12
102-55	GRI content index		page 12, 77
102-56	External assurance		page 84-85

STANDARD AND DISCLOSURES (INDICATORS)	NOTE	PAGE
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## GRI 103: MANAGEMENT APPROACH

### REPORTING PRACTICE

103-1	Explanation of the material topic and its Boundary		page 12, 33-34
103-2	The management approach and its components		page 7, 32

## GRI 201: ECONOMIC PERFORMANCE

201-1	Direct economic value generated and distributed		page 37
201-3	Defined benefit plan obligations and other retirement plans	Payments to the State Social Protection Fund (SSPF) by ACSC 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, ACSC 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 58
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## GRI 203: INDIRECT ECONOMIC IMPACTS

203-1	Infrastructure investments and services supported		page 41
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## GRI 204: PROCUREMENT PRACTISES

204-1	Proportion of spending on local suppliers		page 35
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## GRI 205: ANTI-CORRUPTION

205-1	Operations assessed for risks related to corruption	No corruption cases were detected during the reporting period.	page 49
205-2	Communication and training about anti-corruption policies and procedures		page 49
205-3	Confirmed incidents of corruption and actions taken	No corruption cases were detected during the reporting period.	page 49

## GRI 206: ANTI-COMPETITIVE BEHAVIOR

206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	ACSC is a 100% state-owned company, and it is impossible to have any unhealthy competition, non-confidence, or monopoly cases.	page 48-49
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STANDARD AND DISCLOSURES (INDICATORS)	NOTE	PAGE
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**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.	page 72-73
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 72-73
302-3	Energy intensity		page 73
302-4	Reduction of energy consumption		page 72

**GRI 303: WATER**

303-1	Water withdrawal by source		page 71-72
303-2	Water sources significantly affected by withdrawal of water	There were no cases of water sources being affected during the reporting period.	page 71-72
303-3	Water recycled and reused	There was no use of recycled water during the reporting period.	page 71-72

**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.	
304-3	Habitats protected or restored	During the reporting period a new park was built by the Company in Baku. More than 200 different new trees, flowers and decorative bushes were planted in the park.	page 64
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 74
305-2	Energy indirect (Scope 2) GHG emissions		page 74
305-4	GHG emissions intensity		page 74
305-5	Reduction of GHG emissions		page 73-74
305-7	Nitrogen oxides (NO <sub>x</sub> ), sulfur oxides (SO <sub>x</sub> ), and other significant air emissions		page 74

STANDARD AND DISCLOSURES (INDICATORS)	NOTE	PAGE
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### GRI 306: EFFLUENTS AND WASTE

306-1	Water discharge by quality and destination		page 72
306-2	Waste by type and disposal method		page 71
306-3	Significant spills		page 74-75
306-4	Transport of hazardous waste		page 71
306-5	Water bodies affected by water discharges and/or runoff	No relevant cases have occurred during the reporting period.	page 71-72

### GRI 307: ENVIRONMENTAL COMPLIANCE

307-1	Non-compliance with environmental laws and regulations	No relevant cases have occurred during the reporting period.	page 70-75
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### GRI 308: SUPPLIER ENVIRONMENTAL ASSESSMENT

308-2	Negative environmental impacts in the supply chain and actions taken		page 35
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### GRI 401: EMPLOYMENT

401-1	New employee hires and employee turnover		page 51
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.	page 54

### GRI 402: LABOR/MANAGEMENT RELATIONS

402-1	Minimum notice periods regarding operational changes		page 53
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### 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 67-69
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.	page 67-69
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.	page 53

### GRI 404: TRAINING AND EDUCATION

404-2	Programs for upgrading employee skills and transition assistance programs		page 52-53
404-3	Percentage of employees receiving regular performance and career development reviews		page 52-53

STANDARD AND DISCLOSURES (INDICATORS)	NOTE	PAGE
<b>GRI 405: DIVERSITY AND EQUAL OPPORTUNITY</b>		
405-1 Diversity of governance bodies and employees		page 54-58
<b>GRI 406: NON-DISCRIMINATION</b>		
406-1 Incidents of discrimination and corrective actions taken	No relevant cases have occurred during the reporting period.	page 54
<b>GRI 407: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING</b>		
407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	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.	page 35, 53
<b>GRI 408: CHILD LABOR</b>		
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.	page 59
<b>GRI 409: FORCED OR COMPULSORY LABOR</b>		
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.	page 59
<b>GRI 410: SECURITY PRACTICES</b>		
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.	
<b>GRI 411: RIGHTS OF INDIGENOUS PEOPLES</b>		
411-1 Incidents of violations involving rights of indigenous peoples	No relevant cases have occurred during the reporting period.	page 54, 59
<b>GRI 412: HUMAN RIGHTS ASSESSMENT</b>		
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 59
412-2 Employee training on human rights policies or procedures		page 59
<b>GRI 413: LOCAL COMMUNITIES</b>		
413-2 Operations with significant actual and potential negative impacts on local communities	No relevant cases have been detected during the reporting period.	

STANDARD AND DISCLOSURES (INDICATORS)	NOTE	PAGE
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#### 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.	page 35
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#### GRI 415: PUBLIC POLICY

415-1	Political contributions	During the reporting period, the Company had no political payment.	
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#### 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. At the same time, the Company constantly controls emissions and takes measures to reduce them.	page 67-69, 71-75
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.	
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#### 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.	
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## Independent Assurance Report on the Sustainability Report for 2016 and 2017

### 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 2016 and 2017 (hereinafter the Report) of the Company except for 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 the GRI Standards and the Company’s sustainability reporting principles. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation of a 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, 2016 and December 31, 2017;
- the Report is consistent with the principles and the 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 2016 and 2017,
- Identification of sustainability issues material for 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 investment and procurement expenditures for key indicators as well as data collection processes to assess whether these data have been collected, prepared, collated and reported appropriately at the central office level,
- Site visits to the Company’s subsidiaries such as “Zigh” Ship Repair and Construction Yard, Caspian Sea Oil Fleet and Sea Transportation Fleet for gathering evidence to support the assertions on the Company’s sustainability policies, activities, events, and performance made in the Report,
- Collection on a sample basis of evidence substantiating the qualitative and quantitative information included in the Report at the central office level,
- 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.

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, 2016 and December 31, 2017 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 10, 2018**





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