



SUSTAINABILITY
REPORT
2020-2021





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“The Fleet of Caspian Shipping Company is a large wealth of Azerbaijan. It is doing important works and will continue to do so. It is gratifying that the activities in this sphere are progressing in a positive direction.”

Heydar Aliyev

National Leader of Azerbaijan



“The Caspian Shipping Company has a great history and traditions among state companies. Our shipping business has always played an important role in the Caspian Sea, and today we will strengthen our economic potential by developing a modern company. Alongside this, the Caspian Shipping Company will present itself as a world scale modern, efficiently managed and transparent company.”

Ilham Aliyev

President of the Republic of Azerbaijan



With deep respect and gratitude
we commemorate all our Martyrs
who gave their lives for the
territorial integrity and
independence of Azerbaijan.

May their souls rest in peace!

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INTRODUCTION





FOREWORD

Dear Reader!

We are pleased to present to you the fourth Sustainability Report of Azerbaijan Caspian Shipping CJSC covering the years 2020-2021. This reporting period was marked by historical events of global and regional significance, as well as important achievements in a number of areas.

Being considered as the biggest global challenge of the time, the COVID-19 pandemic and economic hardships emerging as the consequences thereof, including the recession in global trade volume, the oil price slump, and the slowdown in global economic growth have brought certain difficulties to the shipping industry as well as to other business segments related to the maritime industry. However, as a result of the successful measures and timely decisions made by the country's leadership, the effects of the pandemic were kept under control in our country. As a consequence of the works performed, ASCO managed to ensure the continuity of cargo transportation and specialized offshore services provided to the oil and gas industry during this period, successfully delivered on the established goals and targets, and achieved positive economic and operational results.

The most important event during the reporting period was, of course, the ending of the 30-year Armenian occupation of Azerbaijani lands and the restoration of the territorial integrity of our country

by the Mighty Azerbaijani Army headed by President Ilham Aliyev, the Commander-in-Chief of the Armed Forces of the Republic of Azerbaijan. Dozens of our seafarers also took part in achieving this historic victory in liberating our lands from occupation, and many were awarded with medals for their valour and bravery in combats. All ASCO personnel put their best efforts to support restoring the territorial integrity of our country by demonstrating determination and will, unity and solidarity.

Significant events also took place in the activities of ASCO during 2020-2021. According to the relevant Order of the President of Azerbaijan Republic, the Azerbaijan Investment Holding was established, the Supervisory Board of the Company was formed and the corporate governance structure of ASCO was enhanced. The first Ro-Pax/Ferry ship named "Azerbaijan" and oil tanker named "Kalbajar" built at the Baku Shipyard were launched in 2021 with the aim of renewing the fleet of the Company. Apart from that, ASCO's fleet operating outside the Caspian Sea was also expanded. Having considered the work done by ASCO during the recent years in achieving strategic goals, as well as recent challenges at the global level, work is underway to update the Company's strategy for 2022-2030.

I am bringing this report to your attention and invite you to get familiar in the relevant sections of the report, with the respective measures

taken and results achieved by ASCO in ensuring sustainable development, including corporate social responsibility, human capital development, environmental protection, health and safety and other spheres.

Respectfully,

Rauf Valiyev

Chairman of the Management Board
of Azerbaijan Caspian Shipping CJSC

EXECUTIVE SUMMARY

An infographic summary of the core results achieved in the following areas during the reporting period is presented on the next page. More detailed and extensive information on the work done in these areas is provided in the relevant sections of the report.

KEY FINANCIAL AND OPERATING RESULTS

Azerbaijan Caspian Shipping CJSC (hereinafter to be referred to as “ASCO” or “Company”) has been ending each year with a positive net profit, including the reporting period covering 2020-2021. Furthermore, positive results were also achieved in other economic indicators, such as profitability rate, EBITDA margin, level of indebtedness and the capitalization of the Company.

During the reporting period, ASCO applied preferential tariffs for the transportation of certain cargoes to attract new volume of cargo en route through the Caspian Sea. Moreover, to ensure container transportation in the East-West direction across the Caspian Sea, ASCO launched regular feeder (container) lines on the Alyat-Turkmenbashi-Alyat and Alyat-Aktau-Alyat routes in 2021. Also, measures were taken to expand the activities of the Company in the basins outside the Caspian Sea, and the number of ASCO vessels operating in these basins was increased to 14.

Relevant ASCO vessels, which were operating in the field of specialized offshore services for the oil and gas industry, underwent the applicable certifications, started to provide direct services to many foreign oil and gas companies, as well as participated in the oil and gas projects outside the Azerbaijani sector of the Caspian Sea. “Bibiheybat” Ship Repair Yard and “Zygh” Ship Repair and Construction Yard, which are within ASCO’s corporate structure, continued to provide ship repair services to other shipping companies operating in the Caspian Sea, along with ASCO’s fleets.

In addition, “Azerbaijan” Ro-Pax / Ferry vessel and “Kalbajar” tanker built at the Baku Shipyard were launched in 2021 with the purpose of renewing the fleet of the Company. Thus, the number of new ships commissioned by ASCO reached 24. At the same time, the construction of the second Ro-Pax / Ferry ship and 2 tankers at Baku Shipyard, as well as 6 small tankers at ASCO’s Zygh Ship Repair and Construction yard was continued.

As part of the measures taken to improve the quality of education at the Azerbaijan State Maritime Academy, the “Electronic Academy” system was launched and a 5-year Framework Agreement on cooperation was concluded with the State University of Maritime and River Fleet (St. Petersburg) after Admiral S. O. Makarov in 2021. In general, during the reporting period, the minimum admission score to ASMA increased and the number of students admitted to the Academy with a higher score grew.



CORPORATE GOVERNANCE SYSTEM

The Company's corporate governance system also saw a significant enhancement during the reporting period. Azerbaijan Investment Holding (AIH) was established by the relevant Order of the President of the Republic of Azerbaijan, the exercise of powers of the General Meeting of ASCO was distributed between the President of the Republic of Azerbaijan and AIH, and the Supervisory Board of ASCO was formed. Additionally, the Committees on relevant areas were set up under the Supervisory Board.

In 2020, ASCO, together with the leading international consulting company McKinsey & Company, developed a strategy for its expansion in the basins outside the Caspian Sea until 2030, and updating the Unified Strategy of the Company for 2022-2030 started in 2021.

In 2021, the Anti-Bribery Policy was developed and approved by the Company, and the process of obtaining a certificate of compliance with the ISO 37001 International Anti-Bribery Management Standard commenced. To improve and automate the remuneration process, the software tracking and calculating the Key Performance Indicators (KPIs) through an electronic system was rolled out at ASCO. Mapping of key business processes, the design of "Matrix of Risks and Control Mechanisms" was completed, internal audit and internal control functions were implemented according to the plan during the reporting period.

HUMAN RESOURCES

In accordance with the rules of the special quarantine regime implemented due to the global pandemic, the "remote work" principle was introduced in all ASCO structures and



organizations and distant learning was applied to all subjects taught at the Azerbaijan State Maritime Academy, as well as to training courses conducted at the Training Centre. During the reporting period, the employees took part in the training sessions on the following topics: corporate governance, principles of international management systems, developing leadership and management qualities, internal audit, data, safety, etc.

Also, the aggregated work hours logging methodology was implemented at the ASCO vessels and the “Rules on aggregated logging of special work hours of Crew Members” were approved with the objective of improving the tracking and logging of working hours of seafarer personnel.

ASCO remained committed to protecting human rights, ensuring gender equality and a healthy working environment that provides

equal opportunities for everyone without discrimination. Neither any incident occurred, nor any complaint recorded at ASCO in this area during the reporting period. Alongside this, an increase of 42% was recorded in the number of female employees in managerial positions in 2021.

SOCIAL ACTIVITIES

During the reporting period covering the years 2020-2021, within the framework of corporate social responsibility, ASCO continued to provide financial assistance to people who have lost their ability to work, children under ASCO's guardianship, other citizens in need of support, as well as martyr families, participants of and people wounded during the battles for the territorial integrity and independence of Azerbaijan, including a 44-day Patriotic War. Moreover, every year on national holidays

ASCO provides food support to the families of former refugees and IDPs.

In 2021, the newly built head office building of ASCO was commissioned to improve the working conditions of the staff. In order to increase personnel's interest in a healthy lifestyle and sports, during the reporting period, competitions in various sports were organized between the structural units of ASCO and a sports ground was built in the territory of "Bibiheybat" Ship Repair Yard. In general, to contribute to the development of sports in the country, ASCO continued to sponsor the Sabail Professional Football Club, the Equestrian Federation of the Republic of Azerbaijan and the Azerbaijan Sailing Federation.

Within the framework of social projects implemented by ASCO, "Surakhani" ship-museum - the first ship-museum in the Caspian region and the first-ever tanker-museum in the world was commenced, a monument was raised in memory of Azerbaijani sailors, and "Each and Every One is a Hero" - the book dedicated to seafarers who participated in the Second Karabakh War was published in 2021. Besides that, the construction of residential accommodation for seafarers who had been on the housing waiting list for many years and those in need of improving their housing conditions was continued.

QUALITY, HEALTH, SAFETY AND ENVIRONMENTAL PROTECTION

ASCO attaches great importance to the safe performance of work, preventing accidents and any harm to the environment and employees in all activity areas. As a result of the measures taken in this sphere, there was no occupational fatality and no serious environmental violation at ASCO during the reporting period.

Considering COVID-19 pandemic situation, to



secure the health of employees, in addition to the implementation of the "work-from-home" principle, rotation of employees involved in offline work due to the production needs, regular PCR testing of these employees and sailing personnel, as well as continuous disinfection of workplaces were ensured. To coordinate this work, dedicated headquarters were established, a 24-hour "Hotline" was set up to respond promptly to questions and inquiries about the disease, and an Action Plan was developed to ensure safe exit from the pandemic period. Overall, 14,127 test samples were taken in 2020 and 27,081 in 2021, while 2,089,401 AZN and 1,477,119 AZN were spent on disinfection works in 2020 and 2021, respectfully.

As a result of the work to reduce the adverse impact on the environment, a decreasing trend was observed in the volume of direct emissions from the activities of ASCO. At the same time, the Company managed to decrease its drinking water use and fuel consumption.

OVERVIEW OF 2020-2021

ASCO's key business lines:



Cargo transportation



Specialized offshore services for the oil and gas industry



Ship repair and construction



Training and education

ASCO's supporting business lines:

- Logistics services
- Dry cargo port services
- Agency services

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

- **ISO 9001: 2015** (Quality Management)
- **ISO 14001: 2015** (Environmental Management)
- **ISO 50001: 2011** (Energy Efficiency Management)
- **ISO 45001: 2018** (Occupational Health and Safety Management System)
- **ISM code 2010** (International Safety Management System)
- **SOLAS** (International Convention on Safety of Life at Sea)
- **MARPOL** (Marine Pollution Convention)
- **STCW** (International Convention on Standards of Training, Certification and Watchkeeping for Seafarers)

Operational results:

Cargo transportation	2019	2020	2021
Transportation by tankers, tons	2,156,139	2,078,319	1,898,704
Dry cargo transportations, tons	822,109	844,569	1,042,105
Transportations of railway cars, units	44,159	37,424	30,466
Transportation of trucks (TIRs), units	22,049	31,872	30,893



Days worked by the specialized offshore fleet:

44,792 days in 2019
38,921 days in 2020
37,802 days in 2021

Composition of the Specialized Offshore Fleet



158
vessels

Core fleet

- 20 Crane vessels
- 23 Passenger vessels
- 9 Diving vessels
- 21 Supply tug vessels
- 3 Supply vessels
- 20 Service boats
- 34 Tug boats
- 2 Tug vessels
- 5 Firefighting vessels
- 5 Engineering-geological vessels
- 2 Pipe-laying vessels
- 4 Liquid cargo carriers
- 5 Barges
- 5 Dredgers and its convoy
- 37 Supporting vessels



37
vessels

Supporting fleet

Composition of the Merchant Fleet



51
vessels

- 21 Tankers
- 14 Universal dry cargo vessels
- 13 Ferries
- 1 Ro-Pax vessel
- 2 Ro-Ro vessels



Social sphere

The amount of welfare assistance in 2020:

AZN 207,700

The amount of welfare assistance in 2021:

AZN 258,350



The number of ship repair works carried out by the yards:

932 repair operations in 2019

809 repair operations in 2020

768 repair operations in 2021



Human resources:

Number of personnel in 2020: **8,016**

Number of personnel in 2021: **8,054**



Occupational health and safety:

Expenditures on occupational health and safety increased by **30% compared** to 2020.



Environmental management

Results in 2021, compared to 2019:

Drinking water consumption: **19% savings**

Direct emissions (in CO₂ equivalent): **1.8% decrease**

CO₂ emissions: **0.4% decrease**

SO₂ emissions: **9.3% decrease**

Financial results:

After-tax profits:

AZN 64 million in 2019.
AZN 45 million in 2020.
AZN 52 million in 2021.

Investment:

AZN 97 million in 2019.
AZN 124 million in 2020.
AZN 123 million in 2021.

Increase in capitalization since the establishment of ASCO: 97%

ABOUT ASCO



HISTORY OF ASCO

Azerbaijan Caspian Shipping Closed Joint Stock Company was originally founded in 1858 by the incorporation of the Caucasus and Mercury Joint Stock Company. Our company, with rich history and more than 160 years of experience in the field of shipping, owns the largest permanent merchant fleet in the Caspian Sea and a specialized offshore fleet that provides services to the oil and gas industry.



1962

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



1903

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



1878

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



1866

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

1960

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

1908

Commissioning of the Delo, the first vessel equipped with two reversible engines, in the Caspian Sea

1881

Organization of Baku maritime classes to meet the demand for seafarers



1873

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



1858

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



1949

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



1969-1987

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



2004

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



2014-2021

Renewal of fleets (launch of the 24 new vessels)



2019

Commissioning of the first tanker ("Lachin") built in Azerbaijan

2014

Resumption of activities beyond the Caspian Sea

1997-2010

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

2005-2012

Renewal of the ferry fleet



2003-2011

Tanker fleet renewal



2013

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

2018

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



2021

Commissioning of the first Ro-Pax / Ferry type vessel ("Azerbaijan") built in Azerbaijan



Launch of the first ship museum in the Caspian Sea and the first tanker museum in the world ("Surakhani")



1975-1985

Purchase and construction of new tankers, universal dry cargo ships and ferries for the merchant fleet



OUR VALUES, MISSION AND STRATEGIC GOALS

Slogan:

“Your shortest bridge
between Asia and Europe”



VALUES:

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



MISSION:

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



VISION:

Establishment of a modern, efficient shipping company, ensuring sustainable development and operational safety, expanding international shipping activities outside the Caspian Sea along with supporting government policy in the Caspian Sea.



STRATEGIC GOALS:

Goal 1: Contribute to realization of Azerbaijan's transit potential and support its transformation into a regional transport and logistics hub via meeting the country's demand for vessels in the transit shipment through Azerbaijan.

Goal 2: Meet the demand for specialized shipping services in Azerbaijan's strategic offshore oil and gas projects.

Goal 3: Provide safe, environmentally friendly and quality service.

Goal 4: Continue the work on the establishment of an efficient and sustainably developing modern shipping company.

Goal 5: Continuous development of personnel.

Goal 6: Diversify the geography of activities and lessen the dependence on a single market.





KEY BUSINESS LINES

The key business lines of ASCO include the following areas:



Cargo transportation



Specialized offshore services for the oil and gas industry



Ship repair and construction



Education and training in shipping field

CARGO TRANSPORTATION

The Merchant Fleet is operating within the structure of ASCO which is engaged in the transportation of various types of cargo in the Caspian Sea, as well as outside of Caspian basin - mainly in the Black and Mediterranean basins. The Merchant fleet of ASCO includes tankers, universal dry cargo vessels, ferries, Ro-Ro and Ro-Pax vessels. The composition of the merchant fleet of the Company is reflected in the table below.

Composition of the merchant fleet in 2021, units:

Vessel type	Quantity
Tankers	21
Universal dry cargo vessels	14
Ferries	13
Ro-Pax/Ferry vessels	1
Ro-Ro vessels	2
Total	51

Tanker fleet of ASCO provides transportation of crude oil and oil products from the ports of Kazakhstan and Turkmenistan, as well as from the Russian oil fields in the Caspian Sea to Azerbaijani ports. Concurrently, as part of a strategy to ease the dependence on a single market, the Company has been providing liquid cargo transportation services by tankers in the Black and Mediterranean basins since 2017. At present, ASCO operates 6 tankers outside the Caspian basin and 15 tankers in the Caspian Sea.

Universal dry cargo vessels of the Company carry grain, wheat, barley, corn, bran, timber and wood products, metal products, fertilizers, construction materials, containers, as well as other various types of dry cargo commodities in the Caspian Sea and in basins outside the Caspian Sea. Currently, ASCO operates 7 dry cargo vessels in the Caspian Sea and 7 dry cargo vessels outside the Caspian Sea.



Ferry type vessels (Ferries, Ro-Ro, Ro-Pax/ Ferry vessels) of the ASCO fleet provide linear voyages in the Caspian Sea and ensure the transportation of railway cars, containers, trucks and vehicles, as well as passengers between the ports of Azerbaijan, Kazakhstan and Turkmenistan.

PROVISION OF SPECIALIZED OFFSHORE SERVICES FOR THE OIL AND GAS INDUSTRY

The Caspian Sea Oil Fleet (hereinafter referred to as the Specialized Offshore Fleet) is involved in many strategically important oil and gas projects, especially in the Azerbaijani sector of the Caspian Sea, including the projects, such as “Oil Rocks”, “Nariman Narimanov”, “28th of May”, “Absheron”, “Shah Deniz”, “Bahar-Gum-Deniz”, “Azeri-Chirag-Guneshli”,

“Umid-Babek” and “Karabakh”. It is impossible to execute such oil and gas projects without the use of specialized vessels. The specialized offshore fleet provides full support to the oil and gas production processes, including construction of offshore platforms and marine piers, geological exploration, laying underwater oil and gas pipelines and their maintenance, providing fire protection of offshore oil and gas facilities, delivery of oil workers to their workplaces, and offers complex services related to the exploration and production of mineral resources from the seabed.

At the same time, the specialized offshore fleet includes vessels that meet the internal needs of ASCO fleet and provide services such as port towing, bunkering, internal supply for the vessels of the Company while they call at or leave the ports. The composition of the specialized offshore fleet is presented in the table below.

Composition of the specialized offshore fleet, units:

Vessel type	Quantity
Core fleet	158
Crane vessels	20
Passenger vessels	23
Diving vessels	9
Supply tug vessels	21
Supply vessels	3
Service boats	20
Tug boats	34
Tug vessels	2
Firefighting vessels	5
Engineering-geological ships	5
Pipe-laying vessels	2
Liquid cargo carriers	4
Barges	5
Dredgers and its convoys	5
Supporting fleet	37
Crane vessels	1
Diving vessels	1
Supply vessels	1
Tug boats	1
Port tug boats	6
Liquid cargo carriers	4
Surface cleaner and sewage water collector vessels	8
Service boats	10
Ship repair workshops	3
Floating pile driver	1
Museum-ship	1
Total	195

SHIP REPAIR AND CONSTRUCTION

“Bibiheybat Ship Repair Yard” and “Zygh Ship Repair and Construction Yard”, which operate within the corporate structure of ASCO, carry out high-quality repairs of all types of vessels belonging to ASCO, as well as other shipping companies operating in the Caspian Sea.



The following services are provided at the mentioned yards:

- Performance of overhaul, dock, current and navigational repairs between voyages;
- Construction of small displacement service boats at Zygh yard;
- Installation and commissioning of ship systems and equipment, electrical and radio navigation equipment, engines and devices;
- Diving, underwater engineering and hydro-technical operations;
- Inspection, cleaning and painting of underwater parts of hull, rudders and propellers of ships upon docking;
- Inspection and repair of inflatable lifeboats, hydro-static pressure devices and personal rescue equipment;
- Maintenance and repair of ASV (adaptive support ventilation) type insulating breathing equipment;
- Manufacture of various types of spare parts, special paints and hardware.

Floating docks within Ship Repair Yards:

Name of Ship Repair Yard	Name of Dock	Lifting capacity (tons)
"Zygh" Ship Repair and Construction Yard	Neptun	8,000
	Floating Dock No. 061	6,000
"Bibiheybat" Ship Repair Yard	Dock No. 901	15,000
	Dock No. 351	6,000
	Dock No. 953	5,000
	Dock No. 806	4,500

EDUCATION AND TRAINING IN SHIPPING FIELD

The following entities providing training of seafarers operate under ASCO umbrella:

- Azerbaijan State Marine Academy
- Training and Education Centre
- Azerbaijan Maritime College

With more than 130 years of experience in providing maritime education, the Azerbaijan State Maritime Academy (hereinafter referred to as ASMA or Academy) is operating within the corporate structure of ASCO, which ensures the development of the seafarer profession in Azerbaijan and provides training of highly-qualified local seafarers. ASMA is a member of International Association of Maritime Universities and its diploma is recognized in more than 170 countries around the world. A high-quality education system meeting modern standards at all levels of education (bachelor's, master's and doctoral degrees) has been established at the Academy. At present, the education at ASMA is provided with majors in "Marine navigation engineering", "Engineering of exploitation vessel power systems", "Electrical engineering", "Shipbuilding and ship maintenance engineering". Along with Azerbaijani, the Academy offers education in Russian and English as well.

The Training and Education Centre (TEC) operating under the Academy, ensures further

professional development of specialists working in the maritime industry and their certification in accordance with international conventions and standards. Training courses, taught in Azerbaijani, English and Russian at TEC, were accredited by the Azerbaijan State



Maritime and Port Agency and certified by organizations such as the American Bureau of Shipping (ABS), the Nautical Institute and Bureau Veritas. The Training Centre holds the certificate to conduct DP Induction and DP Simulator trainings on modern dynamic positioning (DP2) simulator, which makes it one of the 95 global centres authorized to conduct such trainings and the only organization delivering these courses in the Caspian region.

Azerbaijan Maritime College (AMC or College) is an educational institution operating within ASMA and offering secondary vocational education. The College trains specialists in maritime navigation, operation of vessel's energetic installations and power supply.

OPERATING ROUTES

With more than 160 years of experience in shipping, ASCO provides cargo transportation services both in the Caspian and outside the Caspian basins. Whereas, specialized offshore services to the oil industry by the Company are provided only in the Caspian Sea.





TRANSPORTATION ROUTES
OF **TANKERS** IN THE
CASPIAN SEA:



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



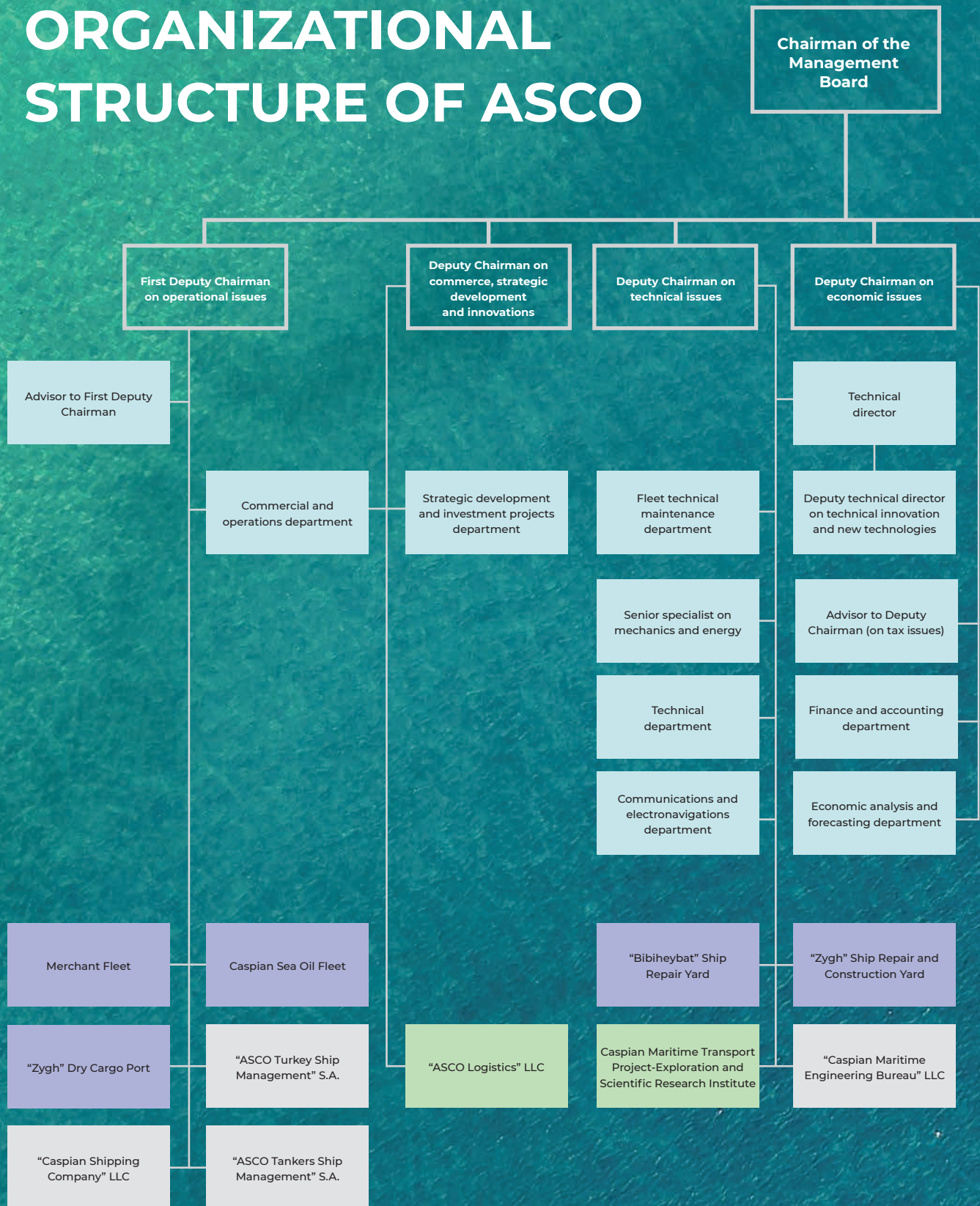
TRANSPORTATION ROUTES
OF **FERRIES, RO-RO AND
RO-PAX/FERRY VESSELS**:



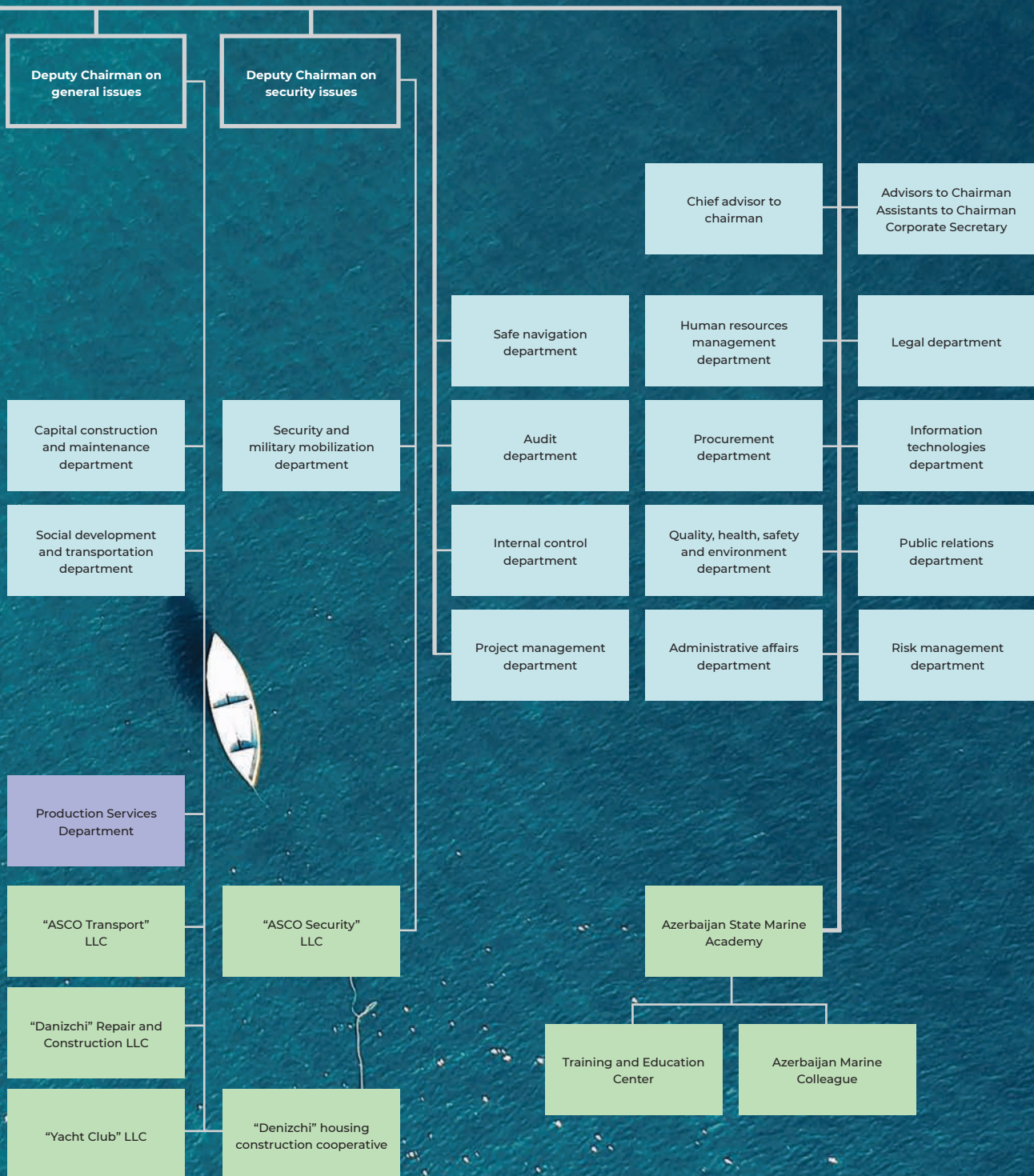
THE MAIN OPERATIONAL
AREA OF THE **SPECIALIZED
OFFSHORE FLEET**:



ORGANIZATIONAL STRUCTURE OF ASCO



- Management
- Department and divisions
- Structural units
- Legal entities
- Foreign subsidiaries



STRUCTURAL UNITS, SUBSIDIARIES AND JOINT VENTURES

ASCO has been paying particular attention to efficient governance, establishment and continuous development of an optimal administration structure that ensures effective management and responsive business decision-making. So far, numerous measures have been implemented to remove non-core structural units, not related to the main business lines of the Company, from ASCO's structure and hand them over to the relevant institutions. As a result, since 2014 housing and communal services, a cultural activities centre of seafarers, "Denizchi" auxiliary agricultural enterprise, as

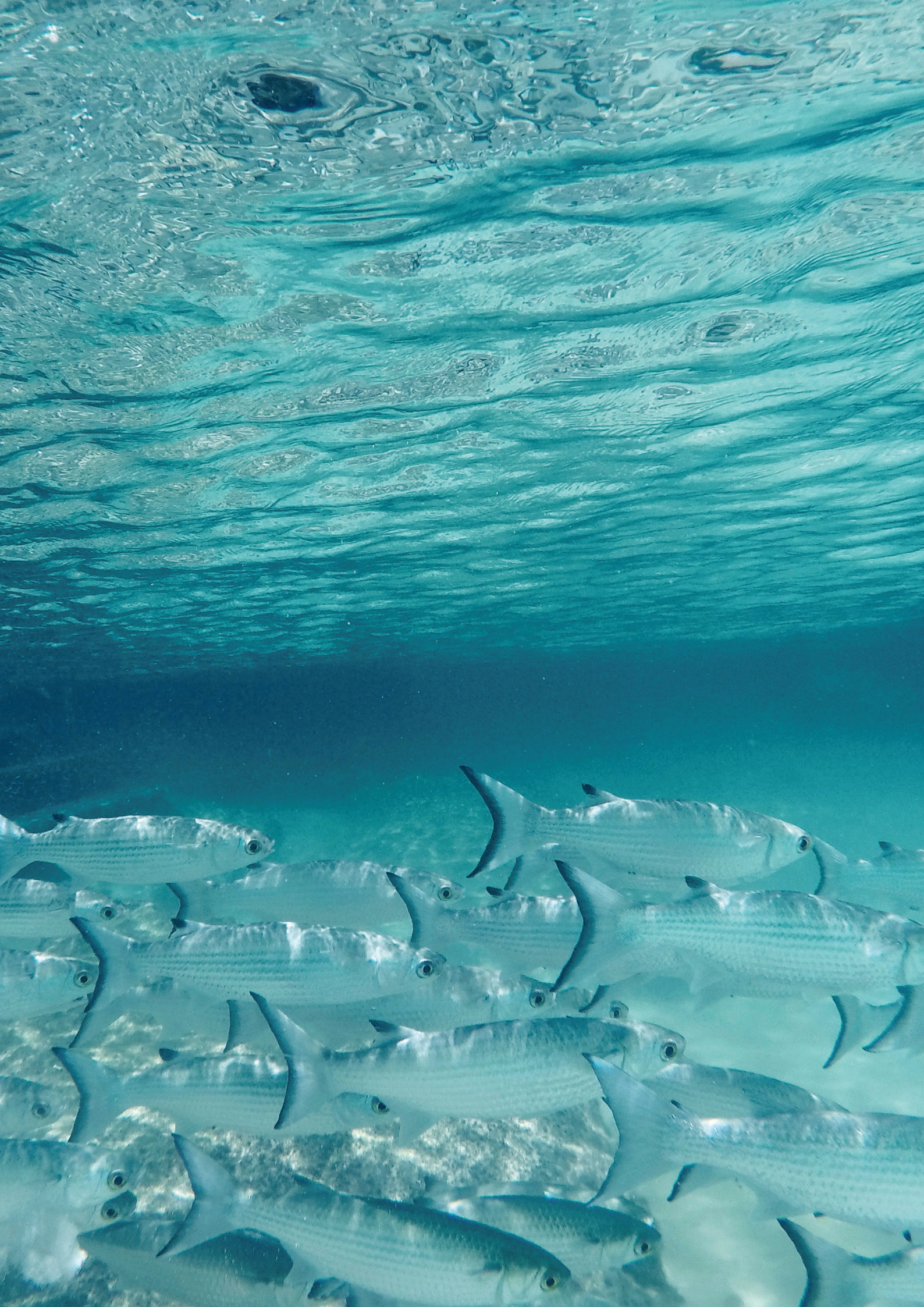
well as lands used for agricultural purposes, the Central Seafarers Hospital, Seamen Polyclinic, "Summer" kindergarten and the boarding house located in Buzovna settlement have been transferred to the relevant authorities. Currently, the process of handing over other non-core areas is underway.

The following table provides detailed information on the structural units operating under ASCO, together with subsidiaries and joint ventures.

Name of the entity	Field of activity / Brief profile	Form of business ownership
Caspian Sea Oil Fleet	Provides specialized offshore services to the oil and gas industry.	Non-legal entity
Merchant Fleet	Provides international cargo and passenger transportation services.	Non-legal entity
"Bibiheybat" Ship Repair Yard	Provides ship repair services to various types of vessels.	Non-legal entity
"Zygh" Ship Repair and Construction Yard	Provides ship repair services to various types of vessels, as well as the construction of small water displacement boats.	Non-legal entity
The Production Services Department	Provides seafarers with production and social services.	Non-legal entity
"Zygh" Dry Cargo Port	Provides port services, including cargo loading and unloading, cargo processing and storage services.	Non-legal entity
Azerbaijan State Marine Academy	The only higher education institution in Azerbaijan, that offers education on shipping specialties.	Higher education institution
Training and Education Centre	Organizes compulsory and additional trainings for seafarers in accordance with the requirements of international conventions.	A department with a status of non-legal entity
Azerbaijan Maritime College	The only secondary vocational education institution in Azerbaijan, that offers education on shipping specialties.	Secondary vocational education institution
ASCO Logistics	Provides door-to-door transportation of various types of cargo by using the optimal route and mode of transport.	Limited Liability Company

Name of the entity	Field of activity / Brief profile	Form of business ownership
ASCO Turkey Ship Management S.A.	These subsidiaries of ASCO that were established in Istanbul, Turkey in 2017, serve to organize the efficient operation of ASCO's dry cargo vessels and tankers operating in the basins beyond the Caspian Sea and to promptly resolve arising issues.	Joint Stock Company established in the Republic of Turkey
ASCO Tankers Ship Management S.A.		Joint Stock Company established in the Republic of Turkey
Azerbaijan Caspian Shipping Limited	This company was established in the Republic of Malta in 2016 and supports the operations of vessels owned by ASCO in the territory of the European Union.	Limited Liability Company established in the Republic of Malta
Caspian Maritime Transport Project-Exploration and Scientific Research Institute	The institute develops design and project estimation documentation for the construction and modernization of vessels and conducts research and development works in the field of shipping.	State enterprise
Denizchi Repair and Construction	Denizchi Repair and Construction LLC provides the construction services for ASCO and is currently constructing residential buildings to improve the housing conditions of employees, who have been on the accommodation waiting list for many years.	Limited Liability Company
Denizchi Housing Construction Cooperative	Denizchi Housing Construction Cooperative manages the process of distribution of apartments to these employees.	Housing Construction Cooperative
ASCO Security	Established in 2018, this subsidiary ensures the safety and security of all entities within the ASCO structure, including ship repair yards, berths, vessels and other important facilities.	Limited Liability Company
ASCO Transport	Manages the maintenance and operation of cars, trucks and special vehicles owned by ASCO from a single centre.	Limited Liability Company
Yacht Club	Provides hotel and catering services to seafarers and ASCO's guests, as well as anchoring of yachts and sailboats alongside the berth.	Limited Liability Company
Caspian Shipping	Established in Astrakhan, Russia, in 2015, it ensures ready access of ASCO-owned vessels to water basins outside the Caspian Sea through the Volga-Don and Volga-Baltic canals.	Limited Liability Company established in the Russian Federation
Caspian Maritime Engineering Bureau	Established in 2016, between ASCO and Odessa Marine Engineering Bureau - the company with a high reputation for their project and designing works in ship-building, this joint venture serves for exchanging experience in ship designing.	Limited Liability Company

SUSTAINABLE DEVELOPMENT



ABOUT THE REPORT

The Sustainable Development Report of Azerbaijan Caspian Shipping Company covering the years of 2020-2021 has been developed encompassing social, environmental and economic aspects in accordance with the “Core” compliance criteria of the Global Reporting Initiative (GRI) reporting standards. The table of disclosures on GRI standards is presented at the end of the report on page 122. The report reflects the work performed by all structural units and subsidiaries of ASCO on the listed aspects during 2020-2021 and in order to compare them with the previous reporting period, data for 2019 is also incorporated for each indicator and table. It should be noted that the indicators regarding electricity, drinking water and gas consumption for 2019

cover only the major consumption facilities, which are the Merchant Fleet, Caspian Sea Oil Fleet, Bibiheybat Ship Repair Yard, Zygh Ship Repair and Construction Yard and Production Services Department. Alongside this, separate sections of the report provide information on the work to be done in the next reporting period in the relevant field.

ASCO’s internal control mechanisms, the process of preparation of the sustainability report, and reviews by independent external auditors assure the accuracy of data presented in the report. This report has been audited by EY, an international audit firm, and the assurance statement of the independent external auditor is presented on page 130 of the report.

ASCO Materiality Matrix:



MATERIALITY MATRIX

While preparing the report, an online survey was conducted by the Company to analyse the opinions of customers, partners, suppliers, ASCO employees, non-governmental organizations, the public/society, media representatives and other stakeholders and to reflect the information of interest to them in the report. The survey was published in Azerbaijani, Russian and English languages on ASCO's official website and posted on Company's official pages on various social networks. Besides, all appropriate indicators related to social, environmental and economic aspects of the 2020-2021 period, were analysed separately, and interviews were conducted with the relevant people in charge at the Company. As a result of the analysis of the conducted interviews and online survey, the information that is material for stakeholders on ASCO's activities was defined, and the "Materiality Matrix" was developed.

Environmental issues

1. Effluents and waste
2. Energy consumption
3. Compliance with environmental laws and regulations
4. Water consumption
5. Climate change
6. Emission
7. Supplier environmental assessment
8. Biodiversity

Economic issues

9. Economic results
10. Markets and regions of operations
11. Anti-corruption
12. Procurement practises
13. Indirect economic impacts
14. Anti-competitive

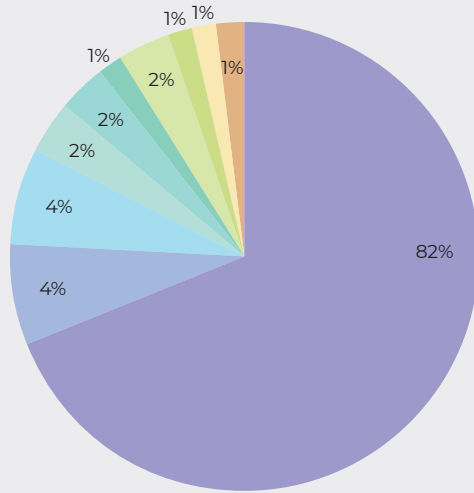
Social issues

15. Relations between employees and the management
16. Training and education
17. Occupational Health and safety
18. Human rights assessment
19. Employment practises
20. Measures against COVID-19
21. Diversity and equal opportunities
22. Public policy
23. Customer safety
24. Freedom of association and collective bargaining
25. Supplier social assessment
26. Child and forced labor
27. Local communities

Organizational issues

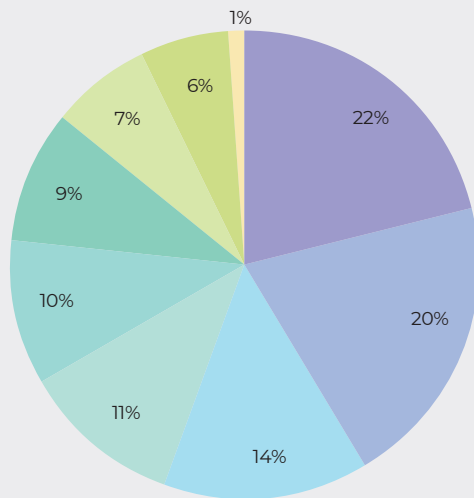
28. Primary services of ASCO
29. ASCO's strategy
30. Corporate governance
31. Risk management
32. Business ethics
33. Changes that occurred in the reporting period and newly adopted documents
34. Supply chain
35. Digitalization and information security

The summary of the results of the online survey are presented below:



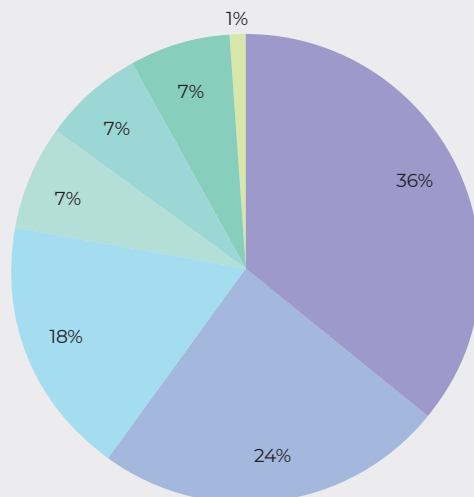
1. Please state which group of stakeholders you relate to.

- Employees of ASCO
- Other shipping companies
- Logistics companies
- Society
- Financial Institutions
- Mass Media
- ASMA students
- International organisations
- Suppliers
- Other



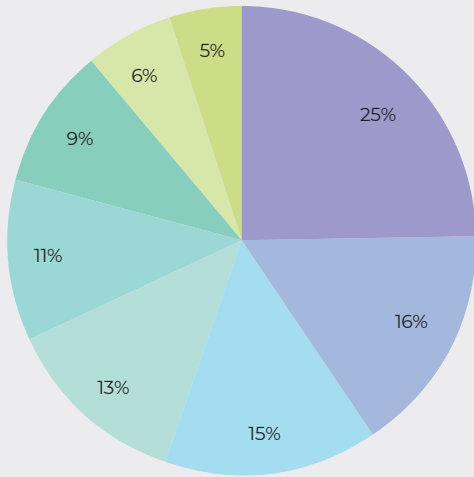
2. Which aspects related to the overall performance of the company are important to you?

- Primary services of ASCO
- ASCO's strategy
- Corporate governance
- Risk management
- Business ethics
- Changes that occurred in the reporting period and newly adopted documents
- Supply chain
- Digitalization and information security
- Other



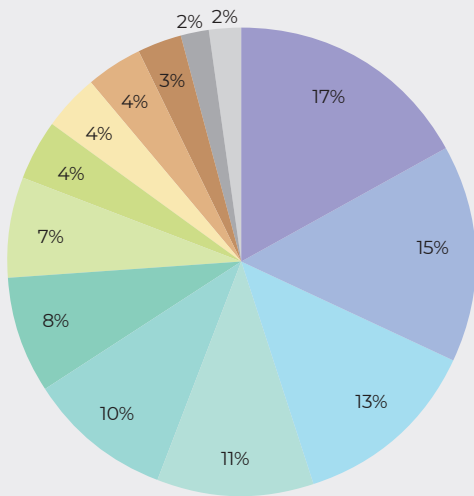
3. Which aspects related to the economic performance of the company are important to you?

- Economic results
- Markets and regions of operations
- Anti-corruption
- Procurement practices
- Indirect economic impacts
- Anti-competitive behavior
- Other



4. Which aspects related to the environmental performance of the company are important to you?

- Compliance with environmental laws and regulations
- Effluents and waste
- Energy consumption
- Water consumption
- Climate change
- Emissions
- Supplier environmental assessment
- Biodiversity



5. Which aspects related to the social performance of the company are important to you?

- Relations between employees and the management
- Training and education
- Occupational health and safety
- Human rights assessment
- Employment practices
- Measures against COVID-19
- Diversity and equal opportunities
- Public policy
- Customer safety
- Freedom of association and collective bargaining
- Supplier social assessment
- Child or forced labor
- Local communities

KEY STAKEHOLDERS AND RELATIONSHIPS WITH THEM

Stakeholders are various economic and social parties, both internal and external, with direct or indirect interest in ASCO, its activities and operational results.

ASCO is a 100% state-owned joint-stock company and one of the main stakeholders of the Company is its sole shareholder - the state of Azerbaijan. ASCO has organized its activities

in accordance with the shareholder's long-term vision and expectations from the Company. The Supervisory Board of ASCO is the body that exercises general supervision over the activities of the Company. Issues of strategic importance for the activities of the Company are discussed and relevant decisions are made at the meetings of the Supervisory Board held on a regular basis, in accordance with the approved schedule. At the same time, ASCO is a portfolio company of the Azerbaijan Investment Holding (AIH) and there is a close communication between AIH and

In general, stakeholders of the Company consist of the following:

- Shareholder
- Supervisory Board
- Azerbaijan Investment Holding
- State authorities
- Employees of ASCO
- Seafarer students
- Customers
- Ports
- Agents
- Brokers
- Logistics companies
- Other shipping companies
- Insurers
- Suppliers
- International organisations
- Regulatory authorities
- Financial institutions
- Society
- Media
- Non-governmental organizations



the Company in the implementation of relevant decisions of the Supervisory Board, coordination of documents and submission of reports. Detailed information on the Supervisory Board of ASCO and Azerbaijan Investment Holding is provided in the “Corporate Governance” section of this report. ASCO also cooperates with other state authorities, both bilaterally and within the framework of intergovernmental commissions and various working groups.

One of the main stakeholders of ASCO are employees of the Company and future seafarers - the students of the Azerbaijan State Maritime Academy. ASCO implements an effective communication system with personnel and students which serves to consider their opinions and feedback, to provide them information about the Company’s activities and important results achieved, and answer the questions raised by them. In this regard, ASCO conducts regular surveys on various topics, holds meetings and corporate events with the participation of the Management Board members of the Company, including open days at ASMA, Youth Day and other similar events.

Considering core field of ASCO’s activities Company’s clients, ports, agents, brokers, other shipping companies, logistics companies and insurers are one of the main stakeholders of the Company. ASCO cooperates with them both within the framework of bilateral business activities, as well as within the framework of international organizations, including Trans-Caspian International Transport Route (Middle Corridor), TRACECA, the “Black Sea - Caspian Sea” route and other institutions. The communication with these stakeholders is maintained regularly through official letters, e-mails, telephone conversations, business meetings and sessions.

Suppliers play an important role in the activities of ASCO, and they are one of the key stakeholders

of the Company. The selection process of suppliers and procurement operations at ASCO are structured in accordance with the applicable legislation of the Republic of Azerbaijan, the internal documents of ASCO, as well as the principles adopted in procurement in the international shipping activities. These processes are supervised at ASCO by a collegial body – the Procurement Committee. According to “Guidelines for the Organization and management of Procurement” of ASCO, all suppliers (vendors and contractors) are subject to the special due diligence process aiming to determine their reliability, financial stability and good business reputation. The suppliers with a positive result based on conducted due diligence are included in the list of potential vendors, and those with a negative result are included in the register of unreliable (risky) counterparties. During the reporting period, 76 such due diligence processes were conducted, and no negative cases were detected. Announcements related to the biddings held by the Company are published on the official website of ASCO with the aim of ensuring transparency in this sphere. As a shipping company with 100% of shares owned by the state, ASCO prefers to purchase local goods, works and services that meet the relevant quality requirements. Thus, the share of local vendors and contractors in the total procurement costs of ASCO constituted 83% in 2020 and 77% in 2021.

ASCO arranges its business activities in accordance with the requirements of local legislation and international conventions and in this regard, cooperates with relevant shipping regulation authorities, including the State Maritime and Port Agency, the International Maritime Organization (IMO), maritime classification societies and various institutions. Audits and inspections are conducted at ASCO by regulatory authorities in accordance with the requirements of the applicable legislation. Moreover, meetings are regularly held at ASCO with local and international



financial institutions, where future plans of the Company and possible cooperation prospects are discussed.

The Public Consultative Council established at ASCO, facilitates effective interaction between the Company and the public, ensures openness and transparency in Company's activities. The composition of the Council is formed by civil society institutions operating in the country, including non-governmental organizations (public associations and funds), mass media representatives, trade unions, citizens' initiative groups, international experts and consultants, as well as ex-seafarers and current employees of ASCO, who were distinguished for their special skills and experience and those who have a good reputation among the staff. The Council organizes meetings to discuss the economic and operational results of ASCO's business operations, provide advice and suggestions, and ensure the participation of the public and personnel in the decision making process of ASCO. In addition, information on the achievements, significant events and the works performed by the Company are publicly announced through official website and official accounts on social media platforms, as well as on other mass media.

INTEGRATION OF SUSTAINABLE DEVELOPMENT INTO BUSINESS

The implementation of sustainable development principles in current activities, their promotion among personnel, customers, suppliers and other stakeholders is in the focus of

the Company and continuous actions are being taken in this direction. The Sustainability Policy, providing a unified approach to sustainability at ASCO, was developed in 2019 and approved by the Management Board of the Company. The Sustainability Policy is reflected in ASCO's Strategy, which is aimed at short, medium and long-term prospects, and is implemented within the framework of this strategy to ensure that sustainable development principles are incorporated into current activities.

SUSTAINABILITY POLICY

The objective of the Policy:

Conducting key business and commercial activities, with ensuring environmental protection, efficient use of limited resources, full integration of sustainable development principles into the overall value chain, implementation of corporate social responsibility, as well as, providing society and shareholder with long-term benefits in accordance with sustainability principles.

Scope of the Policy:

The Company's Sustainable Development Policy covers all structural units of Azerbaijan Caspian Shipping Closed Joint-Stock Company, all types of its commercial and non-commercial activities, as well as relations with all direct and indirect stakeholders, both domestic and foreign.

Our sustainable development goal:

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

Our sustainable development principles:

Sustainable Development Policy of ASCO covers three aspects, including the environmental, social and economic.

Our sustainable development principles in environmental aspect:

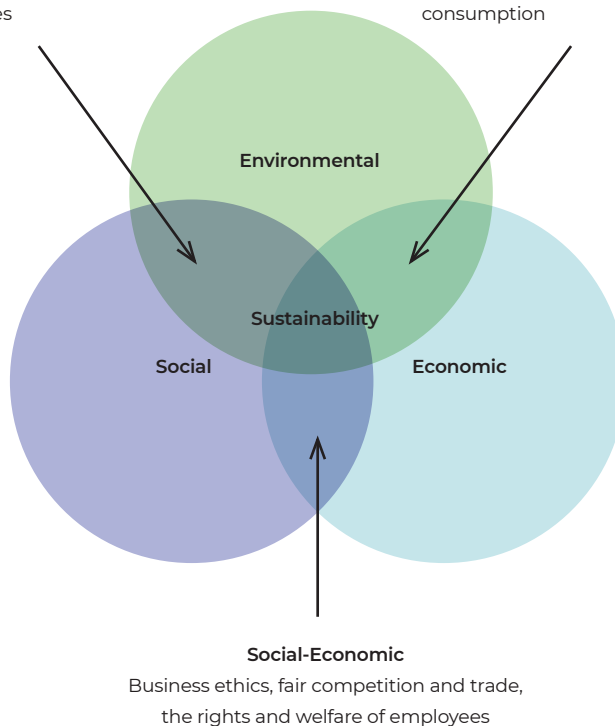
- Environmental protection
- Prevention of accidents
- Effective management of waste and emissions
- Minimizing negative anthropogenic effects on ecosystems
- Preserving biodiversity
- Effective use of clean and drinking water resources
- Saving energy resources
- Organizing activity in accordance with international standards
- Implementation of more environmentally friendly and advanced techniques and technologies by supporting innovations in the field of environmental protection.

Social-Environment

Compliance with the requirements of social and environmental legislation, Responsible use of local and global limited natural resources

Environmental-Economic

Energy efficiency, responsible usage of natural resources, investments, incentive mechanisms to motivate achieving savings in resources' consumption



Social-Economic

Business ethics, fair competition and trade, the rights and welfare of employees

Our sustainable development principles in social aspect:

- Effective management of human resources
- Ensuring health and occupational safety
- Ensuring transparency
- Generating equal opportunities
- Continuous improvement of personnel welfare
- Training and education
- Training personnel who stand ready for modern challenges
- Promotion of the seafarer profession in the country
- Ensuring freedom of speech, free expression of opinion and approach
- Forming an inclusive team
- Adoption of fair decisions
- Ensuring human rights and freedoms
- Business ethics
- Providing welfare assistance to orphans, low-income families, refugees and internally displaced persons, as well as people with disabilities
- Supporting youth
- Supporting various social projects in the country
- Strengthening personnel satisfaction and commitment to the Company.

Our sustainable development principles in economic aspect:

- Creating a long-term economic value for the benefit of shareholders and society
- Establishing a modern shipping company which operates efficiently and ensures sustainable development
- Implementation of the international corporate governance system
- Continuous fleet renewal
- Providing high-quality services
- Ensuring customer satisfaction
- Maintaining the reputation of a reliable partner
- Cost optimization and elimination of overhead costs
- Effective use of revenues
- Effective risk management
- Expansion and diversification of business activities
- Supporting local suppliers, local production and services

ASCO'S COMMITMENT AND CONTRIBUTION TO GLOBAL SUSTAINABLE DEVELOPMENT GOALS

17 Sustainable Development Goals (SDGs) until 2030 were adopted worldwide at the United Nations Summit held on September 25, 2015 and entered into force since January 2016. The Republic of Azerbaijan has also joined the approved Sustainable Development Goals and undertaken relevant commitments. Being the country's largest shipping company operating both within and beyond the Caspian Sea, ASCO covers all SDGs directly or indirectly through its activities and value chain and recognizes its responsibility to achieve the goals set by our state. In this respect, ASCO's activities and Sustainability Policy are aimed at contributing to the achievement of the SDGs.



GOAL 1 AND 2:

Our employees are paid higher than the minimum wage in the country, covering household and necessary expenses. In addition, in accordance with the Company Regulations on Welfare Assistance, we provide financial assistance to our employees and other citizens in need. (for detailed information see page 90-91)



GOAL 3:

We constantly ensure healthy and safe working environment for our employees. All onshore personnel and sailing crews of ASCO undergo regular medical examinations. At the same time, medical insurance is applied to our employees and their family members. (for detailed information see page 102-103)



GOAL 4:

ASCO employees are constantly provided with technical, professional and personal development trainings. Beyond that, the Azerbaijan State Maritime Academy, which operates under corporate structure of ASCO, offers education of highly qualified local seafarers in the country. (for detailed information see page 60-61)

SUSTAINABLE
DEVELOPMENT
GOALS

1 NO
POVERTY



2 ZERO
HUNGER



3 GOOD HEALTH
AND WELL-BEING



4 QUALITY
EDUCATION



5 GENDER
EQUALITY



6 CLEAN WATER
AND SANITATION



7 AFFORDABLE AND
CLEAN ENERGY



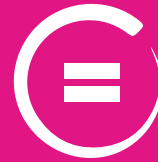
8 DECENT WORK AND
ECONOMIC GROWTH



9 INDUSTRY, INNOVATION
AND INFRASTRUCTURE



10 REDUCED
INEQUALITIES



11 SUSTAINABLE CITIES
AND COMMUNITIES



12 RESPONSIBLE
CONSUMPTION
AND PRODUCTION



13 CLIMATE
ACTION



14 LIFE
BELOW WATER



15 LIFE
ON LAND

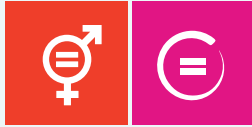


16 PEACE, JUSTICE
AND STRONG
INSTITUTION



17 PARTNERSHIP
FOR THE GOALS





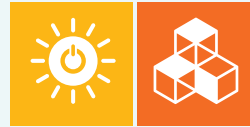
GOAL 5 AND 10:

Both men and women are employed at the Company. Equal opportunities have been provided for all employees to strengthen their professional level and achieve career development regardless of their gender, race, religion or affiliations. Employees are paid only in accordance with their position, rank and the results of their performance without being exposed into any kind of discrimination. At the same time, relevant requirements of the European Convention on Human Rights and the respective legislation of the Republic of Azerbaijan have been implemented in the Company. (for detailed information see page 71, 83)



GOAL 6:

Protection of drinking water sources is a global issue and drinking water sources are limited in Azerbaijan as well. For this reason, we use drinking water sources efficiently and constantly monitor the consumption and quality of drinking water on our shore facilities and vessels. We pay close attention to the prevention of any adverse effects of our activities on water bodies. (for detailed information see page 114)



GOAL 7 AND 9:

The Scientific-Technical Council established at ASCO, the Specialist on Innovations, as well as the Laboratory of Innovations established at Azerbaijan State Maritime Academy, are regularly studying various novelties, innovations, and international experience in the shipping industry, including the opportunities to use clean and renewable energy sources. Preference is given to energy-efficient ship projects, equipped with more modern equipment and optimal operation options. (for detailed information see page 120)



GOAL 8:

We continuously assess the working conditions and safety of workplaces for our personnel and the requirements of ISO 45001 standard are implemented in this respect. (for detailed information see page 102) Since its establishment, ASCO has been completing each year with profit, and is constantly performing works to ensure the sustainable economic growth of the Company (for detailed information see page 55)



GOAL 11:

Although ASCO does not have a direct influence on this SDG, the Company indirectly contributes to this SDG by means of its activities, jobs and value created within its operational geography



GOAL 12:

We are committed to efficient and responsible use of material, natural, human, financial and other resources, both in the production and consumption stages, when providing our services. In this regard, we monitor the provision of optimal levels that will not adversely affect the quality of consumption and production.



GOAL 13:

As evident from page 120, ASCO has managed to maintain minimum volume of emissions during the reporting period and our objective is achieving further progress in this direction.



GOAL 14 AND 15:

Special management system in compliance with the requirements of the relevant international standards and certificates has been established at ASCO, for the protection of sea surface from oil spills, management of liquid and solid waste generated by ships, ballast water treatment and organization of onshore production operations. We thereby strive to prevent any negative technical and anthropogenic impact on marine and terrestrial ecosystems due to our activities. (for detailed information see page 113, 114, 121)



GOAL 16:

The principle of fairness guides relations with employees and decision-making processes at the Company. The Company refuses to cooperate with all parties engaged in any activities violating the principles of international sustainability and business ethics, including use of child or forced labour, corruption, human rights violations and other infringements. (for detailed information see page 71, 74, 75)



GOAL 17:

We believe that all Sustainable Development Goals can be achieved through the joint exchange of experience and knowledge between different companies, organizations and governments. In this regard, ASCO participates in various forms of cooperations with both local and foreign partners. At the same time, the Company participates in exchange of experience by joining conferences, seminars, round tables, and other similar events. In this report, you can find information about ASCO's relationships with various stakeholders.

**KEY FINANCIAL
AND OPERATING
RESULTS**



FINANCIAL RESULTS

ASCO is taking continuous measures such as cost optimization, elimination of excess costs, efficient distribution and use of revenues, the attraction of new cargoes and participating in new projects, etc. to maintain the financial condition with sustainable development dynamics. As a result of the work carried out, during 2014-2021 the Company has been completing each year with profit and achieved positive economic indicators.

During the reporting period, the annual net profit margin of the Company was higher than the minimum target of 10% and amounted to 11% in both 2020 and 2021. Also, EBITDA of the Company was AZN 139 million in 2020, AZN 150 million in 2021, and the EBITDA margin was 33% in both 2020 and 2021. The debt level of ASCO also remained very low compared to

many companies operating internationally, including shipping companies, and the debt to asset ratio in 2020 and 2021 was 2.5% and 1.0%, respectively. Apart from that, since the establishment of ASCO capitalization of the Company has increased by 97% and amounted to 1.1 billion AZN.

The financial reports of the ASCO, prepared in accordance with International Financial Reporting Standards (IFRS), are audited annually by a reputable international audit company and published on the official ASCO website along with the auditor's opinion as per the principles of transparency. Key financial results extracted from the audited financial reports are presented on the next page.



Financial results for 2019-2021 (according to IFRS), thousand AZN:

Indicators	2019	2020	2021
Revenue	479,192	421,049	459,133
Cost of sales	(300,065)	(259,559)	(306,069)
Operating profit	90,821	63,882	68,290
Profit before income tax	89,533	61,202	66,555
Income tax expense	(25,660)	(16,159)	(14,763)
Profit for the year	63,873	45,043	51,792

ASCO constantly makes large investments in the construction and purchase of new vessels intending to ensure the sustainable

development of the Company. The following table provides information on the investments made by ASCO during 2019-2021.

Investments made by the Company during 2019-2021, thousand AZN:

Indicators	2019	2020	2021
Investment	97,030	123,745	123,023
including:			
Acquisition and capital repair of fixed assets	94,740	123,406	121,794
Acquisition of intangible assets	2,290	333	1,229

As the largest shipping company in the country, ASCO pays special attention to timely fulfilment of tax obligations, following the requirements of the legislation. A special working group has been assigned at the Company to effectively organize the work in this respect. At the same time, ASCO closely cooperates with the State Tax Service under the Ministry of Economy of

the Republic of Azerbaijan on issues such as the regulatory tax requirements, implementation of amendments and changes to the applicable legislation, verification of the submitted tax return reports, and tax planning. The table below provides information on taxes paid by ASCO during 2019-2021.

Tax payments by ASCO during 2019-2021, thousand AZN:

Indicators	2019	2020	2021
Profit tax	10,747	5,072	11,581
Property tax	5,319	4,835	5,465
Value-added tax	6,092	4,762	3,538
Staff income tax	6,695	3,924	2,362
Land tax	195	193	216
Other taxes	2,203	460	552
Total:	31,251	19,245	23,714

KEY OPERATING RESULTS

CARGO TRANSPORTATION

ASCO constantly researches freight markets, analyses the competitiveness of freight routes passing through Azerbaijan, the possibility of attracting additional cargo on routes passing through the Caspian Sea and, accordingly, applies discounted tariffs to attract potential new cargo. During the reporting period, discounts were applied to a number of goods transported on Kazakhstan and Turkmenistan directions, including vehicles, oil products, para-xylene, benzene, food products produced in Azerbaijan, refrigerator railcars and other

miscellaneous cargo. At the same time, the discounts that have been applied by ASCO in previous years, for the transportation of containers and various rail cargo in China-Europe direction within the Trans-Caspian International Transport Route, remained in force during the reporting period.

The following tables provide information on the volume of cargo, number of railway cars and trucks transported by vessels owned by ASCO during 2019-2021.



Volume of cargo transported during 2019-2021, tons:

	2019	2020	2021
Tankers	2,156,139	2,078,319	1,898,704
General cargo vessels	822,109	844,569	1,042,105
Ro-Ro vessels	176,629	180,637	19,495
Ferries	2,807,935	2,877,217	2,507,738

Number of railway cars and trucks transported during 2019-2021, units:

	2019	2020	2021
Number of railway cars transported	44,159	37,424	30,466
Number of trucks (TIRs) transported	22,049	31,872	30,893

Closure of borders, decrease in total trade turnover and decline in markets and purchasing power of customers due to the global pandemic also affected freight volumes during the reporting period. However, as a result of the balanced and successful policy in cargo transportation implemented by the country's leadership, there was no significant reduction in the volume of cargo transported through the Azerbaijan via Caspian Sea. In fact, an increase in the volume of containers transported in the direction of Kazakhstan within the framework of the Trans Caspian International Transport Route was observed, while the volume of cargo transported in Turkmenistan direction, such as urea, sulphur and containers grew as well.

At present, there is a tendency for containerization of cargo transported across the Caspian Sea. Consequently, cargo owners gradually prefer some bulk and rail cargoes to be transported by containers. Considering this, in 2021 ASCO launched regular feeder (container) lines on the routes Alat-Turkmenbashi-Alat and Alat-Aktau-Alat to ensure container transportation in the East-West direction across the Caspian Sea.

In accordance with ASCO's strategic goals, to

reduce the dependence of the Company on a single market and diversify its geography of operations, the number of vessels operating outside the Caspian was increased during the reporting period. Thus, additional 4 tankers owned by ASCO were involved in cargo transportation in the basins outside the Caspian Sea and consequently, the number of vessels operating outside the Caspian basins reached 13 during the reporting period.

SPECIALIZED OFFSHORE SERVICES FOR THE OIL AND GAS INDUSTRY

The following table provides information on the number of days of service performed by the vessels of the specialized offshore fleet of ASCO on various oil and gas projects during 2019-2021.

Results of the specialized offshore fleet, days worked:

	2019	2020	2021
Total days worked	44,792	38,921	37,802

During the global oil crisis in 2020, production was reduced in some offshore oil and gas fields within the framework of the country's commitment to reduce oil production within



OPEC and the demand for specialized offshore services decreased accordingly. Nevertheless, having undergone the relevant certifications, ASCO began providing direct services to a number of foreign oil and gas companies within such projects as Absheron, Umid-Babek, Azeri-Chirag-Guneshli and Shah Deniz-2.

In addition, during the reporting period ASCO participated in oil and gas projects outside the

Azerbaijani sector of Caspian Sea. So, ASCO's vessels were involved in the dredging work carried out around the Philanovsky field in the Russian sector of the Caspian Sea.

SHIP REPAIR AND CONSTRUCTION

The following table provides information on the ship repair works carried out during 2019-

Ship repair results, number of repairs:

Type of repair	Bibiheybat Ship Repair Yard			Zygh Ship Repair and Construction Yard		
	2019	2020	2021	2019	2020	2021
Class repair	20	24	18	8	8	7
Dock repair	43	30	35	24	19	18
Annual current repair	9	14	10	22	19	13
Emergency repair	1	3	3	0	0	0
Navigation repair between voyages	169	121	158	604	536	484
Dock service	30	34	21	2	1	1
Total:	272	226	245	660	583	523

2021 at Bibiheybat Ship Repair Yard and Zygh Ship Repair and Construction Yard, which operate in the structure of ASCO.

Along with meeting the ship repair needs of ASCO fleets, the Bibiheybat and Zygh yards also provide ship repair services to other shipping companies operating in the Caspian Sea. So, ship repair and dock services were provided to 41 vessels belonging to the third-party companies in 2020 and 30 vessels in 2021.

In order to optimize the ship repair process, ship repair business processes were analysed, improvements were made to ASCO's "Ship Repair Regulations" and updated Regulations were approved and implemented during the reporting period. Currently, with the implementation of the SAP ERP system's PM (Plant Maintenance) module at the Company, necessary actions are underway to integrate vessels, as well as ship repair processes and relevant reports into the module.

FLEET RENEWAL

To keep the Company fleet at a level that meets modern standards and requirements of cargo owners and leading oil and gas companies, gradual renewal of vessels which completed their useful life and construction of new vessels in accordance with market demand are important strategic goals to which ASCO pays special attention. For this reason, ASCO has developed a "Fleet renewal plan until 2030".

In accordance with the fleet renewal plan, "Azerbaijan" - the first Ro-Pax/Ferry and "Kalbajar" tanker with a carrying capacity of 8,000 tons built at the Baku Shipyard at the request of ASCO were commissioned in 2021. At present, the construction of the second Ro-Pax/Ferry ("Academic Zarifa Aliyeva") and 2 more tankers with a carrying capacity of 8,000 tons are underway at Baku Shipyard. These vessels are expected to be launched in 2022.





At the same time, the construction of 6 small water displacement service boats is underway at ASCO's Zygh Ship Repair and Construction Yard and these boats are planned to be commissioned in 2022.

In total, since 2014, for the purpose of renewal of the fleet 24 new vessels, including 8 dry cargo vessels, 3 tankers and 1 Ro-Pax/Ferry for the merchant fleet and 1 anchor-handling tug supply vessel, 4 platform supply vessels, 3 tug-supply vessels, 1 port tug vessel and 3 passenger vessels for the offshore support fleet were put into operation by ASCO.

TRAINING AND EDUCATION

In response to ongoing works on improving the quality of education, during the reporting period, a minimum admission score to ASMA has increased and a rise in high-scored students that were admitted to the Academy

was observed. Accordingly, during the two academic years within the reporting period, 32 students who scored over 500 points and 2 students who topped over 600 points, opted for the education at ASMA. Besides, international students from Russia, Egypt, and India were admitted to the Academy during these years. By the end of the reporting period, as of December 31, 2021, there were 960 undergraduate and 56 graduate students studying at the Academy.





In 2021, “Electronic Academy” system was launched by ASMA. This system serves for expanding the educational process, simplifying control over curriculum plans, obtaining statistical and analytical reports, and increasing transparency in the testing process by conducting exams in a more efficient and centralized way.

In 2021, a five-year Framework Agreement was concluded between ASCO and Admiral Makarov State University of Maritime and Inland Shipping (St. Petersburg, Russia) with the purpose of joint training of maritime specialists in the fields of shipping, shipbuilding and ship repair, vocational education, and to develop and strengthen the scientific cooperation in this field. The agreement provides for the implementation of scientific exchanges of students, teachers, scientific researchers and other experts, as well as the development of joint academic materials, scientific papers and conducting the research and development

work in the sphere of maritime transportation. At the same time, in 2021 ASMA and the Caspian State University of Technology and Engineering of Kazakhstan named after S. Yesenov signed an agreement on the “Dual Diploma Education”. As per this agreement, students receiving education at the bachelor’s and master’s degrees of both universities, will have an opportunity to receive a diploma from both universities in the relevant specialties by studying full-time in one of these universities while getting distant education at the other. More detailed information on other works done in education field and conducted training courses during the reporting period is provided in the “Human Resource Management” section of the report.

**CORPORATE
GOVERNANCE
SYSTEM**



CORPORATE GOVERNANCE SYSTEM

A corporate governance system in accordance with international practice has been implemented at the Company since the establishment of ASCO. In this regard, transparency and accountability are ensured in the field of shipping, a set of normative documents that are a necessary element of corporate governance have been developed and implemented, including the Code of Corporate Governance, Anti-Bribery Policy, Code of Conduct, Financial Policy, Data Disclosure Policy, Financial and Operational Results Disclosure Policy, Guidelines on Remuneration Based on Annual Performance Results, regulations of departments and divisions, job descriptions of all functions and numerous other collection of relevant documents.

During the reporting period some significant events took place in the Company's corporate governance. By the Order of the President of the Republic of Azerbaijan on 11th of February 2021, the exercise of powers of the General Meeting of ASCO was distributed between the President of the Republic of Azerbaijan and the Azerbaijan Investment Holding and Supervisory Board of ASCO was formed.

In accordance with this Order, within the framework of the General Meeting of ASCO, the re-organization and liquidation of ASCO, appointment and dismissal of chairman and members of the Supervisory Board and the executive body shall be exercised by the President of the Republic of Azerbaijan. Whereas, approval of the Charter of the Company, structure, annual and financial reports, dividend policy of ASCO, determination of the amount of charter capital, distribution of profits and losses, emission of securities, concluding agreements of special importance, as well as any agreements value whereof

exceeds 5% of the Company assets determined as per the opinion of an independent auditor shall be exercised by the Azerbaijan Investment Holding upon agreement with the President of the Republic of Azerbaijan.

Supervisory Board of ASCO exercises such powers as the approval of long-term development strategy, approval of income and expense estimates and control over its execution, approval of policies, internal regulations, as well as regulations of branches and representative offices in certain areas of the Company's activities, approval of any legal transaction the value whereof do not exceed 5% of the Company assets determined as per the opinion of an independent auditor, setting up, approval of regulations, appointment and dismissal of chairmen and members of various committees of the Supervisory Board, consenting to the conclusion of any agreement associated with the transfer or privatization of ASCO assets taking into account the requirements of existing regulations and other relevant powers. During the reporting period the Supervisory Board held 7 meetings where various issues were discussed and relevant decisions were made.

The following committees were established by the ASCO Supervisory Board and their regulations and composition approved:

- Strategy and Investment Committee
- Audit Committee
- Appointment and Remuneration Committee

Alongside this, in line with the principles of international corporate governance, to ensure collegial decision-making in ASCO's activities, the Procurement Committee, the Risk Committee and the Personnel Management Committee operate under the ASCO Management Board. The Supervisory Board appointed a Corporate Secretary, and the Regulations on the Corporate Secretary were



approved to establish regular and effective communication between the Supervisory Board, Azerbaijan Investment Holding and the Management Board of ASCO.

Under the principles of transparency and accountability of corporate governance, ASCO develops its annual financial reports in accordance with International Financial Reporting Standards (IFRS), as well as its bi-annual Sustainability reports. The above-mentioned reports, audited by international audit companies, along with the auditor's opinion are publicly published on the official website of the Company and presented to the relevant stakeholders.

Since 2014, ASCO has made significant strides in obtaining international shipping certificates, and in 2016, the American Bureau of Shipping awarded ASCO, the Azerbaijan State Maritime Academy, and the Training Centre with ISO and ISM certificates of conformity. ABS conducts regular audits to ensure that activities at ASCO are organized in accordance with the

requirements of the provided certificates. In 2020, the Caspian Maritime Transport Project-Exploration and Scientific Research Institute, that operates under the structure of ASCO, was awarded a certificate of conformity to the "ISO 9001: 2015" (Quality Management System) standard by the Bureau Veritas Classification Society. As part of the audits conducted at Training and Education Centre in 2021, two additional new training courses - "Ship mooring and anchoring operations" and "Operations of mooring and unmooring of a ship to the shore or another ship designed for sailors and shore sailors" were certified by ABS.

Given the importance of electronic systems in building an effective corporate governance system, particular attention is paid to the automation of business processes, application of innovative electronic systems and software at the Company. From this perspective, SAP ERP system, that is widely used by companies around the world, and its modules, such as financial accounting, human resource management, material management and



material demand planning, sales, treasury, cost controlling and business intelligence modules have been successfully implemented at the Company. At present, the implementation of the tax accounting and plant maintenance modules of the SAP ERP system is underway. Moreover, ASCO has applied various software and systems in its fleet operation, human resource management, technical exploitation, ship design, administration and other fields.

STRATEGIC MANAGEMENT

Since the establishment of ASCO, short, medium and long-term targets, aimed at the future development directions of the Company, have been identified and a Strategic Development Program has been developed and approved. Later, the Strategic Development Plan of the Company was updated, taking into account the objectives determined by the strategic development directions of ASCO approved by the order of the Cabinet of Ministers of the Republic of Azerbaijan in 2015 and the State Program on

the Development of Shipping in the Republic of Azerbaijan during 2016-2020, approved by the Order of the President of the Republic of Azerbaijan in 2016.

In addition, in 2020, together with McKinsey & Company, the world's leading international consulting company, ASCO jointly developed a strategy for the growth beyond the Caspian Sea until 2030. At the same time, ASCO has developed a "Fleet Renewal Plan until 2030" to replace the vessels that will inevitably be decommissioned from the fleet in the coming years due to the completion of their useful life, as well as to support the implementation of the Company's strategy both in and outside the Caspian basin. In recent years, ASCO arranged its activities to achieve the goals and objectives set by the above-mentioned documents.

The Strategy and Investment Committee under the Supervisory Board of ASCO was established in 2021. By acting in the interests of the Company's shareholder, this Committee assists the Supervisory Board by preparing

recommendations to ASCO's long-term strategy and investment programs, their execution, key performance indicators and their target values, as well as other relevant issues. During the reporting period, one meeting of the Strategy and Investment Committee was held.

Considering the works done since 2014 under the ASCO's Strategy, the goals and objectives achieved, as well as the new challenges facing the world due to COVID-19 pandemic and the global economic situation, currently renewal of ASCO Strategy covering the period of 2022-2030 is ongoing. To this end, ASCO is cooperating with an international consulting firm and the project is expected to be completed in early 2022.

REMUNERATION SYSTEM

Since 2017, an annual performance-based remuneration system in line with international practice was implemented at ASCO, to assess the annual performance of employees in executing the strategic goals, as well as to motivate and encourage them.



During 2020-2021, ASCO's Remuneration System was governed by the requirements of the "Guidelines for evaluating the effectiveness of the activities of legal entities with controlling block of shares owned by the State", "Corporate Governance Guidelines and Standards for the Joint Stock Companies with controlling block of shares owned by the state" and the "Guidelines for Bonus Payments based on the Performance Indicators to members of

Management Bodies of legal entities with controlling block of shares owned by the state", which were approved by Order of the Cabinet of Ministers of the Republic of Azerbaijan No. 257, dated June 4, 2019. Furthermore, "Guidelines on the remuneration based on the results of annual performance" was applied at ASCO, which was developed in accordance with the requirements of the aforementioned Guidelines and international practice.

Within the framework of the remuneration system, balanced Key Performance Indicators (KPIs) were set, aimed at achieving the strategic goals and targets of the Company and the score cards for each KPI were developed, covering their specific weight and target values. In addition, besides KPIs, the remuneration system of the Company also takes into account the results of the annual performance assessments of employees by their immediate supervisors. A Working Group on Remuneration System was set up at ASCO to ensure the regulation and coordination of the remuneration process. At the same time, the Appointment and Remuneration Committee was set up under the Supervisory Board of the Company in 2021. This committee assists the Supervisory Board by preparing recommendations on the issues such as consistent and objective evaluation of the activities of the Supervisory Board, the Management Board and other employees, effective human resources management policy, salary and remuneration system, professional training and development of personnel.

The remuneration system of ASCO serves for the following principles, criteria and objectives:

- To achieve the strategic goals and objectives set by the Company;
- To encourage employees for self-development and self-improvement and to motivate them to be more productive;
- To further increase the commitment and

loyalty of highly qualified and leading personnel to ASCO, and to attract new high-skilled personnel to the Company;

- To ensure the profitability and commercial viability of the ASCO;
- To ensure transparency, fairness and objectiveness in the performance assessment and remuneration.

In 2021, the relevant software was applied to automate the remuneration process at ASCO. This software serves for the automatic calculation of the KPI results and bonus amounts in an electronic system.

INTERNAL AUDIT AND CONTROL SYSTEM

One of the important elements of the corporate governance system is the process of internal audit and internal control. Thereby, to boost efficiency and prevent risks, an internal audit and internal control system were set up at the Company and the Internal Audit Department and the Internal Control Department operate within the ASCO structure.

General control of the internal audit system is exercised by the Audit Committee under the Supervisory Board, which was set up in 2021. The Audit Committee operates within the interests of the Company's shareholder and assists the Supervisory Board by exercising the following powers:

- Developing and implementing the Company's audit policy and strategy, and ensuring audit control;
- Establishing an effective system of audit control over the financial and economic activities of the Company, including the completeness and accuracy of financial reports;
- Performing control over the reliability and effectiveness of the company's internal control and risk management systems, including over the execution of documents and performance

of tasks in the field of corporate governance;

- Performing control over the independence of external and internal audits at the Company, as well as the process of ensuring compliance with the legislation of the Republic of Azerbaijan;
- Analyzing and discussing the external auditor's report with the Management Board and relevant structural units, submitting proposals to the Supervisory Board to develop an action plan to eliminate deficiencies and violations;
- Initiating or conducting any investigation associated with the issues within the remit of the Audit Committee.

Activities of the internal audit function at ASCO are governed in accordance with the "Law of the Republic of Azerbaijan on Internal Audit", "Professional Practice of Internal Audit" developed by the Institute of Internal Auditors, as well as the ASCO's internal documents, which were developed in line with the requirements of the abovementioned documents, such as Internal Audit Policy, 3-year activity Strategy, Methodology, Regulations of the Internal Audit Function and the relevant Guidelines on Internal Audit. During the reporting period, guided by international standards on internal audit, these documents of the Company were upgraded, and the relevant rules and procedures for "Quality Assurance and Development Program" (QAIP) were added.

Internal audit at ASCO ensures the third control function of the "three-tier protection model" and operates mainly within the following two key spheres:

- Assurance (audit) services
- Consulting (recommendation) services

The Internal Audit Department executed 7 assurance and 6 consulting projects in 2020, and 7 assurance and 7 consulting projects in 2021.

The internal control function at ASCO is executed by the Internal Control Department and the Risk Management Department. All major business processes and their sub-processes, process owners have been identified and all business processes have been mapped together with process owners. The Matrix of Risks and Control Mechanisms has been developed by identifying existing risks in business processes and appropriate control mechanisms against those risks. Detailed information on risk management is provided in the next section.

In general, the internal control system at the Company is ensured through the effective organization of 5 main components (control environment, risk assessment, control measures, reporting and communication, monitoring) of the model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO model) which is widely applied in international practice. Within this framework, the compliance of the activities of ASCO, its subsidiaries, departments, branches and representative offices with the

legislation of the Republic of Azerbaijan and the internal documents of ASCO is verified and the operational efficiency of business processes is assessed. In this regard, internal control mechanisms are regularly assessed and the relevant reports are submitted to the Company's management.

RISK MANAGEMENT

The risk management system at ASCO is based on the COSO Enterprise Risk Management methodology. The risk management process at the Company is governed by ASCO's Risk Management Policy, Risk Management Concept, Guidelines on the Risk Management and the Guidelines on the Risk Detection, Assessment and Monitoring. In 2020, these regulatory documents were amended and updated in accordance with the updates and additions to the COSO methodology.

As mentioned in the previous section of the report, the Audit Committee under the Supervisory Board was set up in 2021. The Audit Committee executes a number of functions in





the field of risk management, such as review of the risk register and risk map, critical risk indicators and level of tolerance to key risks, risk service's action plan and quarterly and annual reports on risk management, and the Committee assists the Supervisory Board in this sphere.

At the same time, the Risk Committee and the Working Group on Risk Management, which are collegial bodies, operate within the Company to ensure control and coordination of activities in this field. The Risk Committee performs an evaluation of the works carried out associated with the risk management process, the risk monitoring plan and the preventive measures to be implemented.

According to the Corporate Risk Map of ASCO, the categories of material risks include strategic risks, personnel, inventory and equipment supply, commercial, information technology, security, market, financial and environmental risks. Preventive measures to

mitigate the probability of realization of these risks are identified and recorded in the risk scorecards. Also, in accordance with the Risk Monitoring Plan, the appropriate monitoring actions are taken and appropriate records are made in the "Risk Management Monitoring" and "Realized Risk Monitoring Forms". In total, 192 and 263 inspections were organized in 2020-2021, respectively.

Within the framework of risk management, the Company uses compulsory and voluntary insurances in accordance with the requirements of local legislation and international conventions. In accordance with the "Law of the Republic of Azerbaijan on Mandatory Insurance", ASCO is insured against the following circumstances:

- Compulsory insurance against loss of working ability arising out of occupational accidents and occupational diseases
- Compulsory motor vehicle owners' civil liability insurance

- Compulsory real estate insurance
- Compulsory civil liability insurance related to the use of a real estate
- Compulsory personal accident insurance of passengers

In accordance with the requirements of international conventions, ASCO obtained the types of insurance “On Civil Liability for Bunker Oil Pollution Damage” and “On Civil Liability for Oil Pollution Damage”. In addition, the Company has concluded voluntary insurance agreements, such as “Voluntary Medical Insurance” and “Ship Hull and Machinery Insurance”.

BUSINESS ETHICS AND DISCIPLINARY RULES

The establishment of relationships between employees, as well as with customers, suppliers, and other stakeholders, compliance with business ethics and rules of lawful conduct, prevention of conflicts of interests at ASCO is governed by Code of Conduct and Internal Disciplinary Rules.

The key principles of the Code of Conduct include:

- Application of uniform and accurate ethical norms and values, as well as the principles of professional conduct both within ASCO and in relations with counterparties, including third parties;
- Establishing and maintaining an environment of honesty, integrity, trust and mutual respect at ASCO;
- Ensuring transparency in the business activities of ASCO and maintaining trust in the Company by business associates, suppliers, customers, authorities and other third-parties;
- Prevention of possible damage to the reputation of the Company due to unethical behaviour of employees or their behaviour contravening applicable law.

In order to report complaints on unethical and inappropriate behaviour, a “Hotline” call centre, which is operating 24/7, was integrated in ASCO and electronic appeal section was implemented on the official website of the Company. The “Hotline” call centre serves for ensuring quick and anonymous reporting of circumstances associated with the actions of Company officials and other employees, that are suspected of trespassing the law or ethical rules, reasonable doubts on non-compliance with the ASCO Code of Conduct and the internal anti-bribery documents, as well as other information on possible violations that may relate to material damages or damage to the reputation of the Company or its employees.

Information on the telephone numbers of the “Hotline” call centre is posted at visible places in the administrative buildings and onboard the vessels of the Company, as well as on the official website of ASCO. Additionally, in order to educate and inform employees in the field of business ethics, continuous training courses are conducted and relevant instructions are given to employees of the Company.

It should be noted that the Company received 50 complaints during 2020-2021. These complaints, that were mainly associated with labour relations and social status, were investigated, the explanation notes of relevant persons were collected, while the issues raised in the complaints were settled in accordance with the legislation of the Republic of Azerbaijan and ASCO’s internal regulations. In the event of a minor violation of internal disciplinary rules, appropriate measures such as, giving instructions and issuing a warning are taken by the Human Resources Department and the immediate supervisor of the employee.

The protection of human rights at ASCO is governed by the requirements of the





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Company`s Code of Conduct, the Constitution of the Republic of Azerbaijan and other legislative acts of the country, as well as the international conventions, including the European Convention for the Protection of Human Rights and Fundamental Freedoms. During the course of internal audits conducted at ASCO, human rights violations are also investigated and, if any cases detected, necessary actions are taken to eliminate such violations and re-occurring thereof. At the same time, employees are regularly instructed on the issues associated with human rights. During the reporting period, no violation of human rights was identified, including employees` rights of freedom and personal security, circumstances imposing risks on the right to use collective agreements, violation of rights such as labour, strike and vacation, social security, education, freedom of thought and expression, protection of honour and dignity, citizenship, as well as cases such as slavery, forced labour and child labour, and human rights violations concerning suppliers. At the same time, there were no cases

of non-compliance with local and international laws and regulations in the social and economic spheres during 2020-2021.

ANTI-BRIBERY MEASURES

ASCO has implemented the Instructions on Combating Bribery since 2014, which regulates timely detection, prevention and elimination of bribery offences, determines the basic principles and requirements, as well as the duties and responsibilities of personnel in this field.

The key principles of the Instructions on Combating Bribery are as follows:

- strengthening trust between the employer and the employee;
- prohibition of performance of illegal duties;
- creating conditions that excludes the opportunity of committing bribery offences;
- protection of justice, human and civil rights and freedoms;

- establishing a common understanding among all stakeholders that ASCO does not tolerate corruption in any form;
- mitigating bribery risks associated with ASCO, increasing transparency in operations;
- formation of basic rules and norms of anti-bribery action.

The Anti-Bribery Policy was approved by ASCO in 2021. This Policy serves for establishing an anti-bribery governance system in accordance with ISO 37001 (The Anti-Bribery Management Systems), that identifies the necessary procedures and controls. At present, the relevant classification society monitors the compliance of the anti-bribery management system established at ASCO with ISO 37001 standard, and as a result of the monitoring, it is planned to obtain a certificate of conformity for the Company.

For the purpose of raising awareness in the field of the fight against corruption, Training courses are organized regularly for employees, while as part of the recruitment procedure, newly hired people are instructed and familiarized with ASCO's Instructions on Combating Bribery and Anti-Bribery Policy. In addition, during the internal control inspections conducted by the Company, employees are interviewed on a selective basis, and upon verification of their level of familiarity with the relevant anti-bribery documents of ASCO, while the information on the results are recorded in the audit report. Moreover, all contractors cooperating with the Company are informed about the inadmissibility of bribery at ASCO, and the relevant clauses are included in the agreements. At the same time, information on all possible violations of laws and bribery offences are collected through the "Hotline", which is mentioned in the previous section. During the reporting period, no corruption cases were reported at ASCO.

FUTURE PLANS

During the next reporting period, it is planned to continue to hold meetings of the Supervisory Board and its relevant Committees in accordance with the annual work plan. It is planned to consider and approve ASCO Strategy for 2022-2030, the Dividend Policy, the Budget Forecasting rules, the mechanisms for limiting liability for vessels operating outside the Caspian Sea and other issues.

ASCO also plans to obtain several new international certifications, including ISO 37001 (International Anti-Bribery Management Systems), ISO 31000 (Risk Management Standard) and ISO 37301 (Compliance Management Systems Standard). In addition, it is planned to commence ISO certification processes at Zygh and Bibiheybat ship repair yards. At the same time, updating the credit rating and corporate governance rating of the Company is among the future plans.

As a continuation of the work done in the sphere of process automation and application of electronic systems, the implementation of SAP ERP system's Plant Maintenance (PM) and Tax accounting modules, integration of various current operational and commercial systems into a single platform, implementation of a similar platform for the specialized offshore fleet, improving the digital fleet management room and the launch of various other digital management softwares are planned to be performed during the next reporting period.

Apart from that, it is planned to upgrade internal audit procedures, to develop an ASCO internal control methodology, and to organize trainings for personnel on various related topics.

**HUMAN
RESOURCES
MANAGEMENT**



HUMAN RESOURCES MANAGEMENT POLICY

Strong, professional and competent personnel is crucial for ensuring the sustainable development of the Company. In accordance with the relevant local and international laws, including requirements and principles of international corporate governance, ASCO protects the rights of its employees, focuses on creating healthy working conditions and on their personal and professional development.

The handover of the Seamen Polyclinic, which operated in the structure of ASCO, in 2020, as well as a large number of retired employees led to an increase in the number of discharged employees and a decrease in the total workforce.

The process of human resource management at ASCO is governed by Human Resources Management Policy and Guidelines developed and implemented at the Company in accordance with the requirements of the Labour Code of the Republic of Azerbaijan, as well as international experience in this sphere. The main principles of the Human Resource Management Policy encompass the following aspects:

- Increasing the personnel's loyalty to the Company;
- More efficient use of human resources;

The total workforce for 2019-2020, as well as the number of newly hired and discharged employees, is provided in the following table:

Indicator	2019	2020	2021
Workforce, people	8,442	8,016	8,054
Number of employees hired	284	167	380
Number of employees discharged	538	593	342





- Ensuring transparency in the process of human resource management;
- Monitoring the career development of key young employees;
- Objective assessment of service performance;
- Ensuring equal opportunities and healthy working conditions for all employees.

The issues, such as transparency-based vacancy management, recruitment campaigning, the appointment of successful applicants to the relevant positions, management of the Reserve Personnel Pool (RPP), internal re-allocation of personnel, the change (increase) in an employee salary, the personnel performance evaluation and organization of production practice are governed by the Guidelines on Human Resources Management. The implementation of the Guidelines on Human Resource Management is supervised by the Personnel Management Committee, a collegial body within the Company.

The process of recruitment and management of vacancies at ASCO consists of several stages as per the Guidelines stated above. When a vacancy arises, an announcement is made both internally and externally by posting on the official website of ASCO. The applicants are assessed in two stages: test exam or test assignment and interview. The results of the assessment are discussed in the Personnel Management Committee, a relevant decision

is made and formalized with protocol. When the number of successful candidates exceeds the number of vacancies, these candidates are included in the Reserve Personnel Pool and invited directly to the interview stage if new vacancy in a similar position becomes available.

To test candidates' theoretical knowledge during the recruitment and internal transfer processes, an electronic testing platform has been implemented since 2017. This platform allows to assess the candidate's knowledge through multiple tests and open-ended questions. Candidates receive an email invitation with a personal username and password to take an online exam in the testing e-platform.

To ensure that the newly recruited employees of ASCO adapt to the new workplace and the corporate environment of the Company, the relevant induction works are carried out within the recruitment process. In this regard, the newly hired employees are provided with the instructions about the Company's internal disciplinary rules, the Company's Code of Conduct, Instructions on Combating Bribery, "Hotline" call centre, as well as the dress code, QHSE rules, bookkeeping rules, structure of the Company and information on the organization of effective mutual cooperation with other departments.

To enhance the system of tracking and logging of work hours and wages, the aggregated work hours logging mode was implemented on ASCO's vessels and the "Rules on aggregated logging of special work hours of crew members" were approved during the reporting period. The Rules serve for the formation of a full-time crews, the allocation of work and rest time of the seafarer personnel according to the approved schedule and the calculation of monthly salaries of the seafarers in accordance with the schedule. These Rules were implemented at the Merchant Fleet since 2020 and at the Caspian Sea Oil Fleet since 2021.

One of the important innovations in the field of human resource management during the reporting period was the establishment of the Appointment and Remuneration Committee under the Supervisory Board of ASCO. The Committee considers issues such as ensuring effective personnel policy, implementation of salary and remuneration system, social support of personnel and their professional training and development at ASCO, in accordance with the Regulation of the Committee.

TRAINING AND EDUCATION

To achieve one of the strategic targets of ASCO - establishing an efficiently operating and sustainable modern shipping company – professional and competent personnel, who is aware of constantly evolving equipment and technologies and with knowledge and skills based on the requirements of international standards is required. In this respect, particular attention is paid to the organization of various training courses and seminars for the employees, including executives of the Company on the requirements of international standards, modern management principles, modern equipment and innovative technologies used in the field of the shipping industry. In this regard, ASCO closely cooperates with a number of local and international organizations, including

the Baltic and International Maritime Council (BIMCO), The Nautical Institute, as well as business academies of well-known international companies, such as EY, Deloitte and PwC.



The total duration of training courses conducted for various categories of personnel, days

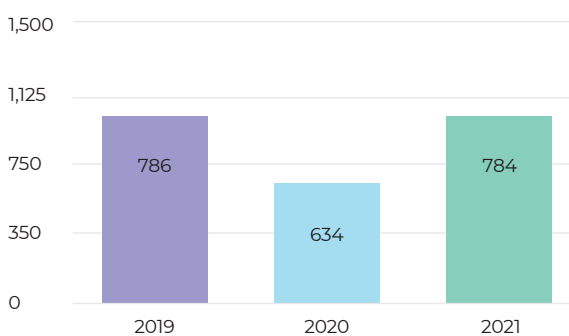
Categories of personnel	2019	2020	2021
Onshore personnel:	6,682	312	1,088
Managers	266	20	92
Specialists	1,261	210	774
Technical staff and workers	5,155	82	222
Sailing personnel:	22,830	14,758	25,184
Officers	16,154	10,995	17,354
Regular ranks	6,676	3,763	7,830

Training courses on the following topics were held in 2020-2021: "Business Ethics and Effective Communication" training by "Develor" International Training Company, ISO 45001:2018 "Internal Auditor Training" course for managers and specialists by "Bureau Veritas", training courses on the formation of leadership and management qualities for younger staff, international training on the principles of the management system, etc. In 2021, relevant employees of ASCO participated in the training courses on "ISO/IEC 27001:2013 "Requirements on Information Security Management System" and ISO 17025:2017 "General requirements on the competence of testing and calibration laboratories" organized by Azerbaijan Standardization Institute and the relevant certificates were presented to the

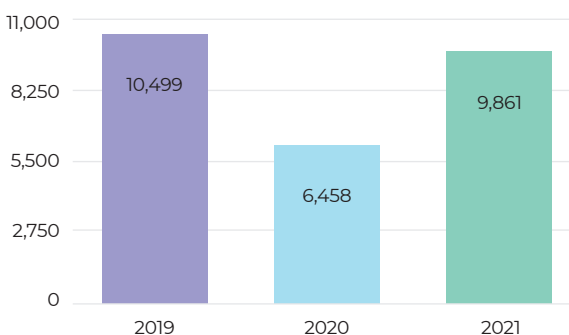
employees who demonstrated positive results in the test exam held at the end of the training. Overall, training days per employee ratio at ASCO constituted 1.9 days per person in 2020, and 3.3 days per person in 2021.

In line with the strict quarantine regime applied due to the coronavirus pandemic since 2020, training courses on professional development and personal development at the Company, including the theoretical part of the “Safety Induction, Initial Training and Instruction for All Seafarers” course in accordance with the requirements of the International Convention on Standards of Training, Certification and Watchkeeping (STCW) conducted by the Training and Education Centre of ASCO were organized online. These trainings were conducted in accordance with the requirements of the International Maritime Organization and approved by the State Maritime and Port Agency.

Number of training courses held by Training Centre



Number of participants at the training courses held by Training Centre



The decrease in the number of training courses held in 2020 and the number of participants at the training courses was due to the lockdown associated with the COVID-19 pandemic, and as a result of the extension of the validity period of some certificates of Azerbaijani sailors it was not necessary to conduct certain training courses to renew the force of certificates. During the reporting period in accordance with the rules of the quarantine regime applied in the country the number of participants per training in face-to-face training courses held at the Training and Education Centre was reduced to ensure social distancing.

Azerbaijan State Maritime Academy stands at the core of the training of young seafarers for ASCO. During the reporting period, various activities were carried out to encourage ASMA students. As a result, top-scoring 71 bachelors and 4 masters students, distinguished by their academic results and discipline, were awarded special ASCO scholarships. In addition, students got an opportunity to apply their theoretical knowledge in practice, get familiarized with the vessels and on-board equipment. As such, students of ASMA pass internships at ASCO's vessels and structural units, including the Merchant Fleet and the Caspian Sea Oil Fleet, Bibiheybat Ship Repair Yard and Zygh Ship Repair and Construction Yard. Moreover, “Sabit Orujov”, a passenger vessel owned by the Company, was assigned to ASMA to arrange theoretical and practical classes for students during the educational process. In addition, students achieving and demonstrating higher academic results are enrolled on the on-board internship on the Company's vessels operating outside the Caspian Sea - in the Black and Mediterranean Sea basins. With the purpose of expanding the opportunities for ASMA students and to practice sailing aboard the vessels, 30 students in 2020 and 33 students in 2021 were enlisted in the internship program on the vessels of foreign companies, such as Caspian Marine Services and TOPAZ Marine.

In accordance with the rules of application of the special quarantine regime in the Republic of Azerbaijan and recommendations of the Ministry of Education of the Republic of Azerbaijan, all subjects taught at the Azerbaijan State Maritime Academy were shifted to the distant education to eliminate educational gaps. Video lectures were organized for students through video conferencing software and the relevant theoretical teaching process was fully provided in the distant education process. During this period, master's degree students at ASMA also used distant opportunities to communicate with their supervisors and successfully passed through the entire educational and methodological process related to the dissertation.

EMPLOYEES AND EMPLOYEE RELATIONSHIPS

Establishing effective communication, transparent and fair relations with employees is one of the issues that ASCO pays special attention to. Particular importance is attached to maintain professional relations between the management and employees, to consider views and suggestions of employees, as well as to establish mutually beneficial relations during the discussion and resolution of any issue at the Company.

Along with various traditional communication channels, ASCO widely uses systems such as internal electronic data exchange portal and electronic document exchange system to ensure effective communication. News happened at the Company, new appointments, any structural changes, orders, notifications, announcements and other information is communicated to employees through these systems.

The remuneration system based on annual performance is implemented to motivate the Company personnel. Detailed information

about this system is provided in the Corporate Governance System section of the Report. In addition to the remuneration system, other incentive mechanisms, such as additional monthly payments for excellence in work, orders and medals, honorary titles and badges, as well as selection of "The Best of the Year" among sailing crew, are applied to motivate employees.



In accordance with the corporate governance standards and international practice, ASCO conducts an Employee Performance Appraisal (EPA) process. Within the EPA process, both the individual qualities and professional skills of an employee are assessed, annual goals are set by an immediate manager of the employee at the beginning of the year, taking into account the knowledge and skill requirements in the field relevant to the position held by that employee. At the end of the year, the employee's performance in achieving these goals is evaluated by his/her immediate manager and a decision is made on the implementation of the relevant measure (award, training, promotion, etc.) outlined in the form of EPA. An employee is provided with an opportunity to express his or her opinion on the assessment upon reviewing the results of the assessment. Besides that, in accordance with the "Guidelines on the remuneration system based on the results of annual performance", the results of the EPA are also taken into account in the annual incentive remuneration process. The EPA process has been conducted via an electronic platform since 2019.

A collective agreement applies to all employees of ASCO. The collective agreement has been prepared in accordance with provisions of the Code of Labour of the Republic of Azerbaijan and International Labour Organization's Conventions on occupational conditions, work modes and catering for seafarers. According to international standards and the terms of the collective agreement applied at ASCO, the Trade Union Committee must be notified at least 2 months in advance in case of expectation of significant changes in the Company or about the measures that could lead to the abolition of working positions/mass layoffs.

To secure the health and safety of employees during the pandemic, the "work from home" principle was implemented in all structures and organizations of ASCO in 2020, in line with the quarantine regime implemented in the country preventing the spread of COVID-19. Except for a limited number of employees at the workplace on a rotation basis and sailing personnel, the whole staff who could execute their functions from home were transferred to "work from home" mode. In this case, communication between employees was established by the telephone, e-mail, and online video conferencing applications. The digitalization measures performed and various electronic systems implemented at the Company since 2014 have enabled a hassle-free and smooth transition to "work from home" mode.

DIVERSITY AND EQUAL OPPORTUNITIES

Creating equal opportunities for all employees, establishing healthy work conditions and forming an inclusive team play an important role in ensuring sustainable development. For this reason, providing diversified and equal opportunities, as well as preventing discrimination among personnel is one of the primary objectives of ASCO.

ASCO has established a healthy work environment that provides equal opportunities for every employee to enhance their professional level, achieve career development, and express their opinions or suggestions concerning the activities of the Company, regardless of their race, religion, physical appearance or affiliations. Moreover, assessment of the performance of the personnel is carried out without discrimination among personnel and by only considering their skills and professionalism, as well as their performance results. All significant works performed at ASCO in this field are governed in line with the Law of the Republic of Azerbaijan on Guarantees of Gender Equality, and the United Nations and the International Labour Organization Convention on the Equal Remuneration based on the principle of "Equal Remuneration for work of equal value", as well as the Code of Conduct of the Company.

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

ASCO pays special attention to people relating to vulnerable groups of society, including participants of the Patriotic War, martyrs' family members, former IDPs, and people with disabilities, and their status is considered in the recruitment process. As such, the applications from citizens, relating to these categories and with appropriate education in the field of shipping, are considered individually, interviewed, and the employment of these candidates is ensured as appropriate to the relevant educational and professional requirements. Furthermore, with the purpose of providing jobs for martyrs' family members and veterans of the Patriotic War, many people were employed on the vacant positions announced by the Company within the "Employment Marathon" project launched by the State Employment Agency.





SAFETY

SCOVO

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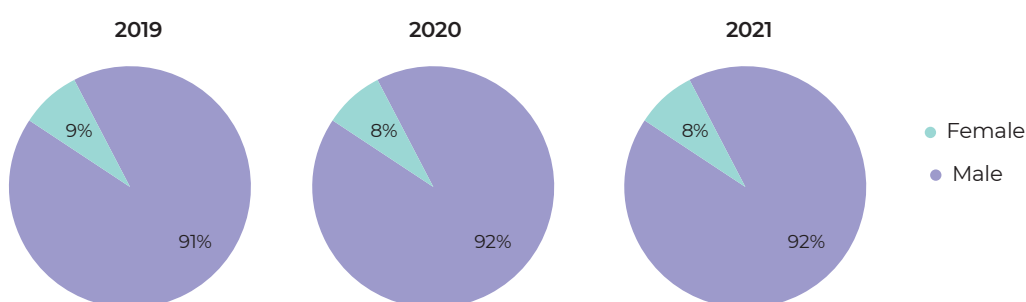
ENTRY
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Compared to other professions, shipping requires harder physical work, higher physique, an ability to work at sea in tough working and weather conditions, and the will to work in open seas away from home and family for a long time. In this respect, the majority of seafarers in the world are men, and as a shipping company, a similar situation is observed at ASCO. Nevertheless, ASCO has created favourable conditions for both men

and women seafarers in all possible positions, both on and offshore. ASCO attaches great importance to minimizing vertical gender segregation, including increasing the number of women among senior management, to ensure gender equality and fair governance. As a result of measures taken in this direction, an increase was recorded in the number of women employees, including women holding managerial positions in 2021.

Number of employees by category and gender for 2019-2021

Categories	2019		2020		2021	
	female	male	female	male	female	male
Onshore personnel:	729	3,437	646	3,090	660	3,038
Managers	43	353	48	323	68	369
Specialists	365	591	326	564	312	523
Technical specialists	61	18	25	16	25	15
Workers	260	2,475	247	2,187	255	2,131
Sailing personnel:	23	4,254	21	4,259	22	4,334
Officers	1	2,390	1	2,424	1	2,416
Regular ranks	22	1,864	20	1,835	21	1,918
Total	752	7,691	667	7,349	682	7,372



Number of employees by age

	2019			2020			2021		
	up to 30	30-50	over 50	up to 30	30-50	over 50	up to 30	30-50	over 50
Number of employees by age	1,208	4,184	3,050	818	3,829	3,369	1,001	3,807	3,246
Total number of employees hired	150	88	46	39	73	55	249	95	36
Total number of employees discharged	107	215	216	83	203	307	38	111	193

Number of employees by gender hired in 2019-2021

Categories	2019		2020		2021	
	female	male	female	male	female	male
Total number of employees hired	28	256	22	145	41	339
Total number of employees discharged	52	486	107	486	26	316

Composition of the Management Board by age

	2019			2020			2021		
	up to 30	30-50	over 50	up to 30	30-50	over 50	up to 30	30-50	over 50
Management Board	0	2	4	0	2	4	0	2	4

Name and Surname	Position	Date of birth
Rauf Goyush oglu Valiyev	Chairman	1965
Mubariz Mustafa oglu Jabbarov	First Deputy Chairman (on Operational Affairs)	1968
Farhad Tofiq oglu Guliyev	Deputy Chairman (on Commerce, Strategic Development and Innovation)	1981
Jalal Hasanaga oglu Farajli	Deputy Chairman (on Economic issues)	1967
Jabrayil Idris oglu Mahmudlu	Deputy Chairman (on General issue)	1966
Nazraddin Murad oglu Ahmadzada	Deputy Chairman (on Security issue)	1982

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

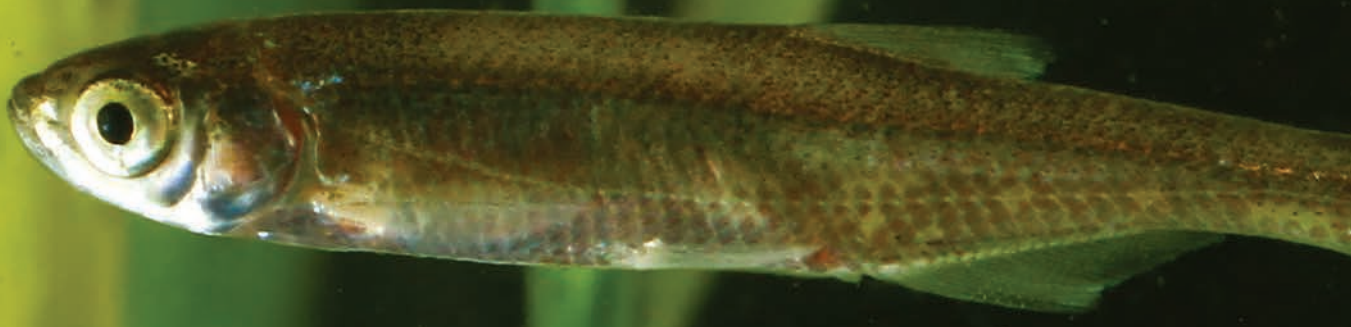
FUTURE PLANS

ASCO will continue to take measures to train professional local seafarers, ensure individual and professional development of employees, as well as maintain gender equality and a healthy corporate work environment at the Company.

A "Personal profile" section for an automatic signup for potential job seekers is expected to be implemented on the official website of ASCO. Apart from that, an electronic system of "Career Development", which will allow monitoring the career progression of prospective personnel members and take measures related to them. Furthermore, a mobile application is planned to be rolled out enabling electronic services

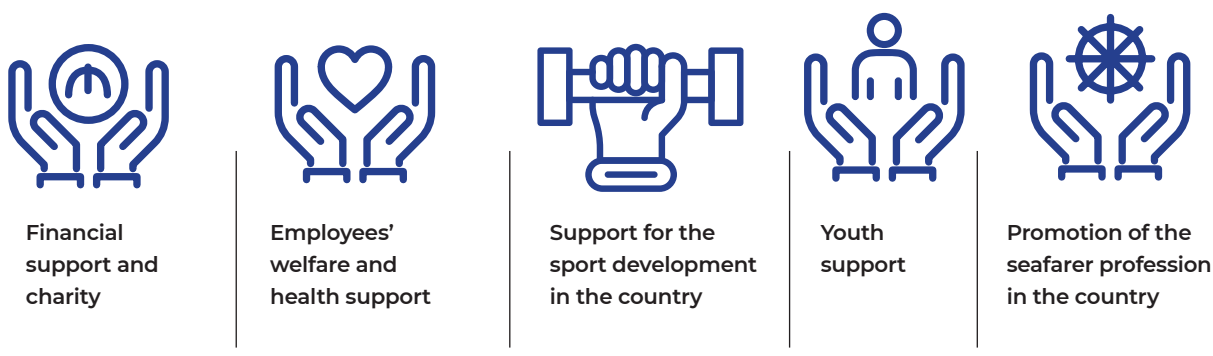
such as establishing a database for sailing crew members, information on the attachment of personnel on certain vessels, personal accounts, tracking of seafarers' certificates, sending mass notifications to seafarers and other services. Moreover, certain measures in accordance with the strategic development plan of ASMA, including the improvement of the training and education system in compliance with modern requirements, organization of joint training programs with foreign maritime universities, conducting scientific and technological research and scientific conferences in the sphere of shipping, broadening the capacity of education provided in English, further strengthening the material and technical support of the Academy, as well as, implementation of measures aimed to develop the Azerbaijan Maritime College and Training and Education Centre operating within ASMA is expected to be implemented.

SOCIAL ACTIVITIES



Corporate social responsibility and social activities are of particular importance for the Company, and ASCO treats projects in this sphere with utmost care.

The social activities of the Company include the following directions:



FINANCIAL SUPPORT AND CHARITY

Low-income families, people with disabilities and orphans constantly remain in the focus of ASCO, and the Company regularly provides them with welfare assistance. All the work done in this direction is carried out in accordance with the "Regulations on the provision of welfare assistance" of the Company. The requests received for welfare assistance and provision of support to the employees of the Company, as well as other citizens, who are not ASCO employees, are considered at the monthly meetings of the Commission on Welfare Assistance. Welfare assistance provided by ASCO in 2019-2021 based on these requests are presented in the following tables. The number of requests for welfare assistance and the payments in this field during 2020-2021 was lower compared to 2019. The vast majority of requests made by employees in previous years were related to health and medical treatment, and with the implementation of medical insurance program at ASCO, the number of such requests has significantly decreased.

The number of people receiving welfare assistance:

Structural unit	2019	2020	2021
Head office of ASCO	28	15	25
Merchant Fleet	248	30	30
Caspian Sea Oil Fleet	482	29	33
Bibiheybat Yard	442	12	23
Zygh Yard	285	9	30
ASMA	17	4	5
Production Services Department	131	3	19
Zygh Dry Cargo Port	9	1	1
ASCO Security LLC	40	5	19
ASCO Transport LLC	120	12	36
Denizchi Repair and Construction LLC	38	4	5
Denizchi Housing Construction Cooperative	4	-	1
Seamen Polyclinic LLC	5	2	-
Caspian Sea Transport Project and Scientific Research Institute	-	-	2
Former employees	-	10	10
External persons	-	4	-
Total	1,849	140	239



Amount of welfare assistance, AZN:

Structural unit	2019	2020	2021
Head office of ASCO	33,780	25,850	34,100
Merchant Fleet	245,138	36,350	30,900
Caspian Sea Oil Fleet	583,522	46,500	45,600
Bibiheybat Yard	146,185	14,200	21,050
Zygh Yard	487,371	17,300	30,250
ASMA	16,480	6,100	4,500
Production Services Department	90,827	3,300	21,750
Zygh Dry Cargo Port	4,600	1,500	500
ASCO Security LLC	25,587	4,400	16,000
ASCO Transport LLC	46,804	14,900	35,550
Denizchi Repair and Construction LLC	34,050	4,200	5,350
Denizchi Housing Construction Cooperative	9,000	-	1,000
Seamen Polyclinic LLC	5,500	3,500	-
Caspian Sea Transport Project and Scientific Research Institute	-	-	5,500
Former employees	-	8,300	6,300
External persons	-	21,300	-
Total	1,728,845	207,700	258,350

ASCO pays constant attention to and takes care of the participants of the battles for the territorial integrity and independence of Azerbaijan and the families of the fallen heroes. In this direction, ASCO provided lump-sum welfare package in the amount of AZN 1,000 to ASCO employees who took part in the 44-day Patriotic War, AZN 1,500 to the wounded, and AZN 2,000 to the martyrs' families. At the same time, to provide continuous support, care and attention to the heirs of the martyrs of the First and Second Karabakh Wars, the Tragedy of 20th of January, as well as to people with disabilities, since 2019, ASCO has been making additional monthly welfare assistance to heirs of the martyrs previously employed by the Company, handicapped people and Karabakh war veterans, 728 people in total. Furthermore, every year 779 former refugee and IDP families from Khojaly, Kalbajar, Lachin, Aghdam and Shusha, 3,350 people in total, currently settled in Goranboy region, are regularly provided with food aid by the Company during the holidays. In addition, 8 ASMA students who took part in the Second Karabakh War were provided with the tuition fee discounts and were exempted from the



accommodation charges of the Academy's dormitory.

ASCO personnel made a voluntary donation to the Armed Forces Assistance Fund of the Republic of Azerbaijan in the amount of AZN 1,064,022 to support the Army of Azerbaijan during the Second Karabakh War. At the same time, ASCO held a blood donation campaign to meet the treated servicemen's need for blood and its components. ASCO also published "Each of Them is a Hero" - a book which retells the life and battle path of the martyred seafarers and war veterans. This book includes broad

information on the honourable successor of the National Leader Heydar Aliyev's political course – the Victorious Supreme Commander-in-Chief, President Ilham Aliyev's and First Vice-President, Mehriban Aliyeva's valuable views on the victory and the fallen heroes, the role of brave and fearless seafarers in the liberation of our historical and eternal lands.

Within the framework of corporate social responsibility of the Company, ASCO is the guardian of the children of former employees who lost their lives or lost their ability to work, as well as other children in need of assistance.



These children receive welfare assistance in the amount of doubled minimum wage and all expenses for the higher education of adult children are covered by the Company. Information on children under the care of ASCO in 2019-2021 is provided in the following table:

Children under ASCO's care:

Structural unit	2019	2020	2021
Merchant Fleet	23	25	28
Caspian Sea Oil Fleet	75	77	75
Zygh Ship Repair and Construction Yard	5	5	7
Bibiheybat Ship Repair Yard	6	11	11
Production Services Department	9	6	6
Azerbaijan State Maritime Academy	1	1	1
ASCO Security LLC	1	1	1
ASCO Transport LLC	1	2	2
Total:	121	128	131

During the strict quarantine regime implemented in our country due to the global pandemic, veteran seafarers were regularly contacted by ASCO employees and a total of 107 veteran seafarers were provided with food rations. Apart from that, 4 Azerbaijani sailors facing difficulties in the Islamic Republic of Mauritania due to the coronavirus pandemic lockdown, were provided with financial support for their repatriation. Also, during the pandemic period in 2020, ASCO made lump-sum payments as welfare assistance to more than 4,500 vessel crewmembers and shipyard workers on the occasion of Feast of the Sacrifice (Eid al-Adha).

In 2020, ASCO also provided financial support for the participation of a group of students of the Faculty of Law of Baku State University in the Telders International Law Moot Court Competition, which is a prestigious competition in Europe, and all expenses arising from the competition were covered by ASCO.

EMPLOYEES' WELFARE AND HEALTH SUPPORT

The newly built head office building of ASCO was commissioned in March 2021 for the purpose of improving working conditions of the employees of the Company. Built in compliance with the architectural style of Baku, the new office building meets international requirements and is equipped with modern technological systems. Apart from that, in the office building there is a gym that meets modern standards, a library and a museum that reflect the history of the Company, which serve for effective organization of leisure time of ASCO employees.

ASCO is constructing a residential complex consisting of 5 residential buildings with a total of 487 apartments in the Khatai district of Baku city to provide housing on preferential terms to seafarers that are in need of improving housing conditions or have been waiting in housing queue for many years. In this regard, to regulate issues, such as admission to the membership of the "Denizchi" Housing Construction Cooperative and other relevant issues, the Commission on Housing Matters has been set up at ASCO and the Guidelines on Admission to the membership of the "Denizchi" HCC were adopted. The Housing Commission has drawn up a Unified list of housing queues of the Company based on the queue list available at the enterprises whereof ASCO is a legal successor. The amount of the discount for those entitled to obtain housing on a preferential basis is determined in accordance with the date of their inclusion in the housing queue list, and a certain part of the value of housing is paid by ASCO. At present, 384 people have been admitted as members of the cooperative and relevant agreements have been concluded with them. Apartments in 3 out of 5 buildings constructed were fully distributed by way of sortition. Currently, necessary works are underway to



distribute the remaining apartments, while full commissioning of residential complex and completion of the project is expected to be completed by the end of 2022.

To increase the employees' interest in a healthy lifestyle and sports, ASCO regularly holds sports events in accordance with the annual work plan in the social sphere. As such, during the reporting period football, volleyball, chess, table tennis, tug of war, shooting and other sports competitions were organized among the structural units of ASCO. At the same time, a sports field, where both football and volleyball competitions can be held, has been built and launched on the territory of the Bibiheybat Ship Repair Yard.

With the purpose of effectively organizing the vacation of ASCO employees and their families during the summer season, they are provided with discounted vouchers to the Denizchi Recreation Centre located in the Khachmaz region. Due to the COVID-19 pandemic it was impossible to provide vouchers to employees in 2020, whereas in 2021 4,246 people were provided with vouchers to Denizchi recreation Centre. Beyond that, employees of the Company are provided with vouchers to various medical and recreational Centres

of the country based on an application to the Republican Committee of the Trade Union of Marine Transport Workers of Azerbaijan.

To meet the demand for medical services, since 2019, employees of head office, ASCO's structural units and subsidiaries have been insured under the Medical Insurance agreement. Under this agreement, ASCO employees are offered free-of-charge medical examinations and treatments, and their family members get a discount of up to 50% in many clinics and hospitals of the country. The number of insured employees in 2020 and 2021 was 7,118 and 7,042, respectively, while the insurance policy provided 29,287 medical services in 2020 and 40,021 medical services in 2021.



Shuttle buses running in different directions of the city are arranged to transport ASCO employees, especially those working directly in the production areas, to their workplaces and take them back to areas closer to their place of residence upon completion of the working day. In addition, ASCO employees are provided with hot meals every day or their lunch expenses are covered through additional payments. Moreover, the relevant personnel are provided with personal protective equipment, including special clothing, shoes and other equipment free of charge.

SUPPORT FOR THE DEVELOPMENT OF SPORTS IN THE COUNTRY

To support the development of football in Azerbaijan, ASCO sponsors the Sabail Professional Football Club, which plays in the Azerbaijani Premier League. Under the sponsorship agreement, the stadium in Baku, where Sabail PFC's home games are held, was repaired and the stadium was renamed as ASCO Arena. Moreover, the players of the football club were provided with various uniforms and

necessary sports equipment. Alongside these, to contribute to the training of young football players in the country, selection of talented young players was carried out among the children of ASCO employees to join them at the Children's Football Academy of Sabail PFC in 2021. For this purpose, the technical skills of the children were assessed by the coaches and doctors of the Academy at ASCO Arena. Furthermore, together with Sabail PFC, ASCO organized a football competition among the children of the employees of the Company, and at the end of the game, all children were presented with a gift on behalf of ASCO and Sabail Football Club.

Also, ASCO sponsors the Azerbaijan Sailing Federation and within the framework of the sponsorship to ensure the development of the sailing sports, which has a rich history and traditions in Azerbaijan, the Company takes part in the financing of international and local events. Besides that, Khazar Sailing Club operates under ASCO and this Club contributes to the development of sailing sports in Azerbaijan, the training of athletes for the





national teams and the representation of our country in international competitions. In 2020, to maintain and further improve the material and technical base of the Club, a new supply boat was launched for the Club. This new boat serves to ensure the safety of athletes during competitions and trainings and to instruct them while at the open sea.

In addition to the above, ASCO supports the holding of various events by the Equestrian Federation of the Republic of Azerbaijan by making donations to the Federation.

YOUTH SUPPORT

Along with training young seafarers and improving their personal development and professional qualities, ASCO emphasizes the importance of the career development of promising young people, encouraging them and ensuring their close participation in the activities of the Company.

A meeting is organized every year on the occasion of Youth Day to establish communication between the young employees

of ASCO, students of ASMA and Azerbaijan Maritime College, and the management of the Company. The meeting provides information on the Youth Policy of Azerbaijan, contributions of the Company to the implementation of this Policy, the reforms being carried out at ASCO and the development prospects thereof, important actions are taken to transform ASCO into a modern shipping company and the role of the youth in this work. All questions addressed by young people are answered by the management of ASCO, and the young people who excel in their service and education are awarded during the meetings.

ASMA organizes an "Open Day" at the beginning of each academic year to provide information to the newly admitted students and their parents about the ASCO's and Academy's activities, as well as the organization of the educational process, the conditions offered for students, job opportunities after graduating from the Academy, etc. Questions that parents and students are curious about are answered and discussions are held on various topics at these meetings.



Also, during the reporting period, to support career planning of senior students of Azerbaijan State Maritime Academy and Azerbaijan Maritime College, the personnel of the Human Resources Management department of ASCO provides them with information by making presentations on the rules of testing and interviewing of applicants within recruitment process held at ASCO, the principle of formation of the Reserve Personnel Pool, as well as on the key points that candidates should pay attention to when applying for jobs.

Within the framework of its corporate social responsibility, ASCO regularly holds events on June 1, International Children's Day. On this occasion, in 2021, a tour to the Surakhani ship-

museum was organized for the children of the martyrs of the Second Karabakh War, as well as festivities were organized at Khazar and Dalga kindergartens operating within the structure of ASCO.

PROMOTION OF THE SEAFARER PROFESSION IN THE COUNTRY

A number of projects were implemented by ASCO during the reporting period to preserve the maritime traditions, research and study the history of shipping and promote the honourable seafarer profession in Azerbaijan.

The Surakhani tanker museum, which combines the past, present, and future of



the shipping industry in Azerbaijan, was established and put into operation in March 2021. Being the first ship museum in the Caspian region and the first tanker museum in the world, Surakhani was developed by using the experience of countries with rich maritime traditions, such as the United Kingdom, the Netherlands and Turkey. Visitors are provided with interactive information on the history of the Caspian Sea, oil production in Absheron, the development of shipping in the Caspian Sea, the world's first ships, sea giants, navigation tools, marine tie knots as integral attributes of shipping, as well as equipment used in ship operation by using the latest technological and innovative solutions in the halls of the museum. At the same time, a monument in the memory of heroic and brave Azerbaijani seafarers was sculptured and erected in the territory of the National Seaside Park in Baku, near the ship museum. The monument depicts a vessel propeller cutting through a wave with a dynamic figure. The authors of the sculptural composition, made of bronze and marble, are People's Artists of Azerbaijan - Salhab Mammadov and Ali Ibadullayev, and the architect is Honored Architect of Azerbaijan - Elkhan Asadov.

On the occasion of the 75th anniversary of the Victory over Fascism a short documentary was produced at the initiative of ASCO, on the important role of the cargo shipping in the Caspian Sea during the war. The film tells the story of heroism and bravery shown by seafarers during the transportation of fuel, military equipment and troops to the front-end through the Caspian Sea routes during World War II.

FUTURE PLANS

The Company will continue to provide welfare assistance, support, and care to war veterans and families of martyrs, organize competitions in various sports, support young people, propagate the seafarer profession and engage in other social activities in the future as well. Concurrently, it is planned to complete the construction of a residential complex for people that are waiting in the queue for housing, construct a sports field and swimming pool in the territory of Denizchi recreation Centre and ensure participation of ASCO teams in various international sports competitions among maritime workers during the next reporting period.

**OCCUPATIONAL
HEALTH AND
SAFETY**



OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT

Safe implementation of the work process in all aspects of its operations by preventing injury of employees and accidents is one of the key priorities of the Company. The organization of management in this sphere is governed in accordance with the legislation of the Republic of Azerbaijan, international conventions and internal documents of ASCO.

The Safety and Quality Management System (SQMS) developed under the requirements of conventions, such as SOLAS, STCW and ILO, as well as the International Security Management Code (ISM Code), is implemented at ASCO and the system is improved and updated regularly. In this direction, 16 forms and 24 procedures were upgraded in total, 9 new forms were adopted and implemented during 2020-2021. They are covering mainly the issues relating to the prevention of infection cases due to the global pandemic, evacuation, crew shift

changeover, preventative measures, etc.

ASCO is regularly inspected and audited by the relevant organizations in connection with occupational health and safety. In 2020, the American Bureau of Shipping conducted audits of vessels and the head office of the Company and as a result, it was approved that SQMS was in compliance with the requirements of international certificates held by the Company. Moreover, ASCO was provided with a certificate of compliance with the updated ISO 45001 (Health and Safety Management System) standard as a result of the audit conducted in 2021. Previously, the OHSAS 18001 (Occupational Safety and Health Management) standard was being implemented by the Company.

Alongside this, ASCO conducts internal inspections to check the status of the implementation of the SQMS. A total of 140 internal audits were conducted during the reporting period including, 132 on the vessels,





2 in the head office, 2 in the Caspian Sea Oil Fleet, 2 in the Merchant Fleet, 1 in Bibiheybat Ship Repair Yard and 1 in Zygh Ship Repair and Construction Yard. Nonconformities identified within conducted audits were eliminated during the reporting period. It is worth noting that, due to ongoing audits and improvements, the number of nonconformities identified in 2021 has decreased up to 48% compared to that of 2020.

ASCO has concluded a medical insurance agreement with the objective of maintaining the health of the sailing crew and onshore personnel. Employees of the Company and their family members will be able to benefit from free or preferential medical services in a number of clinics and hospitals of the country under this Agreement.

1,874 and 1,378 people in 2020 in 2021, respectively, have been holding positions at ASCO in 173 category of hazardous workplaces at risk of getting a personal injury

or occupational diseases including, welding, carpentry, casting, hull welding and other similar jobs. These employees are provided with vacations and additions to salaries in accordance with the requirements set out in the Code of Labour of the Republic of Azerbaijan.

Training courses are continuously organized to enlighten employees and to improve their knowledge in the field of occupational safety. The training courses covering various topics were conducted for sailing crew and onshore personnel, including the topics like permit to work, power isolation, risk assessment, entry into the enclosed space, rescue in the enclosed space, environmental impact, hand protection/pinch points, noise hazard, work off-board and work at height, slips/trips/falls, manual lifting, thermal stress / thermal tension and hypothermia, skin and eye contact with hazardous substances, health, hygiene and medical supervision, incident investigation, management of hazardous



substances in healthcare, slinger/signaller training. Altogether, the duration of training courses constituted 926 hours and 397 persons participated in these training courses.

Moreover, during the "Safety Day" event held at ASCO quarterly, participants are informed about changes and updates in the SQMS system and incidents on ships and coastal facilities, as well as nonconformities identified during audits, their causes and possible measures for prevention thereof are being discussed.

ASCO is applying "Zero tolerance", in other words, the absolute inadmissibility principle in respect of drug and alcohol use, as well as gambling cases under the QHSE Policy, "Policy on Drugs, Gambling and Alcohol " and "Policy on the use of tobacco products" implemented in the Company. The information contained in these policies is posted at conspicuous locations in all structural units and visible places on ships, published on the official website of the Company and accordingly, new employees are informed about these policies within the framework of the recruitment procedure. The book titled "Providing first aid in open

waters" was published at the initiative of ASCO in 2020. The book covers the general principles of first aid on board, the initial measures to be taken before the provision of specialized medical care in cases of severe bleeding, shock, burns, fractures, dislocations, head injuries, injuries arising out of an explosion, chemical hazards, and other cases. Based on the third edition of the World Health Organization's International Guidance on Medical Assistance at Sea, the book was made available to all vessels of the Company and a soft copy of the book was published on ASCO's official website.

The Company implements appropriate safety procedures to ensure the safety of customers entering the vessels, production and administrative areas of ASCO. These safety procedures include providing safety inductions, filing out a "Familiarization of Visitors" instruction sheet for the visitors involved in ship operations, presenting a "Visitor Card" to those entering the production area, providing instructions on the Tobacco Policy of the Company and designated areas for tobacco use in accordance with the requirements of ISO 45001 standards.

The following table provides information on expenditures of ASCO in the field of occupational health and safety. As obvious from the table, expenditures on occupational health and safety in 2021 increased by 30% compared to that in 2020. Such increase is due to the measures implemented to further

upgrade personal protection equipment including but not limited to protective helmets, protective goggles, earbuds, overalls, safety shoes, gloves, etc. and to improve working conditions within various areas of the workplace.

Expenditures on occupational health and safety during 2019-2021, AZN:

Expenditures	2019	2020	2021
Occupational health and safety costs	3,063,900	2,067,000	2,680,291
including:			
improvement of working conditions	2,025,750	1,568,000	1,798,718
personal protection equipment	1,038,150	469,000	575,802

EMERGENCIES

Various circumstances such as ship collision, grounding and fire are considered as accidents, whereas trip and slip, use of hazardous substances, tool failure, falling tools and materials, fire and explosion, occupational diseases, and electric shock injuries to employees are deemed as lost working days accidents.

There was no occupational fatality in production during the reporting period covering 2020-2021. 6 incidents in 2020 and 5 incidents in 2021 were reported that caused a loss of a working day. 6 of these incidents took place onboard the vessels and 5 at the Bibiheybat Shipyard. These include incidents such as falls of various types of tools and equipment, slips and trips, injuries, etc. which happened as a result of non-compliance of employees with the requirements of their job responsibilities and safety instructions.

2 vessel collision cases and 4 loss of equipment cases were reported in 2020 concerning emergencies and 1 vessel collision case was detected in 2021. One of the ship collision cases was a collision due to foggy

weather of a dry cargo vessel belonging to another shipping company with the ferry named "Barda" owned by ASCO, which was performing her voyage from Turkmenbashi to Alat port. The collision was inevitable despite the measures taken by the "Barda" ferry to prevent the incident. Other two accidents happened when the vessels slightly hit the berth while entering and leaving the port. Incidents of loss of equipment include cases of anchor chain breakage and loss of anchor arising out of technical failure due to windy weather conditions. No one was injured in the incidents stated above.

The causes of the above-mentioned accidents and the incidents that led to a loss of working day were investigated, instruction was carried out to prevent their recurrence, and corrective actions were taken in respect of culprits of the incidents.

The following table presents the main productivity indicators in the field of occupational health and safety during the reporting period.





Productivity indicators in the field of occupational safety for 2019-2021:

	2019	2020	2021
Total number of injured employees	6	6	5
Total number of fatalities	0	0	0
Number of occupational diseases	0	0	0
Total number of days lost due to accidents	663	771	463
Total number of working days lost due to disease	63,439	69,975	459,094
Number of personnel	8,442	8,016	8,054
Total hours worked	13,944,510	12,485,370	12,706,380
Total days worked	1,743,064	1,560,671	1,588,298
Occupational injury rate (per 1,000,000 hours worked)	0.4	0.5	0.4
Lost working days rate (per 1,000,000 hours worked)	47.5	61.8	36.4
Accident frequency rate (number of accidents per 1,000 employees)	0.7	0.7	0.6
Accident severity rate (number of lost working days per accident)	110.5	128.5	92.6
Absence at work rate (per 1,000,000 days worked)	36,395	44,836	289,048
Occupational disease rate (per 1,000,000 hours worked)	0	0	0

MEASURES AGAINST COVID-19 PANDEMIC

The COVID-19 pandemic was the biggest healthcare challenge worldwide during the reporting period. The pandemic has adversely affected all spheres globally and the shipping industry as well. In this regard, ASCO has taken important measures to adapt its activities to pandemic conditions and prevent the spread of the virus. In this direction, to coordinate measures against the disease the dedicated headquarters were established, a 24-hour "Hotline" was set up to respond promptly to questions and inquiries about the disease, and an Action Plan was developed to ensure safe exit from the pandemic period.

To reduce the risk of infection among employees, considering the features of a job position, employees who are not directly involved in production work at ASCO were transferred to distant work ("work-from-home") regime.

Rotation of the employees involved in the work due to production demand was ensured and PCR test samples were taken from them on a regular basis. Furthermore, the seafarers were sent to vessels upon undergoing the medical examination for COVID-19 during the shift changeover, to prevent the spread of the virus among the sailing crew of ASCO. In total, 14,127 test samples were taken in 2020, and 27,081 in 2021. Employees with positive testing results were immediately quarantined and treated on an outpatient or in a hospital setting.

In addition, ASCO's head office, structural units and ships were regularly disinfected. In general, the amount spent on disinfection measures constituted AZN 2,089,401 in 2020 and AZN 1,477,119 in 2021. Furthermore, ASCO transferred AZN 500,000 to the "Coronavirus Response Fund" to contribute to the measures



taken in Azerbaijan against the spread of the pandemic.

Disinfection equipment and tools were provided for the use of sanitizers by employees in office buildings, vessels and production facilities. ASCO has implemented data-protecting video communication software for meetings and conferences to reduce contact between employees and ensure effective communication among those working remotely.

ASCO employees participated in a webinar on the topic of "Working remotely as part of a modern employment culture" in 2020. The webinar provided information on the experience of international companies in remote work, technical solutions for the transition to remote work, risks associated with the information technologies, including measures to protect confidential information, the difficulties encountered in the early stages of the transition to this mode, ensuring effective

communication with the team, arrangement of the online meetings and conferences, as well as recommendations assisting employees to establish working conditions at home.

FUTURE PLANS

It is intended to organize internal and external training courses to enlighten and raise awareness of sailing crew and employees working onshore in the field of occupational health and safety during the next reporting period.

It is also planned to continue updating the SQMS system and procedures by taking into account changes made in the requirements of international standards, as well as improvements identified as a result of the analysis of accidents.

**ENVIRONMENTAL
PROTECTION**





ENVIRONMENTAL IMPACT MANAGEMENT

Conducting operations in an environmentally friendly and safe manner is one of the strategic targets of ASCO. The Company takes systematic and continuous measures to reduce to zero the possible adverse effects on the environment in all spheres of its activities, as well as to maintain the volume of waste and emissions to a minimum, and to efficiently use water and energy resources.

Relations in this sphere are guided by Laws of the Republic of Azerbaijan, Protection of Atmospheric Air, Industrial and Domestic Waste, Protection of Greenery, Environmental Protection and other relevant Laws, as well as international conventions, such as MARPOL 73/78 International Convention on Civil Liability for Oil Pollution Damage, International Convention on Civil Liability for Bunker Oil Pollution Damage and other international documents. Besides that, the environmental

management system of ASCO was established in compliance with the requirements of the ISO14001:2015 international management standard and HSQEEEn Guidelines (Health, Safety, Quality, Environmental and Energy Management) of the American Bureau of Shipping.

In accordance with the requirements of the above-mentioned laws, conventions, standards and guidelines, ASCO has implemented such documents as Quality, Health, Safety and Environmental Policy, Waste Management Plan, Emergency Environmental Safety Program, Safety Quality Management System, Guidelines on Sealing, Unsealing and Control of disposal points of Liquid Contaminants to avoid spills from ships. At the same time, ASCO has established the procedures in place to identify environmental aspects attributable to shipping activities, determine the extent of impacts, as well as to establish management guidelines aimed to reduce the impact of identified environmental aspects.

Daily inspections of vessels and areas are carried out by ASCO's environmental engineers, captain instructors, engineer instructors and other specialists to monitor the effectiveness of the work carried out on environmental protection and to ensure that activities are carried out under the relevant procedures. Observations, shortcomings, and nonconformities identified during these inspections are recorded and analysed in the relevant documents of SQMS, weekly reports are submitted to the heads of structural units and relevant authorities, and quarterly reports are submitted to the Management Board of the Company.

Information on environmental management, including waste, water, energy, and emissions management are provided below.

WASTE

Management of various types of liquid and solid waste deriving from the operation of vessels and coastal facilities, including domestic wastewater, sewage water, oil wastes and fuel sediments, sludge, various dry garbage and other pollutants, and works performed on maintaining them at a minimum level, are regulated by the requirements of the country's legislation and international conventions and controlled by the relevant documents such as Waste Management Plan and Waste Operations Log. At the same time, regular voluntary work and clean up days are organized and carried out within the territories of the coastal facilities, including ship repair and construction yards and other administrative areas of ASCO, during which, all kinds of waste are removed, renovation and planting works are performed in those areas.

Being guided by the requirements of the international ISO 14001:2015 Environmental Management Standards, as well as the "Life Cycle" principle, by establishing a systematic approach to environmental management,

the Company keeps control of the wastes generated by the Company and their impact on the environment at each stage of the life cycle thereof, as well as upon such wastes are handed over to the relevant facilities. Prior to the handover of waste to the relevant organizations, before concluding a contract with these organizations, internal audits are conducted by ASCO to check these organizations' disposal capacities, relevant permit documents and licenses.

Apart from that, regular audits are performed at contracted companies and if, any significant environmental shortcoming is detected in their activities, ASCO terminates the agreement with such companies. No such shortcomings have been detected in the course of audit checks during the reporting period.

Various types of waste generated by the operation of vessels owned by ASCO, including oil spills, faecal and sewage water are collected and transported by ASCO's specialized "SLV" type vessels without polluting sea areas and delivered to the relevant organizations at coastal collection stations. The following table provides information on various types of waste generated and disposed of at the Company during 2019-2021.

The volume of different types of waste generated and handed over as a result of the activities of the fleets and coastal facilities of ASCO, m³:

Type of waste	2019	2020	2021
The volume of hazardous waste generated	9,432	9,693	9,204
The volume of non-hazardous hazardous waste generated	3,472	9,227	7,693
The volume of hazardous waste handed over	8,665	8,559	10,133
The volume of non-hazardous waste handed over	3,472	9,203	7,691

** Starting from 2020, ASCO measures waste in terms of m³ in accordance with international practice. In this regard, the indicators for 2019 have been recalculated and included in the current Report.*

As evident from the table, there was no acute change in the volume of hazardous waste generated by the Company during the reporting period.

It is worth noting that the disposal of domestic wastewater into the sea in the neutral waters of the Caspian Sea is not prohibited by the local legislation and the MARPOL Convention. Nevertheless, in order to prevent pollution of the Caspian Sea, which is our natural resource, to protect its biological resources and biodiversity, ASCO has voluntarily prohibited disposing of all types of waste from its vessels into the sea, even in a neutral part of the Caspian. This kind of waste amount is collected and handed over to specialized onshore facilities only upon the vessels sail back to the shore.

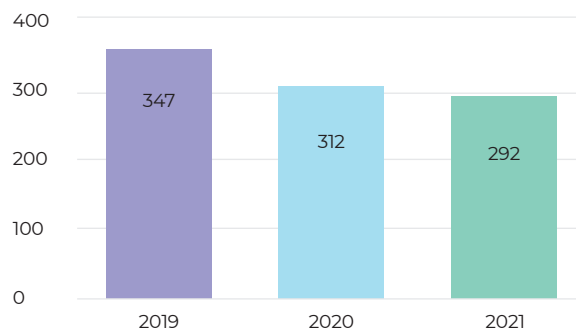
To mitigate the impact on the environment deriving from activities of both merchant and specialized offshore fleets of ASCO, the vessels are involved in the dock and class repairs at certain time intervals in accordance with the requirements of the classification society and international conventions. Hulls of the vessels are cleaned and the main and auxiliary engines are replaced with modern engines that generate fewer emissions and environmental impact. Hulls of 180 vessels were cleared, and 33 auxiliary and 7 main engines were installed on vessels during 2020-2021. Ships that expired operational useful life are being cleaned, demolished and handed over to recycling facilities. During 2020-2021, 9,164 tons of ferrous metal, 32.9 tons of precious metal were handed over to be recycled, while 166 m³ of objects with various sizes were collected from the water surface of the National Seaside Park and coastal facilities of the Company.

Appropriate boxes for the collection of plastic containers and used paper were installed in the new head office building of ASCO in 2021 and 0.4 tons of plastic containers, 1.2 tons of used paper were collected and handed over to the relevant specialist companies.

WATER

ASCO recognizes the importance of the efficient use of clean and drinking water. The Company implements continuous measures within the framework of the SQMS to ensure efficient use of drinking water on vessels and coastal facilities and to prevent pollution of water basins, while operating either in the Caspian Sea and other international waters. As a result of the actions taken to increase awareness among personnel for the efficient use of drinking water and to prevent its inefficient loss and discharge, significant savings (19%) were achieved in drinking water consumption during the reporting period covering 2020-2021.

Drinking water consumption, thousand m³



People in charge have been appointed for each structural unit of ASCO in 2020 to strengthen the control over potable water consumption. These people keep records of drinking water intake and consumption and compile monthly reports. Apart from that, water meters on all water lines were renewed within these actions.

Seawater is used in coastal firefighting lines, engine cooling systems and ballast reception at the Company and this process is regulated in accordance with the requirements of the MARPOL convention. The following table provides information on the use of seawater during 2019-2021.

Use of seawater by the Company in 2019-2021, thousand m³:

Structural unit	2019	2020	2021
The Merchant Fleet	2,040	5,387	5,221
The Caspian Sea Oil Fleet	10,322	10,322	10,322
Zygh Yard	9.3	9.5	8.5
Bibiheybat Yard	174	174	174

** With the implementation of a more advanced methodology for calculating the volume of seawater consumption by the Merchant Fleet, seawater consumption increased in 2020 and 2021.*

Volume of generated and discharged (including handed over to third parties) wastewater in 2019-2021, thousand m³:

Type of wastewater	2019	2020	2021
Generated	208.2	173.9	173.1
Discharged	208.0	173.8	173.0

To prevent pollution of the marine environment with ballast water, ballast water treatment systems in compliance with modern standards are being installed on the ASCO's vessels, while the information on each ballast operation is recorded in the "Ballast operations" logbook by the people in charge. The installation of such ballast treatment equipment was completed on board of 10 vessels of the Merchant Fleet and this process is currently underway on other vessels. Seawater used in firefighting systems and cooling of engines is not polluted and therefore does not require any special cleaning procedures.

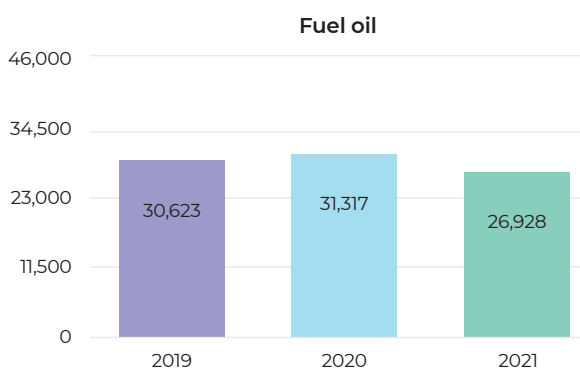
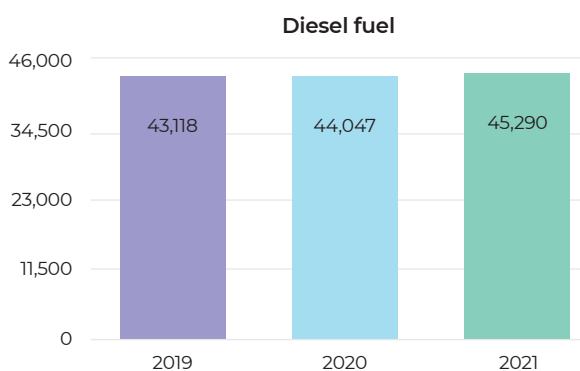
There is a risk that various marine biological lifeforms and organisms will stick to the hulls of vessels moving between different water basins, thus exchanging those lifeforms and organisms between these basins could result in a negative impact on ecosystems and biodiversity. For the prevention of these circumstances, hulls of vessels that are planned to navigate between different water basins are being cleaned in accordance with the requirements of relevant conventions and standards.

ENERGY

ASCO uses different kinds of fuels, electricity, natural gas and heat energy during the operation of both vessels and coastal facilities, and the consumption of these types of energy is controlled. For this purpose, ASCO implements requirements of the ISO 50001:2011 international standard on energy efficiency management.

Vessels belonging to the company's fleets consume fuel oil and diesel fuel. Fuel oil is mainly used in the vessels of the merchant fleet, while diesel fuel is used in the vessels of the specialized offshore fleet. The following diagram provides information on the amount of fuel consumed during the operation of the fleets in 2019-2021.

Fuel used in fleet activities, tons



Taking into account the environmental advantage of diesel fuel over fuel oil, the process of a phased transition to diesel fuel on vessels of



the Merchant Fleet has commenced since 2021. In this regard, ASCO recorded a decrease in fuel oil consumption and an increase in diesel fuel consumption volume in 2021.

ASCO is implementing many optimization measures to achieve savings in fuel consumption, thus to ensure energy efficiency. So, the commanding staff of vessel, while taking into account the design, technical characteristics of the vessel and weather conditions, opts for the optimal speed and route, which allows lower fuel consumption. Regular instructions are conducted to crew members of ASCO vessels in this regard. Concurrently, ships are regularly tested for fuel consumption by conducting test trips while the information obtained from test trips is analyzed by the relevant specialists of ASCO, and the necessary measures are taken to increase fuel consumption efficiency. Timely renewal of the fleet also plays an important role in fuel saving and energy efficiency, although it is a capital-intensive issue. Information on the works done to renew the fleet is presented in the previous sections of the report.

Fuel is also used in special equipment and vehicles owned by ASCO. The following table reflects information on the volume of fuel

consumed by the Company`s vehicles during 2019-2021.

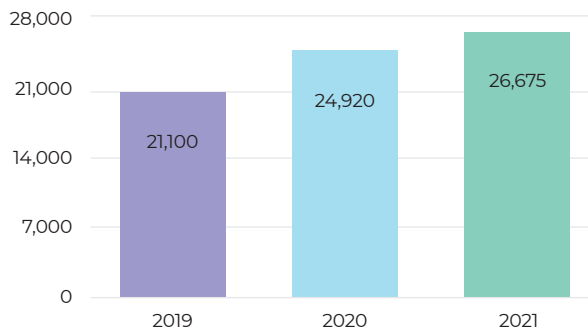
Fuel consumption by vehicles in 2019-2021, tons:

Fuel type	2019	2020	2021
Diesel	555	406	454
Gasoline	507	355	385

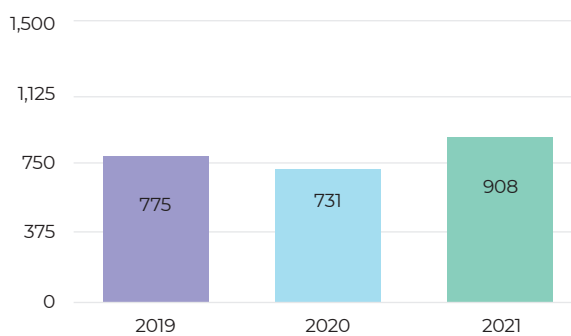
Due to the strict quarantine regime applied in the country during 2020 and 2021, limitation of vehicle use led to a decrease in fuel consumption during these years compared to 2019. Beyond that, within the framework of optimization of fuel consumption, 14 old vehicles running on gasoline were removed from the balance sheet of the Company in 2021. Overall, savings by 22% in diesel consumption and 32% in gasoline consumption were achieved in 2021 in comparison to 2019.

ASCO also uses electricity and natural gas as energy resources for various production, technological and administrative purposes. Information on electricity and natural gas consumed by ASCO during 2019-2021 is presented in the following diagrams, while the total energy intensity ratio for ASCO is presented in the next table.

Electricity consumed by ASCO, thousand KWh



Natural gas consumed by ASCO, thousand m³



Energy intensity ratio for 2019-2021 (thousand kWh of electricity used per employee):

	2019	2020	2021
ASCO	2.5	3.1	3.3

As can be seen, the consumption of electricity in 2021 increased compared to 2019, which is mainly due to the commissioning of a new head office building of ASCO, as well as an increase in the volume of works at ship repair and construction yards.

In recent years, low pressure in the natural gas supply to Bibiheybat Ship Repair Yard made it difficult for the metal workshops of the yard to operate at full capacity. In 2020, the gas pressure was increased by renewing the natural gas supply lines to the yard. At the same time, the hot water supply and heating of the new administrative building of ASCO is provided by natural gas boilers, which led to an increase in natural gas consumption in 2021.

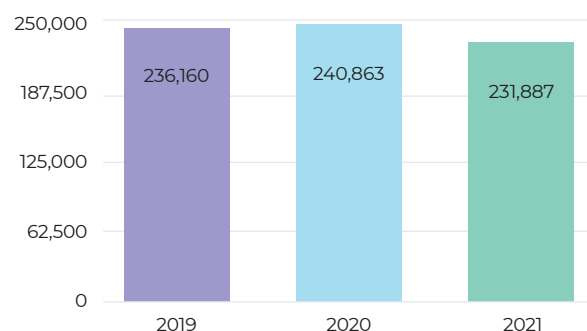
EMISSIONS

Climate change is a global problem caused by greenhouse gas (GHG) emissions. For this reason, the Paris Agreement was adopted by the UN and was ratified by 173 countries, including the Republic of Azerbaijan. In this regard, our country has set a goal to reduce the volume of greenhouse gas emissions by 35% until 2030 compared to 1992 levels.

Being the largest shipping company of the country, ASCO understands its role in the implementation of this initiative together with other companies and takes various measures to control and reduce greenhouse gas emissions. These measures include the use of low-sulphur high-quality fuel and antistatic fuel filters on vessels, the timely maintenance of vessel engines, as well as ensuring the coastal power supply to vessels moored at berths, rather than generating electricity from their auxiliary engines, if there is an appropriate infrastructure at ports, etc.

The following diagrams reflect the volume of emissions generated from the activities of the Company. The volume of direct emissions was calculated based on fuel consumption during the year in accordance with the ratios provided by the International Maritime Organization. Indirect emissions are calculated according to the relevant formulas, based on electricity consumption.

Direct emissions (CO₂ equivalent), tons



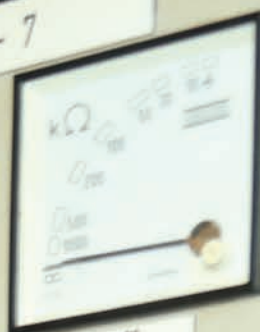


ПОЛЕ + 7



- P1
НАЗОР КИЛОВАТТ
ИЛИ СЕКУНД

- HL5
ПРЕРВАТ. ВЛ.



- P2
НАЗОР КИЛОВАТТ
ИЛИ СЕКУНД

- HL10
ПРЕРВАТ. ОТКЛ.

ПРЕРЫВАТЕЛЬ - QR1
1600 А 380 В 50 Гц

Переза с ДТ (14) на ВТ
 1. При включении выключателя ВТ (3)
 2. При включении переключателя выбора
 режима ДТ (1) и QS (на позиции «в») -
 «ручной»
 3. Подождав нажатием SB20
 на включение ВТ (3)
 4. Переключатель синхронизации SA3
 ставим на позицию выключено ВТ (3)
 5. Регулятор частоты ДТ (4)
 регулятором оборотов QS1 (ДТ 1) или
 QS2 (ДТ 2) до частоты вращения «ВТ (2)»
 6. В момент загорания светодиода
 синхронизации выключено выста
 включаем автомат выключателя ВТ (3)
 или SB5 (ВТ 2)
 или SB1 (ВТ 1)
 7. При этом нагрузка с ДТ (1) на ВТ (2) и
 наоборот регулятором
 оборотов QS1 (ДТ 1) или QS2 (ДТ 2)
 8. Когда нагрузка на ДТ (1) и
 приближается к нулю (R=20 Ом)
 9. При этом переключатель выбора
 режима QS3 (ДТ 1,4) на позицию «2»
 «автомат»
 10. Отключаем ДТ (1) с компьютером
 или с помощью выста.

Masterpact
 MW16 1A
 U_N 1000V U_{imp} 12kV
 I_{th} 600V
 I_{th} 425A/1s
 I_{cm} 50kA peak
 REC 80947-2 3000Hz
 1075 1000 200 200 200 200 200

Buttons: Push OFF, Push ON, ON, OFF

BERLIN GERMANY

- HL1
ПРЕРВАТ. ВЛ.

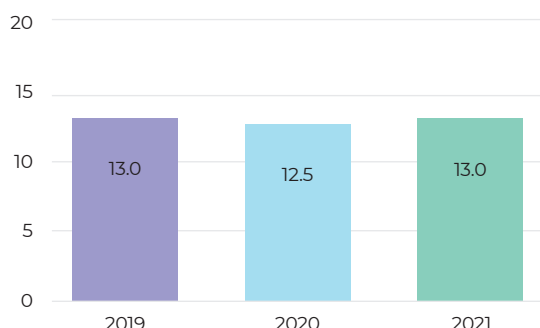
- HL2
ПРЕРВАТ. ОТКЛ.

- HL3
ПОТОК В ВЛ.

- HL4
ПРЕРВАТ. ПРЕРВАТ.

ПРЕРЫВАТЕЛЬ - QSS1
1250 А 380 В 50 Гц

Indirect emissions (CO₂ equivalent), tons



As a result of the work carried out in the field of GHG emission control, the volume of direct emissions at ASCO decreased by 1.8% in 2021 compared to 2019.

Hazardous emissions into the atmosphere resulting from fleet operations during 2019-2021, tons

Emission type	2019	2020	2021
Carbon dioxide (CO ₂)	236,160	240,863	231,887
Nitrogen dioxide (NO ₂)	3,252	3,340	3,338
Carbon monoxide (CO)	1,258	1,297	1,307
Hydrocarbons (CH group)	0.775	0.797	0.822
Particulate matter (PM)	0.262	0.281	0.286
Sulphur dioxide (SO ₂)	1,416	1,450	1,284

Carbon dioxide emissions into the atmosphere from vehicles during 2019-2021, tons

	2019	2020	2021
CO ₂	3,320	2,359	2,602

Carbon intensity ratio for 2019-2021 (volume of emissions in CO₂ equivalent to the number of employees):

	2019	2020	2021
ASCO	28.0	30.0	28.8

GREEN ENERGY

One of the important directions in the fight against global climate change is the substitution of traditional energy resources

with renewable - green energy sources by implementing modern technologies. Our country gives special importance to this sphere, and the "Azerbaijan 2030: National Priorities for Socio-Economic Development" includes targets such as "a clean environment" and "a green growth country". Contributing to this goal, as well as the Global Sustainable Development Goals, is in the central focus of ASCO.

ASCO conducts regular research on scientific and technological progress in the world, innovations and various novelties implemented in the field of shipping, including the use of green energy, the Company studies international experience, and evaluates the implementation of the relevant initiatives. The relevant Deputy Chairman of the ASCO has been appointed as the person in charge of innovative development issues in the field of application of services, technologies and processes on the basis of scientific achievements and digital innovations at ASCO and exercises general control over this issue. Concurrently, the works in this sphere are carried out by the Deputy Technical Director of ASCO on Technical Innovations and New Technologies and the collegial body of the "Scientific and Technical Council". In addition, the Caspian Sea Transport Project and Scientific Research Institute is evaluating the possibilities of the implementation of innovative solutions, including green technologies in the design of new vessels, as well as in the overhaul of existing vessels.

Innovative and green technologies projects, considered as appropriate and reasonable for the application, are included in the Strategic Action Plan of the Company, and the implementation of these projects is monitored by the "Project Management Centre", which is a collegial body established at ASCO.

In addition, the following measures are implemented by ASCO in the mentioned directions:

- Ensuring power supply of vessels from coastal power sources in ports;
- The gradual transition of the merchant fleet vessels to diesel fuel, which is considered a low emission fuel;
- Selecting optimal speed and route which allows for lower fuel consumption, while taking into account the design, technical characteristics of the vessel and weather conditions.
- Commissioning of new vessels, regular repair of existing vessels, timely maintenance and renewal of the engines;
- Installation of ballast water cleaning system on vessels, etc.

Moreover, ASCO has implemented software and digital systems in a number of directions in the field of digitalization and innovation. Detailed information on this software and systems, as well as the measures mentioned above, is provided in the relevant sections of this report.

OIL SPILLS AND EMERGENCY MEASURES

Protection of sea surface from pollution by oil and oil products in the course of transportation of liquid cargo and bunkering process is ensured by relevant preventive measures within the framework of “Annual Environmental Action Plan” and “Emergency and Environmental Safety Program” adopted by ASCO annually. Additionally, the relevant seals have been installed at the discharge points on ASCO’s vessels, to prevent spills into the sea. Vessel crew members and specialized personnel regularly check compliance with the relevant policies, plans and procedures in this sphere, organize training drills, record their results and conduct relevant work based on these results. Apart from that, ASCO vessels are

holding a "Certificate of insurance and other financial security for the damage caused by bunker fuel pollution", as well as a "Certificate of financial security for the damage caused by oil pollution".

In 2020, incidents, regarding to fuel spill on deck, were reported onboard of 3 vessels of the specialized offshore fleet of the Company. These incidents had very low risk and as a result of the measures taken in accordance with the procedures, there was no discharge of oil to the sea. No incident associated with oil and oil product spills occurred in 2021.

FUTURE PLANS

Measures related to environmental protection and management are continuous, and it is important to carry out regular work in this sphere, which is expected to continue in the coming years.

In 2018, the IMO adopted the "International Maritime Organization's Initial Strategy for Reducing Greenhouse Gas Emissions from Ships", which sets out general principles for reducing GHG emissions from vessels, as well as short, medium and long-term goals. In this context, to achieve strategic goals, IMO has initiated a project called "Green Journey 2050", and there emerged a need to develop a "National Action Plan" for the project in individual countries. For this reason, a Working Group, composed of relevant agencies of our country will be set up soon, to develop a "National Action Plan", which ASCO intends to participate in and contribute to the "Green Journey 2050" project.

**GRI
STANDARDS
TABLE**



GRI Standards and Disclosures	Page / Note
GRI 102: General Disclosures - Organization Profile	
102-1. Name of the organization	page 3
102-2. Activities, brands, products and services	page 28
102-3. Location of headquarters	page 134
102-4. Location of operations	page 32-33
102-5. Ownership and legal form	page 34-35
102-6. Markets served	page 32-33
102-7. Scale of the organization	page 18-19, 32-33
102-8. Information on employees and other workers	page 86-87
102-9. Supply chain	page 45
102-10. Significant changes to the organization and its supply chain	There were no significant changes in this sphere during the reporting period.
102-11. Precautionary Principle or approach	There are no spheres of activities of the Company that fall within the scope of the "Precautionary Approach" principle. ASCO does not support activities that are not considered scientifically feasible, the results whereof are uncertain and may result in unrecoverable damage.
102-12. External initiatives	Throughout the report.
102-13. Membership of associations	page 45
GRI 102: General Disclosures - Strategy	
102-14. Statement from senior decision-maker	pages 12-13
102-15. Key impacts, risks and opportunities	pages 69-71
GRI 102: General Disclosures - Ethics and Integrity	
102-16. Values, principles, standards, and norms of behaviour	pages 69-71
102-17. Mechanisms for advice and concerns about ethics	pages 71, 74
GRI 102: General Disclosures - Governance	
102-18. Governance structure	pages 34-35
102-19. Delegating authority	The relevant members of the Management Board of ASCO are in charge of economic, social and environmental issues.
102-20. Executive-level responsibility for economic, environmental, and social topics	The Management Board of ASCO is the top responsible body for the implementation of the Sustainable Development Policy. The Management Board monitors the implementation of the sustainable development policy and its principles defined in all aspects of its activities.
102-21. Consulting stakeholders on economic, environmental, and social topics	pages 44-46
102-22. Composition of the highest governance body and its committees	pages 64-70

GRI Standards and Disclosures	Page / Note
102-23. Chair of the highest governance body	The General Assembly of Shareholders is the highest governance body of ASCO. The powers of the General Assembly are distributed between the President of the Republic of Azerbaijan and the Azerbaijan Investment Holding.
102-24. Nominating and selecting the highest governance body	It is under the authority of the President of the Republic of Azerbaijan.
102-25. Conflicts of interest	The Code of Conduct of the Company defines the relevant rules and measures to be taken by ASCO in the event of conflicts of interest.
102-26. Role of highest governance body in setting purpose, values, and strategy	pages 24-25, 64
102-27. Collective knowledge of the highest governance body	The highest governance body of the Company is composed of representatives with relevant skills and experience. The relevant information on the Company is regularly shared at meetings of the Supervisory Board and its Committees, and collective knowledge is maintained.
102-28. Evaluating the highest governance body's performance	page 67
102-29. Identifying and managing economic, environmental, and social impacts	Within the framework of the Sustainable Development Policy, the Management Board of the Company monitors and manages economic, environmental and social aspects during each reporting period.
102-30. Effectiveness of risk management processes	pages 69-71
102-31. Review of economic, environmental, and social topics	Reviewed in the framework of the Sustainable Development Policy.
102-32. Highest governance body's role in sustainability reporting	The Sustainable Development Report is submitted to the Supervisory Board for approval.
102-33. Communicating critical concerns	It is conducted through meetings of the Supervisory Board and its relevant Committees, as well as submission of information to the relevant state bodies exercising the powers of the General Assembly.
102-35. Remuneration policies	The remuneration policy of the highest governance body is beyond the competence of ASCO. Information on the remuneration of managers at the Company has been set forth in the Corporate Governance section. pages 67-68
102-36. Process for determining remuneration	pages 67-68
GRI 102: General Disclosures - Stakeholder engagement	
102-40. List of stakeholder groups	page 44
102-41. Collective bargaining agreements	page 83
102-42. Identifying and selecting stakeholders	pages 40-43
102-43. Approach to stakeholder engagement	pages 40-43
102-44. Key topics and concerns raised	pages 40-41

GRI Standards and Disclosures	Page / Note
GRI 102: General Disclosures - Reporting practice	
102-45. Entities included in the consolidated financial statements	The consolidated financial statements cover all structural units of the Company and its subsidiaries.
102-46. Defining report content and topic boundaries	pages 40-43
102-47. List of material topics	page 41
102-48. Restatements of information	pages 113, 115
102-49. Changes in reporting	Ötən hesabat dövrü ilə müqayisədə hesabatın əhatə sahəsi və aspektlərin əhatə dairəsində əhəmiyyətli dəyişiklik baş verməmişdir.
102-50. Reporting period	pages 1, 12, 14
102-51. Date of the most recent report	page 12
102-52. Reporting cycle	page 12
102-53. Contact point for questions regarding the report	page 134
102-54. Claims of reporting in accordance with the GRI Standards	page 40
102-55. GRI content index	pages 122-129
102-56. External assurance	pages 130-131
GRI 103: Management approach	
103-1. Explanation of the material topic and its boundary	page 40-41
103-2. The management approach and its components	page 64-65
103-3. Evaluation of the management approach	page 67-68
GRI 201: Economic performance	
201-1. Direct economic value generated and distributed	page 54-55
201-3. Defined benefit plan obligations and other retirement plans	Payments to the SSPF by ASCO are regulated by the Labour Code of the Republic of Azerbaijan.
GRI 202: Market presence	
202-2. Proportion of senior management hired from the local community	page 87
GRI 203: Indirect economic impacts	
203-1. Infrastructure investments and services supported	pages 55, 59, 60
203-2. Significant indirect economic impacts	page 41
GRI 204: Procurement Practices	
204-1. Proportion of spending on local suppliers	page 45
GRI 205: Anti-corruption	
205-1. Operations assessed for risks related to corruption	page 74-75
205-2. Communication and training about anti-corruption policies and procedures	page 74-75
205-3. Confirmed incidents of corruption and actions taken to prevent them	No corruption cases were identified at the Company during the reporting period.
GRI 206: Anti-competitive behaviour	
206-1. Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	ASCO is a 100% state-owned shipping company and there are no cases of anti-competitive behaviour, anti-trust, and monopoly.

GRI Standards and Disclosures	Page / Note
GRI 207: Tax	
207-1. Approach to tax	page 55
207-2. Tax governance, control, and risk management	pages 55, 69-70
207-3. Stakeholder engagement and management of concerns related to the tax	page 55
GRI 301: Materials	
301-1. Materials used by weight or volume	Materials used in the key areas of activity (fuel and lubricants, water, etc.) are disclosed in the report. Considering the significance, other materials of smaller volume have not been included in the report.
301-2. Recycled input materials used	There were no recycled materials during the reporting period.
GRI 302: Energy	
302-1. Energy consumption within the organization	pages 115-116
302-3. Energy intensity	page 117
302-4. Reduction of energy consumption	pages 115-117
302-5. Reductions in energy requirements of products and services	pages 115-116
GRI 303: Water and Effluents	
03-1. Interactions with water as a shared resource	pages 114-115
303-2. Management of water discharge-related impacts	pages 114-115
303-3. Water withdrawal	pages 114-115
303-4. Water discharge	pages 114-115
303-5. Water consumption	pages 114-115
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	The activities of ASCO do not extend to the protected areas or areas of high biodiversity value.
304-2. Significant impacts of activities, products, and services on biodiversity	The activities of ASCO do not extend to the protected areas or areas of high biodiversity value.
304-4. IUCN Red List species and national conservation list species with habitats in areas affected by operations	During the reporting period, there were no species of habitats or plants on the Red List of the International Union for Conservation of Nature in the areas where ASCO operates.
GRI 305: Emissions	
305-1. Direct (Scope 1) GHG emissions	page 117
305-2. Energy indirect (Scope 2) GHG emissions	page 120
305-4. GHG emissions intensity	page 120
305-5. Reduction of GHG emissions	pages 19, 120
305-7. Nitrogen dioxides (NO _x), sulphur dioxides (SO _x), and other significant air emissions	page 120

GRI Standards and Disclosures	Page / Note
GRI 306: Waste	
306-1. Waste generation and significant waste-related impacts	pages 113-114
306-2. Management of significant waste-related impacts	pages 113-114
306-3. Waste generated	page 113
306-4. Waste diverted from disposal	page 113
306-5. Waste directed to disposal	page 113
GRI 307: Environmental Compliance	
307-1. Non-compliance with environmental laws and regulations	No relevant cases were identified during the reporting period.
GRI 308: Supplier Environmental Assessment	
308-2. Negative environmental impacts in the supply chain and actions taken	No significant negative impact on the supply chain was identified during the reporting period.
GRI 401: Employment	
401-1. New employee hires and employee turnover	pages 78, 86-87
401-2. Benefits provided to full-time employees that are not provided to temporary or part-time employees	All additional payments, benefits and privileges provided to full-time employees also apply to temporary and part-time employees.
GRI 402: Labour/Management Relations	
402-1. Minimum notice periods regarding operational changes	page 83
GRI 403: Occupational Health and Safety	
403-2. Hazard identification, risk assessment and incident investigation	page 108
403-3. Occupational health services	page 103
403-4. Worker participation, consultation, and communication on occupational health and safety	The Collective Agreement concluded with the Trade Union is envisaging detailed issues related to the health and safety of employees.
GRI 404: Training and Education	
404-1. Average hours of training per year employee	page 81
404-2. Programs for upgrading employee skills and transition assistance programs	pages 80-81
404-3. Percentage of employees receiving regular performance and career development reviews	pages 80, 87
GRI 405: Diversity and Equal Opportunity	
405-1. Diversity of governance bodies and employees	pages 86-87
GRI 406: Non-discrimination	
406-1. Incidents of discrimination and corrective actions taken	No relevant cases were identified during the reporting period. page 83
GRI 407: Freedom of Association and Collective bargaining	
407-1. Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	No relevant cases were identified during the reporting period.

GRI Standards and Disclosures	Page / Note
GRI 408: Child labour	
408-1. Operations and suppliers at significant risk for incidents of child labour	No relevant cases were identified during the reporting period.
GRI 409: Forced or Compulsory Labour	
409-1. Operations and suppliers at significant risk for incidents of forced or compulsory labour	No relevant cases were identified during the reporting period.
GRI 410: Security Practices	
410-1. Security personnel trained in human rights policies or procedures	Relevant trainings, including trainings on human rights policies and procedures, are provided for security personnel, as part of recruitment procedure.
GRI 411: Rights of Indigenous Peoples	
411-1. Incidents of violations involving rights of indigenous peoples	No relevant cases were identified during the reporting period.
GRI 412: Human Rights Assessment	
412-1. Operations that have been subject to human rights reviews or impact assessments	No relevant cases were identified during the reporting period.
412-2. Employee training on human rights policies or procedures	pages 71, 74
GRI 413: Local communities	
413-2. Operations with significant actual and potential negative impacts on local communities	No relevant cases were identified during the reporting period.
GRI 414: Supplier Social Assessment	
414-2. Negative social impacts in the supply chain and actions taken	No relevant cases were identified during the reporting period.
GRI 415: Public Policy	
415-1. Political contributions	No relevant cases were identified during the reporting period.
GRI 416: Customer Health and Safety	
416-1. Assessment of the health and safety impacts of product and service categories	ASCO does not provide services that may adversely affect health and safety.
416-2. Incidents of non-compliance concerning the health and safety impacts of products and services	No relevant cases were identified during the reporting period.
GRI 417: Marketing and Labelling	
417-2. Incidents of non-compliance concerning product and service information and labelling	No relevant cases were identified during the reporting period.
417-3. Incidents of non-compliance concerning marketing communications	No relevant cases were identified 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 were identified during the reporting period.
GRI 419: Socioeconomic Compliance	
419-1. Non-compliance with laws and regulations in the social and economic area	No relevant cases were identified during the reporting period.

Independent practitioner's assurance report

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

SUBJECT MATTER

We have been engaged by "Azerbaijan Caspian Shipping" CJSC (hereinafter "the Company") to perform a 'limited assurance engagement', as defined by International Standards on Assurance Engagements, (hereinafter the "Engagement"), to report on the material sustainability issues disclosed in its Sustainable Development Report 2020-2021 (hereinafter the "Subject Matter").

APPLICABLE CRITERIA

In preparing the subject matter the Company applied Global Reporting Initiative Sustainability Reporting Standards (hereinafter "GRI Standards") "Core" option and other non-financial reporting principles as set out in the About the Report section of the Report (hereinafter "the Criteria"). We believe that these criteria are appropriate given the purpose of our assurance engagement.

COMPANY'S RESPONSIBILITIES

Company's management is responsible for selecting the Criteria, and for presenting the subject matter in accordance with the Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the subject matter, such that it is free from material misstatement, whether due to fraud or error.

PRACTITIONER'S RESPONSIBILITIES

Our responsibility is to express a conclusion on the presentation of the subject matter based on the evidence we have obtained.

We conducted our assurance engagement in accordance with the International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (hereinafter "ISAE 3000") and the terms of reference for this engagement as agreed with the Company on 14 January 2022. ISAE 3000 requires that we plan and perform our engagement to obtain limited assurance about whether, in all material respects, the subject matter is presented in accordance with the Criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusions.

OUR INDEPENDENCE AND QUALITY CONTROL

We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants and have the required competencies and experience to conduct this assurance engagement.

EY also applies International Standard on Quality Control, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

DESCRIPTION OF PROCEDURES PERFORMED

Procedures performed in a limited assurance engagement vary in nature and timing from and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within information technology systems.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for preparing the subject matter and related information and applying analytical and other appropriate procedures.

Our procedures included:

- 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;
- Review of the 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 2020 and 2021;
- Identification of sustainability issues material to the Company based on the procedures described above and analysis of their reflection in the Report;
- Review of data samples regarding human resources, environment, social investments and procurement expenditures for key indicators as well as data collection processes to assess whether these data have been collated and reported appropriately at the central office level;
- In order to validate the Company's policies, activities, measures and performance results in the Sustainability Report and to collect audit evidence in this regard, we collected evidence from the Sea Transport Fleet, Caspian Sea Oil Fleet, Bibiheybat Ship Repair Yard;
- Assessment of compliance of the subject matter and its preparation process with the Company's sustainability reporting principles; and
- Assessment of compliance of the subject matter with the requirements of the 'Core' option of the GRI Standards.

We also performed such other procedures as we considered necessary in the circumstances.

Conclusion

Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the subject matter is not represented fairly, in all material respects, according to the Criteria.

Ernst & Young Holdings (CIS) B.V.

8 April 2022
Baku, Azerbaijan

ASCO – Azerbaijan Caspian Shipping Company

AIH – Azerbaijan Investment Holding

ABS – American Bureau of Shipping

ASMA – Azerbaijan State Maritime Academy

COSO – Committee of Sponsoring Organization

Denizchi HCC – Denizchi Housing Construction Cooperative

DP – Dynamic Positioning

EBITDA – Earnings before interest, taxes, depreciation, and amortization

GHG – Greenhouse gas

GRI – Global Reporting Index

IEC – International Electrotechnical Commission

IFRS – International Financial Reporting Standards

ILO – International Labour Organisation

IMO – International Maritime Organisation

ISM – International safety management

ISO – International Organization for Standardization

KPI – Key Performance Indicators

MARPOL – International Convention for the Prevention of Pollution from Ships

OHSAS – Occupational Health and Safety Assessment Series

OPEC – Organization of the Petroleum Exporting Countries

PFC – Professional Football Club

PM – Plant Maintenance

QAIP – Quality Assurance and Improvement Programme

SDG – Sustainable Development Goals

SQMS – Safety and Quality Management System

SOLAS – International Convention for Safety of Life at Sea

STCW – International Convention on Standards of Training, Certification and Watchkeeping for Seafarers

TEC – Training and Education Centre

TRACECA – Transport Corridor Europe-Caucasus-Asia

Neftchilar Avenue 2
AZ1003 Baku, Azerbaijan

Phone: (+994 12) 4043700
Fax: (+994 12) 4043800

E-mail: contact@asco.az
Web: www.asco.az