



Sustainability Report

2019-2020

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## Message from General Director

As one of the leading international energy service providers in Azerbaijan, SOCAR AQS is committed to being at the forefront of our industry's shift towards a more sustainable future – challenging not only ourselves, but also our customers, suppliers, and a wider range of stakeholders to partner on delivering measurable social and environmental progress. This translates into concerted efforts to accelerate innovation and to achieve our goals in a way that contributes to energy access and economic development.

The highlight of 2019 and 2020 for us was the global COVID-19 pandemic as for everyone in the world, which drastically altered the way we work and operate. It was essential to preserve the Company's integrity in order to manage the business in a sustainable way during the pandemic. Therefore, the reporting years have been a transformational period for SOCAR AQS, setting the stage for the Company's transition to a new stage of management.

Being a company closely linked to the essential economic activities, we maintained our drilling and well services running during the reporting period, adopting rigorous health and safety measures to ensure the well-being of those working at these locations. Since the onset of the virus, we dedicated efforts to the sterilization of all the facilities in which we operate and later switched to work from hybrid regime, taking every precaution to safeguard the physical and mental well-being of our employees. We established a Crisis Management Committee responsible for business continuity and emergency response policies built according to World Health Organization guidelines. To support the government of Azerbaijan in tackling the pandemic efficiently and protecting the communities, we contributed to the Coronavirus Response Fund. We

continue performing impact assessments to evaluate the potential negative effect of the pandemic on our business going forward. Furthermore, we are willing to show our presence in the global market and share our experience in implementing a hybrid working approach and actions taken during the pandemic.

2020 will be also remembered as a year when Karabakh was liberated after almost 30 years of occupation. It is one of our CSR priorities to support the families of the martyrs, and donate to the reconstruction of the liberated regions of Azerbaijan.

At SOCAR AQS, we understand that our future will expand beyond oil and gas with energy transition, and we strive to position ourselves for significant long-term growth opportunities. Climate change has become a formidable roadblock to our ongoing progress as a society. Our approach is to apply our main expertise in fields that are complementary to our existing operations and use our national footprint and execution platform to deliver at scale. We firmly believe that open collaboration is the best way forward, and we remain committed to working with our customers and partners to foster a business ecosystem that thrives on shared success.

We are dedicated to playing a crucial role in building an energy-efficient world with low GHG emissions and responsible consumption of natural resources. Both in 2019 and 2020, we reduced our direct GHG emissions compared to 2018 (base year) mainly due to operational changes and limited operations caused by the pandemic. In the future, we plan to achieve further reduction in direct and indirect emissions through the implementation of upgraded technology and more responsible energy consumption. As part of our commitment to environmental protection, we continued

training our employees on responsible water consumption and on effective sorting, handling and disposing of hazardous waste.

Today, we find ourselves in a business environment full of uncertainty. We take pride in conducting business with integrity and adhere to the principles business ethics. We believe that compliance with the international regulations and standards, even if not mandatory, is a bulwark against the uncertainties that companies are facing in these unprecedented times of transition. It is therefore an honor to announce that in 2019, SOCAR AQS became a UN Global Compact LEAD company. UN Global Compact creates an active and collaborative platform to generate and implement advanced sustainable practices in the corporate world. Our goal is maintaining our business growth and creating additional value for our stakeholders on a sustainable basis. As the UN Global Compact LEAD company, we will generate and inspire widespread sustainability solutions among our industry peers and beyond.

By publishing this report, which demonstrates our commitment to integrating sustainability priorities into our strategic framework, we want to reinforce creating value for our customers and communities. We are ready and willing to work with partners across the entire value chain, and use innovative technologies to reduce carbon footprints, support environmental protection, and drive greater sustainability. Our dedicated people, who are the foundation that we rely on, are constantly on the lookout to innovate and implement informed strategies that not only drive business growth but also ensure that sustainability is at the forefront of our expansion. We are all in this together, and we optimistically look to a future filled with confidence, innovation, and expectations for a brighter tomorrow.

**Samir Mollayev**

General Director



## About report

### Report Profile

We issue our second Sustainability Report (Report) for the period covering the years 2019-2020 (1 January 2019 - 31 December 2020) with the purpose of informing our stakeholders about our sustainability dedicated activities and performance. The Report also serves as the Communication on Progress (CoP) for informing stakeholders on their status in successful implementation the UNGC principles as the UN Global Compact LEAD company.

Our Report has been prepared in accordance with the "Core" option of

the Global Reporting Initiative (GRI) Standards for the all-around delivery of economic, social and environmental aspects of our operations. For the industry specific disclosures, we have followed the reporting guidelines of International Association of Drilling Contractors (IADC).

The content of the Report is built on the principles of materiality, stakeholder inclusiveness, sustainability context and completeness. We have ensured the quality of disclosed information by applying quality principles of GRI and involving third party for the assurance of key material performance indicators.

Our Report is divided into 15 sections, including information about our Company, scope of operations in relation to sustainability matters, policies, risks, impacts and progress on material topics regarding the environment, social & economic issues and people management. The Report is publicly available both in Azerbaijani and English languages on our website.

### Stakeholder engagement

At SOCAR AQS, we strive to create value for individuals, communities and

organizations affected by or somehow involved in our business operations. Hence, the outcome of our efforts impact our employees, contractors, suppliers, and customers as well as the communities in which we live and work. We, therefore, constantly interact with our stakeholders through various feedback mechanisms, town-hall meetings, conferences, industrial forums etc. In the Table 1. Our stakeholders we have listed the stakeholders, means to connect with them and the shared impact.

Table 1. Our stakeholders

Interest Group	Engagement Method	Value Generated
Employees	<ul style="list-style-type: none"> <li>• Trainings;</li> <li>• Internal recruitment;</li> <li>• Development programs;</li> <li>• Events (town-hall meetings);</li> <li>• Annual Sustainability Report;</li> <li>• People engagement survey.</li> </ul>	<ul style="list-style-type: none"> <li>• Competency and skills development Program;</li> <li>• Career opportunities;</li> <li>• Transparent and motivating working environment.</li> </ul>
Partners	<ul style="list-style-type: none"> <li>• Consultations;</li> <li>• Trainings;</li> <li>• Annual Sustainability Report;</li> <li>• Workshops.</li> </ul>	<ul style="list-style-type: none"> <li>• Industry best practices</li> </ul>
Customers	<ul style="list-style-type: none"> <li>• DWOP (Drilling well on paper) events;</li> <li>• Meetings;</li> <li>• Daily, monthly, semi-annual and annual reports;</li> <li>• Annual Sustainability Report.</li> </ul>	<ul style="list-style-type: none"> <li>• Mutual trust;</li> <li>• Transparency;</li> <li>• Quality work.</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>• DWOP events;</li> <li>• Contractor assessment;</li> <li>• Daily, monthly and post-job reports;</li> <li>• Planning meetings;</li> <li>• On-site visits;</li> <li>• Annual Sustainability Report.</li> </ul>	<ul style="list-style-type: none"> <li>• Quality assurance;</li> <li>• Compliance with standards;</li> <li>• Respect of human and labour rights in supply chains.</li> </ul>

Shareholders	<ul style="list-style-type: none"> <li>Shareholder meetings;</li> <li>Annual Financial Reports;</li> <li>Annual Sustainability Report.</li> </ul>	<ul style="list-style-type: none"> <li>Shareholder value;</li> <li>Transparency.</li> </ul>
Industry Peers	<ul style="list-style-type: none"> <li>Collaboration through IADC;</li> <li>Collaboration through AmCham (American Chamber of Commerce);</li> <li>Partnership through IACET PNG (International Association for Continuing Education and Training Petroleum and Natural Gas Advisory Board), etc.</li> <li>Annual Sustainability Report.</li> </ul>	<ul style="list-style-type: none"> <li>Synergies;</li> <li>Industry Memberships;</li> <li>Industry Groups.</li> </ul>
Academia	<ul style="list-style-type: none"> <li>Internships;</li> <li>Scholarship programs;</li> <li>SPE and IADC Student Chapters;</li> <li>Joint initiatives with leading universities;</li> <li>Annual Sustainability Report.</li> </ul>	<ul style="list-style-type: none"> <li>University Collaborations;</li> <li>Hands-on experience;</li> <li>Employment opportunities.</li> </ul>
Government entities	<ul style="list-style-type: none"> <li>Regular reporting;</li> <li>Public Meetings;</li> <li>Ministry inspections and audits;</li> <li>Annual Sustainability Report.</li> </ul>	<ul style="list-style-type: none"> <li>Mutual trust and transparency;</li> <li>Government events.</li> </ul>
Local Communities and NGOs	<ul style="list-style-type: none"> <li>Community development programs;</li> <li>Charity activities;</li> <li>Public Event Sponsorship;</li> <li>Social media;</li> <li>Annual Sustainability Report.</li> </ul>	<ul style="list-style-type: none"> <li>Financial support;</li> <li>Events accelerating local community development.</li> </ul>
Media	<ul style="list-style-type: none"> <li>Press releases;</li> <li>Interviews;</li> <li>Annual Sustainability Report.</li> </ul>	<ul style="list-style-type: none"> <li>Communication with stakeholders;</li> <li>Communication of major activities.</li> </ul>

## Materiality analysis

Materiality analysis has been conducted in order to obtain closer insight about the expectations of stakeholders and identify most significant topics to our business operations. Integrated Management Systems (IMS) was responsible for carrying careful materiality analysis through following steps as recommended by GRI:

**1. Identification:** of the material topics based on stakeholder engagement

outcomes, review of the main company policies and operations, while considering global sustainability practices, media publications, the GRI recommendations;

**2. Prioritization:** of topics according to the expectations of stakeholders and Company target areas owing to stakeholder engagement experience and review of strategic development goal plan of the Company;

**3. Validation:** of Executive Committee and Management Board to ensure alignment with high-level corporate goals;

**4. Review:** Performance and progress is evaluated and reported to Parent Holding Executive Committee (EXCOM) and Board of Directors (BOD) in quarterly reports.

This year, we have decided to highlight material topics that are relevant to our Company and stakeholders in a moderate, high and very high levels. Figure 1. Materiality matrix illustrates our materiality matrix, highlighting 27 performance areas that fits in this range.

Figure 1. Materiality matrix

**Economic**

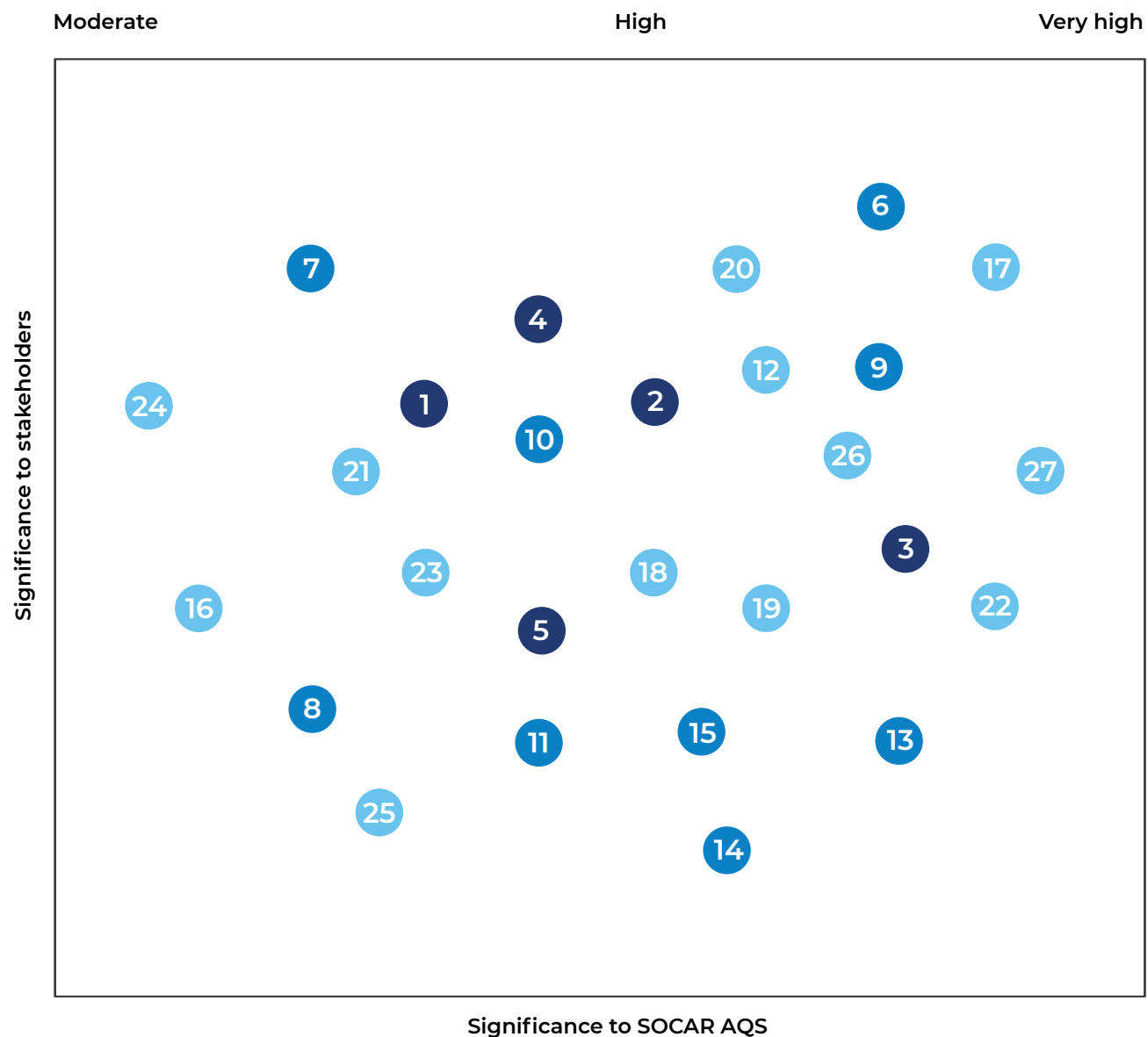
1. Local Employment
2. Tendering Process
3. Economic Performance
4. Job creation-retention
5. Investment in sustainable innovation

**Social**

6. Crisis Management and Emergency preparedness
7. Leadership, Diversity and Equal Opportunity
8. Impacts on local communities
9. Occupational health and safety management
10. Process safety
11. Payment to Government
12. Corporate Governance, Transparency and Compliance
13. Risk Management
14. Employee engagement
15. Training and development

**Environmental**

16. Biodiversity and ecosystem services (BES) impact management
17. GHG emissions - Emissions to Air
18. Efficiency of operations
19. Waste Management
20. Oil spills
21. Renewable Energy and Distributed Energy Resources
22. Research and Development
23. Water Management
24. Water Pollution
25. Water Withdrawal
26. Supply Chain Sustainability
27. Drilling Waste



# Company profile

SOCAR-AQS Limited Liability Company (hereafter, SOCAR AQS) was established in 2007 as an integrated drilling and well maintenance management company. Our activities are mainly carried out in the territories of Azerbaijan and Turkey. The main feature of the Company is the experience of industrial oil drilling and the use of advanced technologies and the latest management methods. Currently, SOCAR AQS mainly provides works and services related to the drilling of oil and gas wells, as well as, industry-specific supply chain management, warehouse management, and other related services. The main strength of the Company is delivering the oil and gas wells on turnkey. While rendering these services, we pay special attention to use high tech equipment that meets modern requirements and international standards.





The Company attaches great importance to ensuring safety, environmental protection and high quality of services at all stages of its operations along with delivering quick drilling services. As a result, SOCAR AQS has been a contractor member of the IADC since 2009 and has been evaluated and certified to meet the requirements of international standards such as ISO 9001: 2015, ISO 14001: 2015 and ISO 45001: 2018, IADC Competence Assurance Accreditation (CAA), API Spec Q2. In 2017, SOCAR AQS was certified by American Petroleum Institute (API) for providing integrated offshore oil and gas drilling and production services. We have maintained compliance with the mentioned standards in the reporting years, as well.

### Major events during the reporting period

Since entering the market, SOCAR AQS has been actively involved in various projects at the national and

international level to develop its business in a sustainable manner. Shortly after joining in the UN (UN) Global Compact in November 2018, SOCAR AQS became the first Azerbaijani company to be selected as an UN Global Compact LEAD in September 2019. During the weeklong meeting of the leaders of the UN Global Compact in New York, SOCAR AQS was rated as one of the most active companies participating in the world's largest corporate initiative to ensure sustainable development.

Moreover, SOCAR AQS has been demonstrating the fulfillment of its commitments under the UN Global compact by participating in such working platforms as "Reporting on the Sustainable Development Goals" and "Decent work in global supply chains". Each Global compact platform encourages businesses, leading professionals, civil society, governments, and UN partners to participate in addressing complex and interrelated issues through an innovative approach

aimed at achieving sustainable development goals.

Our Company strives to expand its operations and gain global recognition. Therefore, in 2019, SOCAR AQS started its operations in Turkey, winning a contract to oversee drilling operations under the project aimed at expanding the underground gas storage (UGS) in Tuz Golu. Another significant achievement in our overseas operations was the completion of a drilling project in Bangladesh.

2019 is also memorable with the fact that we became the first company in Azerbaijan to join the Global Reporting Initiative (GRI) Community. Our Company has started to implement advanced standards to improve transparency and accountability, which are considered an important factor for economic development and progressive management. We believe the application of GRI standards will help us to further

strengthen relationships with our stakeholders, at the same time increasing our market competitiveness.

In 2020, we put our efforts into the competence development of our employees and are proud to be accredited by IADC's CAA. The program ensures a structured and documented process of identifying, defining, assessing, developing, and managing the continuous competence of the Company personnel.



Table 2. Notable events of 2019-2020

Interest Group	Engagement Method
09/03/2019	SOCAR AQS completed drilling operations of the deepest exploration well#16 on the Platform #1 at the "Umid" field in the history of SOCAR
16/04/2019	«Turan Drilling & Engineering» - a joint venture company established in 2018 was awarded its first contract for the management and maintenance of drilling rigs by BP Exploration (Caspian Sea) Limited (BP).
23/09/2019	SOCAR AQS completed drilling of a well №113 in Bulla-Deniz field
26/09/2019	SOCAR AQS became the first Azerbaijan company announced as UN Global Compact LEAD.
18/10/2019	SOCAR AQS and China CAMC Engineering Co., Ltd-IC İctas Construction Industries & Trade Inc. JV have signed a drilling contract for the Expansion of Tuz Golu underground gas storage project in Turkey.
08/11/2019	SOCAR AQS became the Global Reporting Initiative Community Member.
06/12/2019	SOCAR AQS planted 2000 trees in the tree planting campaign on planting 650 thousand trees a day in honor of İmadaddin Nasimi's 650th anniversary.
20/12/2019	SOCAR AQS established a Drilling Training Center in Baku - Baku Drilling School.
09/02/2020	SOCAR AQS organized an Energy Hackathon project for students in cooperation with Texas A&M.
10/02/2020	SOCAR AQS and Halliburton entered into agreement to provide broad suite of oilfield products and services in Azerbaijan.
14/02/2020	The Human Capital Team of SOCAR AQS attended "HR Meetup"
16/02/2020	Winner of Energy Hackathon participated in the virtual stage of Invent for the Planet 2020 competition.
22/03/2020	SOCAR AQS transfers 1.5 million AZN to Fund to Support Fight Against Coronavirus.
01/07/2020	SOCAR AQS has achieved accreditation for compliance with IADC's requirements for CAA in 38 positions.
19/08/2020	Turan Drilling and Engineering has been awarded a contract amendment to manage procurement, maintenance and warehousing activities on behalf of BP.

## Our operations

Due to the professionalism of SOCAR AQS team, we have been successfully working not only in the Republic of Azerbaijan, but also overseas since 2017. The Company is constantly expanding its technological capabilities and improving the management system to increase drilling performance. Our services include:

Drilling oil and gas wells on turnkey including design and execution	Well design and well construction material identification	Casing running services	BOP and well head provision and repair	Drilling side tracks, multilaterals
Well completion and work over	Drilling offshore deep gas, HP/ HT wells, high angle and horizontal wells	Completion programs	Drilling fluid programs	Mud logging programs

In 2020, SOCAR AQS conducted drilling operations in four oil and gas fields in the Caspian Sea, including six drilling rigs on five platforms available in the Gunashli, Umid, Bulla, Western Absheron fields and eight onshore rigs in Tuz Golu. One of our overseas operations was a drilling project in Bangladesh, which was completed in 2019.

### Bulla Deniz

Bulla-Deniz field is located in the northern part of the Baku archipelago, 10 kilometers southeast from the Sangachal-Duvanny-Khara Zira island field. SOCAR AQS became the first drilling company in the Caspian region, who successfully carried out geophysical surveys and formation pressure measurements at the Bulla-Deniz field. Moreover, SOCAR AQS was the first drilling company in the Azerbaijan area of the Caspian Region to conduct coring operations from Horizon V and Horizon VII of HP/HT Bulla-Deniz field in compliance with international standards. Within 2019, SOCAR AQS has successfully completed drilling of another well #113, without any accident and considering environmental protection.

### Guneshli

Gunashli is an offshore oil field in the Caspian Sea, located 120 kilometers

east of Baku. Recently, for the first time, SOCAR AQS applied modern well diverter technologies in the shallow part of the Guneshli field. These technologies are necessary to eliminate unexpected flow of formation fluids from shallow sediments. We plan to continue using the mentioned technologies in future as well. Additionally, to prevent potential accidents on the platform #13, we conducted the side cutting of the existing shaft using a rotary drilling rig. On platform Guneshli, the Company commenced the well #347 and completed works of the well #346 both located on the Platform 11 within 2019. Within 2020, continued drilling operation in well#347 and completed successfully. The other active operating platform in Guneshli field is the Platform 7. Within 2019 and 2020 the company completed seven directional wells and one exploration well from Platform 7. As the greatest importance of the Company's value is the provision of health, safety and protection of environment, main focus

was concentrated not only to drilling the wells in a short time period, but also to maintain safe circumstances throughout construction period.

### Umid

Umid field is the second largest gas field in Azerbaijan situated in the South Caspian Sea, approximately 75 kilometers southeast of Baku. In 2019, we completed the drilling of the deepest well #16 on platform #1 at the Umid field. Well #16 broke a new ground in "Umid" field exploration history with the pipes laid to the target well depth, with unmatched well cementing and without any recorded case of the backpressure. Productive reservoir formation pressure and core sampling at "Umid" field represent other attainments of the Company.

### West Absheron

The West Absheron field is located on the North of the Absheron Peninsula of the

Caspian Sea, 65 kilometers from Baku. In the reporting period, we completed drilling works for the sixteen directional wells, one exploration well and one multilateral well. Besides, SOCAR AQS conducted unique geophysical operations at West Absheron field, for the purpose of investigating the potential of the West Absheron Field.

### Turkey

SOCAR AQS signed a contract in 2019 to drill and deliver 40 wells in the Tuz Golu area of Aksaray region of Turkey. The drilling operation has been completed in a total of 23 wells in 2019 and 14 wells in 2020. The expansion of Tuz Golu underground gas storage is vital for meeting the natural gas demand of Turkey, and SOCAR AQS will contribute to successful execution of this mission.

# Sustainability approach at SOCAR AQS

We aim to integrate merits of sustainability – economic, environmental and social considerations into the decision-making processes in every pillar of our business activities. We understand each employee plays an undeniably significant role in this integration process. SOCAR AQS advocates employees' awareness on sustainability opportunities and challenges and encourages them to participate in various training and sessions. Thus, all workers have been provided with an access to the UN Global Compact Learning Academy materials and resources. During the reporting period, our employees participated voluntarily in training sessions on the following topics: action for the sustainable development goals, environment and climate, social sustainability, and sustainable finance.



Our management leads by example in terms of incorporation of sustainability issues into their daily decisions. The leadership's commitment to the implementation of responsible business activities can be evidenced by the incorporation of 10 universally accepted principles of the UN Global Compact, as well as our other important sustainability initiatives disclosed throughout this report.

### Sustainable development management structure

For the sake of achieving the long-term development targets, we seek to continuously improve our sustainable development management structure. With this purpose, relevant Key Performance Indicators (KPIs) and clear expectations are set in the annual action plans developed for each department. The departments communicate their corresponding actions leading to the progress on the set action plans to our General Director and Management Board at the weekly management meetings. Such meetings

and communication mechanisms help us to monitor our actions, evaluate our management approach to sustainability and make necessary updates to the action plans and our approach, if necessary.

Owing to the integrated approach at SOCAR AQS, each employee perceives the importance of ensuring quality, safety, and sustainability at every aspect of the work they perform. Our Integrated Management Systems (IMS) department continues to be the main driver of the sustainability management issues at the Company. Along with developing structure aiming to maximize the quality and effectiveness of well drilling, IMS department is responsible for the acquisitions of the international certifications to ensure the professionalism level of our employees and the effectiveness of our operations.

### Vision and mission

To develop and review the Company's strategic vision, mission and our corporate

values, we hold a Strategy workshop at the end of each year. During the reporting period, our senior and mid-level management participated in such a workshop to discuss the new industry threats and opportunities and review the Company's strategy. The workshop resulted in the following updated vision and mission statements:

**Strategic Vision:** Add the highest value to stakeholders being a modern international company by delivering integrated and efficient energy solutions.

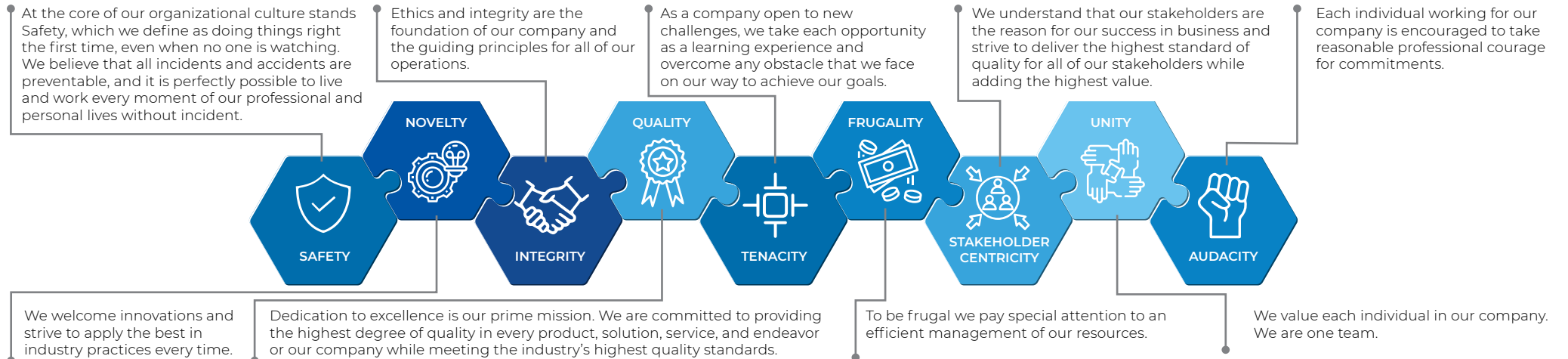
**Mission:** To continue Azerbaijan's historically leading role in modern energy industry.

Our strategic vision and mission has changed since the last year to capture not only the oil and gas industry, but also the broader energy industry. Moreover, we decided to focus on adding the highest value to all our stakeholders as we grow, which is an additional point factored into our mission and vision statements.

**Values:** We adhere to the same values that we set from the day one of commencement of our operations. This year we decided to change our **Customer centricity** value to **Stakeholder centricity** as it takes into account all of the community including our customers, employees, suppliers, and society. We added a new value – **Audacity**, which shows that we will commit to taking professional courage in all our endeavors. All of these changes have been implemented with the alignment to the Company's new mission, vision and strategy.

At SOCAR AQS, each employee should act in accordance with the Company vision, mission, values, and norms of behavior. Everyone is required to participate in mandatory trainings, organized by the Learning and Development Department. Our values and behaviors encompassed in the Code of Conduct & Business ethics issued by Nobel Oil Services. Moreover, we have distributed employee handbooks with detailed description of the Company's norms to all employees.

### Our values are:





## How we define our strategy

At the end of each year, we gather all C-suites, managers and specialized associates at the strategy workshop as explained above. Here, we review aspects affecting the triple bottom line (TBL) both internally and externally. During the discussion, the sectoral trends in all three pillars direct the team to update vision, mission, and values of the Company, and to determine and revise key priority areas and strategic targets for the next years. The Company commits to deliver and bring maximum value to the key priority areas identified in the strategy workshop.

During the reporting period, we organized a strategy workshop, where management reviewed the performance plan and progress leading us to Company-wide strategic goals, while analyzing different potential and desired scenarios. As the next step, each department defined its departmental goals, aligning them with the Company goals and the key priority areas defined by the Company. Eventually, through cascading corporate and departmental goals down, employees formed their own individual targets that will contribute to the overall Company level achievement. To establish such individual targets, Human Capital Division conducted special training sessions, where all SOCAR AQS employees were trained on the Company's updated vision, mission, values, strategy, key priorities and Company targets for the next years.

The overall process described above is management by objectives, and acts as a starting point for our performance management process implemented

throughout the year. Our plan is to develop a common platform for assisting delivery of expected action plan to each department and effective monitoring process of the unit's progress towards the particular target.

Our strategy workshops ensure that the C suites maintain responsibility to align their departmental targets with the Company targets, vision, mission, values, and strategy. Furthermore, we make sure that each new employee, when joining the Company, receives information on the above-mentioned matters during the orientation and induction trainings. Thus, at the end of each year, during the performance review, we assess all employees on the results of their commitment to the Company targets defined during the Strategy workshop.

## Contribution to the UN Sustainable Development Goal

We have joined Reporting on Sustainable Development Goals (SDGs) Action Platform to take actions in support of UN sustainable development goals and Decent Work in Global Supply Chains Action Platform, to ensure decent working conditions in our supply chains.

As a participant of UN Global Compact since 2018, our decisions and actions are aimed at serving human and labor rights, environment and anti-corruption. In 2019 we became member of GRI Community to establish a regular sustainability reporting cycle, an effective data collection and communication system. In 2020, as UNGC member, we participated in a workshop on the shaping of a new

cooperation framework between the United Nations and the Republic of Azerbaijan. The purpose of the event was to identify the strategic priorities of the United Nations Sustainable Development Cooperation Framework (UNSDCF) between the UN and Azerbaijan for 2021-2025.

## Prioritized SDGs and specific organizational targets

It is worth to highlight that achieving the target figures in all SDGs and contributing to the development of our society is our ultimate goal. Material topics were selected in 2018 considering the Company's new direction to apply sustainable practices in its operations and become economically, socially and environmentally responsible company. Thus, we have also selected 2018 as the base year for reporting our reduction targets. Strategy Deployment Project established in 2018 allows us to prioritize key focus areas and purposefully serve target areas.

Following the performance evaluation of the years 2019-2020 with the purpose of assessing and updating our strategy, we revised our key priority areas:

1. To align organizational structure to strategic intent
2. Competency development (leadership, technical, project management, budget management, etc.)
3. QHSSE & Risk management
4. Investment in SMART (Self-Monitoring Analysis and Reporting Technology) and innovative technologies

5. Diversified sustainable growth (geographies, rigs, clients, services)

Considering our strategy, mission and vision, we have developed organizational sustainability goals in addition to our quantitative targets. Table 3. Organizational goals and our progress indicates our goals and progress achieved towards each goal in 2020.

Table 3. Organizational goals and our progress

Organizational goals	2020 comments
Continuous financial and organizational support for education, women empowerment	As a UN Global Compact Lead company, we are eager to show commitment to the Women Empowerment Principles. Our plans include formalizing our commitment and performing a gap assessment for further actions on ensuring gender equality in the workplace.
Ensure 100% of SOCAR AQS employees are trained on sustainability awareness	We are planning to purchase a training in sustainability awareness from a professional third party in 2021.
Continuous improvement in safety	Recently developed 5-star Security Program stimulates worker's adherence and commitment to Health & Safety regulations.
Continuous reduction, reuse and recycling	All the waste produced from our operations are out-sourced to the relevant waste-material recycling enter-prises for handling. We monitor such third parties to make sure that they comply with local legislations and international best practices.
Maintaining NPT level of less than 3%	We continued our collaborative efforts to increase operational efficiency and productivity, and reduce idle time occurred due to equipment and supply chain related matters to a minimum level as much as possible.



## Governance and ethics

### Corporate governance

Our commitment to increasing our market share, through sustainable development, investment in local community and protection of our environment is not possible without effective leadership. With this in mind, our corporate governance is a set of guidelines, rules and processes for the Company and the BOD to enable successful leadership and achieve our targets.

Our BOD is composed of skilled individuals from our shareholder companies and independent non-executive members, with passions and commitment to sustainable development of the Company and the industry. The Board periodically reviews and evaluates the director competencies and the skills of its members. As well as the BOD, our EXCOM, consisting of C-suites management, takes an important role in developing and reviewing our Economic Social and Governance (ESG) measures. Quarterly financial, human capital and technical process reports are submitted to the EXCOM for review and analysis.

Based on this analysis, changes and improvements are applied to our ESG measures. New ESG course of action or changes to an existing one can be initiated either by management or by the responsible department. Upon review of the proposed action, implementation is delegated to the relevant departments and committees and is supervised by the necessary management group.

With the aim of well-organized and managed corporate governance, we have established the following committees and commissions.

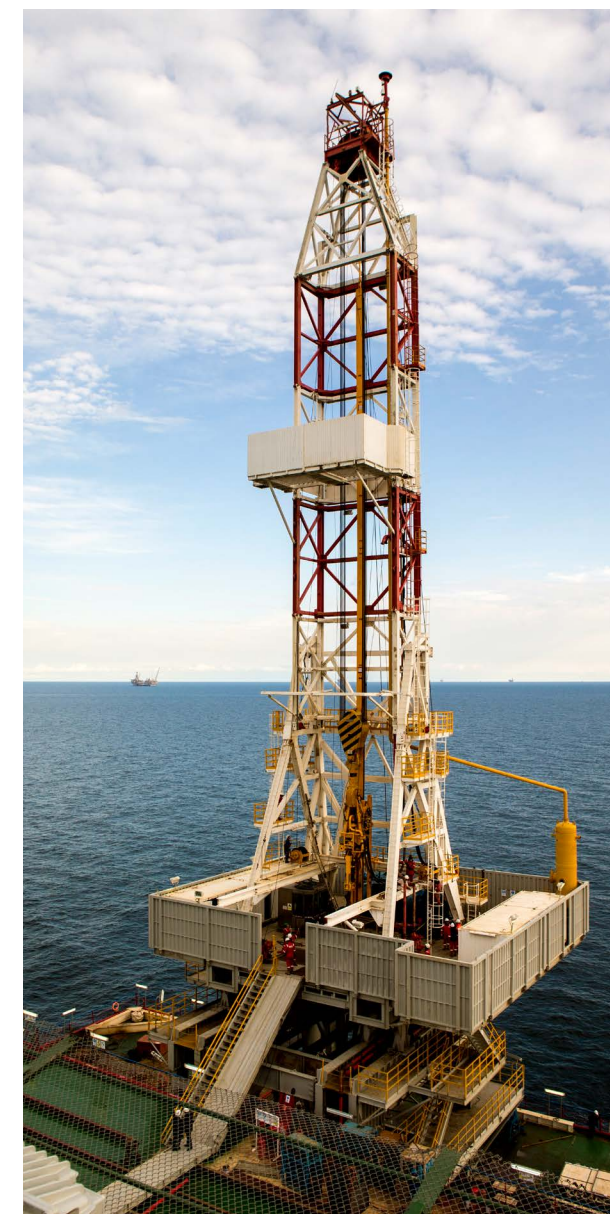
These committees and commissions allow us to make well-balanced and organized decisions on ESG measures, as well as to implement and monitor them in accordance with legislative requirements and international best practices.

Our remuneration framework, developed in partnership with third party consulting firm has been finalized. Currently we operate fix salary and performance based bonuses system. However, the new Framework takes into the consideration

the work done and not the position held by the individual, allowing us to apply it to all of our employees. This is important as it allows us to create a minimum consistent bottom-line. Based on our planned strategy, individual and departmental Key Performance Indicators (KPIs) will be established, and cascaded to individual scorecards. KPIs will be developed by SOCAR AQS and approved by Nobel Oil Services, as the ultimate parent company. In 2019, all SOCAR AQS EXCOM members had scorecards, and in 2020, all employees of SOCAR AQS will receive their scorecards. These cards are reviewed quarterly and included in reports to EXCOM and BOD. Senior Management KPIs include ESG matters and are directly linked to remuneration and nomination processes.

**Table 4. List of active committees and commissions for year 2020**

Committees	Reports to	Function
Risk Management	General Director	Monitors and controls risk management processes of the Company.
Budget	General Director	Plans and monitors Company's budget.
Crisis Management	General Director	Monitoring and detecting the early signs of a crisis and identifying vulnerable areas.

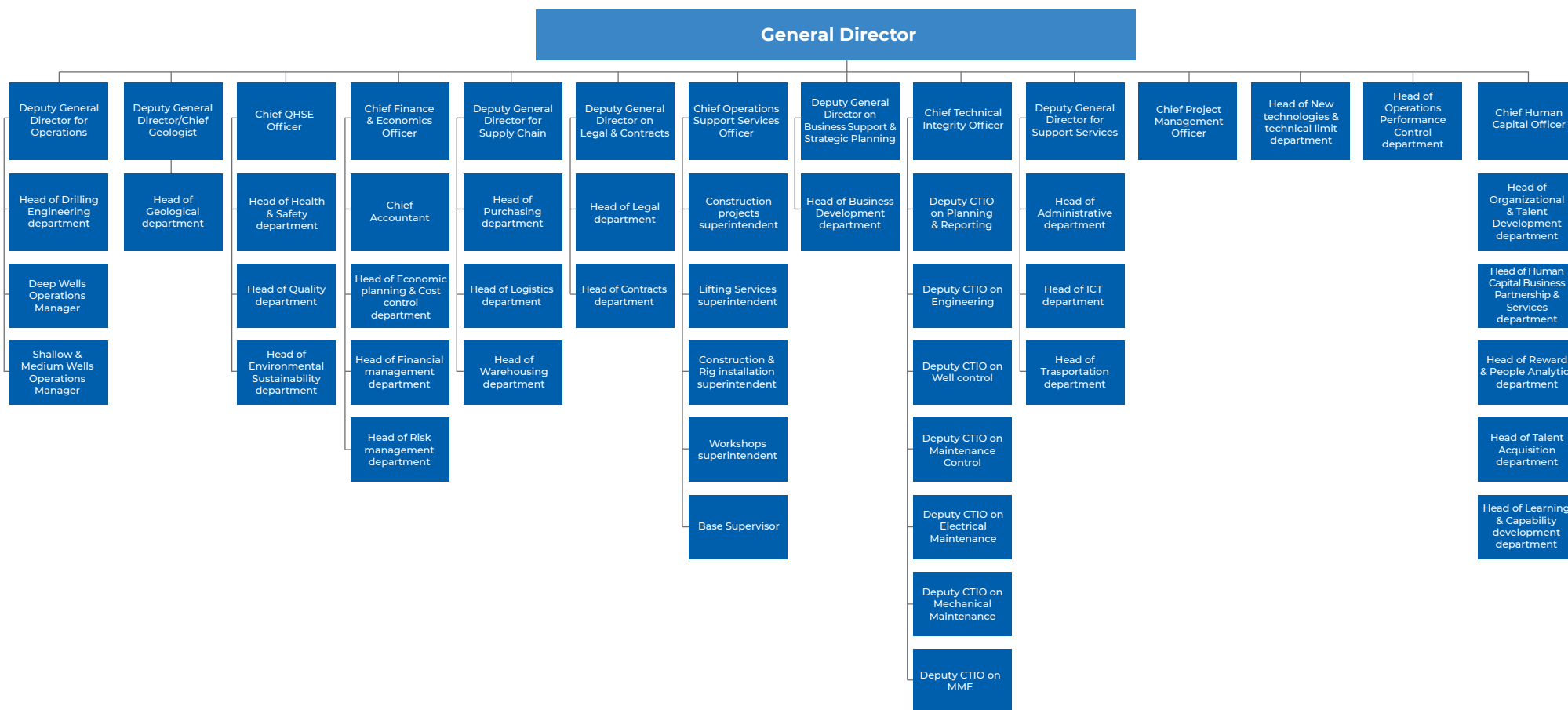




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Figure 2. Organizational structure of SOCAR AQS



**Governance partnership**

We are continuing our partnerships with leading public and private accredited training, compliance and engineering companies to enhance and develop our corporate governance. In 2019, in partnership with the third party, as part

of employee development program, we conducted “Senior Management Leadership Development” assessment. Gap reports were established for individuals and based on these reports; individual plans were created and integrated with scorecards to develop necessary leadership skills of our senior

management. The other example is the partnership with IADC, through which SOCAR AQS has achieved full accreditation of thirty-eight positions in the regions of Azerbaijan, Turkey, Bangladesh and Ukraine under the CAA program. This program consists of technical and environmental safety

training with IADC certification, through field observations. The program was successfully completed in 2020.

**Internal audit**

To achieve our transparency and ethics targets and to ensure the sustainable



development of our business, we have developed an internal audit process that schedules annual audits based on criticality of the business process. Key results are analyzed and compliance with international standards set by API and ISO, as well as local legislative requirements are reviewed. We constantly evaluate and streamline our internal audit process to ensure oversight and validation as a part of this process.

In 2020, we have performed internal audit of our environmental management, health and safety, as well as, the quality systems in line with the adopted ISO 9001, 14001, 45001, IADC and API SPEC Q2 requirements. No significant non-conformities were identified as the result of the internal audit procedures performed.

### Compliance integrity

It is our objective to develop and integrate our business processes, by complying with the local legislative requirements and conforming to the best of our ability with the industry standards and best practices.

### Business ethics

We are fully dedicated to ensure the highest level of integrity and transparency in all aspects of our business operations. With this in mind, we follow "Code of Conduct & Business Ethics" Code (the "Code") issued by our parent company, which ensures that we comply with all applicable international and local laws in the countries in which we conduct business.

The Code reflects our values of safety, integrity and transparency. It applies to all our employees, contractors and critical suppliers; any illegal or unethical action is intolerable. We operate an open door policy, and encourage employees

to immediately report violation of the requirements to the Senior Management. Updates and changes included in the Code were introduced to our employees during inductions, and their knowledge is enhanced through awareness raising trainings delivered on regular basis.

Our reputation and trust is built on the relationships with our stakeholders. Any conflict of interest can negatively affect our relationships with both external and internal stakeholders. The Code also regulates this important, yet delicate issue. As with any internal policy and procedure, the document will be reviewed and updated to meet the legislative requirements and industry best practices on a regular basis.

### Anti-corruption, equal employment, anti-discrimination and harassment

We have zero tolerance for corruption, our Anti Bribery policy is developed in line with UK Bribery Act (2010) and our Business Ethics Policy. The policy includes reporting process, if an act of corruption is suspected or observed by any of our employees and other stakeholders. Our employees constantly take part in trainings on how to identify bribery and report on corruption. In 2020, all new employees of SOCAR AQS that is 68 individuals received instructions on anti-corruption issues during their induction period. As a voluntary initiative based on UN Global Compact guidelines, it is planned to start mandatory anti-corruption trainings for all of our employees.

We provide equal opportunity when making employment decisions. Our employment process is developed according to the Labor Code of the Republic of Azerbaijan and aimed to protect the worker rights. We observe the

fair employment laws in the jurisdictions in which we operate and prohibit discrimination and harassment based on race, color, sex, religion, national origin, age, marital status, sexual orientation, gender identity, disability or any other characteristic. Our employment policy and procedures state the reporting process of employee grievances, and employees are familiarized with these procedures via awareness raising trainings conducted regularly.

### Human rights management

Our success is based on our commitment to respect Human Rights and provide a safe and secure workspace to our employees. We support and comply fully with the local employment and labor laws and are a strong opponent of any form of forced, involuntary and child labor, or human trafficking. Our Human Rights policy is developed according to local legislation as well as:

- UN Guiding Principles on Business and Human Rights;
- The International Bill of Human Rights;
- The International Labor Organization's Declaration on Fundamental Principles and Rights at Work.

We attend international conferences to understand sector-wide business initiatives on human rights and create a collective approach with industry peers. In 2019, we participated in the UN Forum on Business and Human Rights to promoting corporate respect to human rights.

We strongly encourage our stakeholder to report any potential or existing human rights concerns or violations directly or anonymously to us. In case of violation of human rights and improper behavior, the

grievance system allows employees to approach the Human Capital department to address their concerns or using existing communication mechanisms directly contact our General Director. Induction trainings are provided for all employees on human rights concerns, and from 2021 more trainings specific to human rights will be provided in line with the UN Global Compact guidelines.

### Legal compliance

It is vital to comply with all the necessary rules and laws of the jurisdiction in which we operate, to be able to fulfill our commitment with sustainable development. Protection of environment, people and our society is at the heart of our strategy. Thus, acquirement and review of necessary licenses and permits is of paramount importance. It is therefore great pleasure to state that we had no confirmed case of corruption or non-compliance with local protective, social, environmental and economic legislations during the reporting period.

### Compliance management

We fully adhere to the guidelines and recommendations of the UN Global Compact for reporting on sustainability development. In May of 2019 our employees participated in the "Lab 1: Prioritizing SDGs to act and report on in a principled way" event in Amsterdam organized by the UN Global Compact and GRI. The aim of the event was to discuss major challenges and opportunities that companies are facing when reporting on sustainable development and the sustainability ecosystem, in general.

SOCAR AQS also actively takes part in conferences, summits and roundtables



of our partner and leading industry organizations, either as a participant or as a member. In September of 2019, we participated in the UN Global Compact Leaders Week organized within the UN General Assembly, in New York. In 2019, SOCAR AQS also become a member of GRI community.

We thrive to fully comply with the global and industry best practices in all our operations. Our devotion to such compliance can be supported with continuous internal and external audits. In 2020, SGS audit was conducted for ISO standards, as a result no major non-conformities were identified. Moreover, we have undergone an API audit in

2020 to strengthen our commitment to compliance. The audit concluded that there were no major findings and determined that SOCAR AQS has a well-established and managed preventive maintenance, inspection and testing programs.

### Risk management

SOCAR AQS operates in energy industry, which is subject to uncertain social, economic, financial and environmental conditions per its nature. Therefore, the effective and proactive management of such uncertainties and risks is of utmost importance to us. Understanding this, in 2019, we established a separate Risk Management Department, who is

responsible for the creation of a dynamic risk management system. We believe, such risk management system allows us to continuously analyze financial and operational risks, in order to easily adapt to the changes in our business environment. At the same time, aligning enterprise risk management with environmental protection helps us to further achieve progress towards our sustainable development agenda.

### A common approach to risk management

Our risk management process is guided by the Internal Risk Management procedure, which was revised in 2019

to reflect relevant organizational changes and to include amendments in line with the ISO 31000/ COSO ERM requirements. The main objective of our risk management process is to ensure the degree of confidence that the objectives set out will be achieved through the identification, analysis, and management of possible risks. We do not aim to avoid risks completely, but try to manage risks in a balanced manner, taking into account the level of importance and seriousness of risks and the volume of costs associated with the measures aimed at their management. Table 5. Holistic risk management approach demonstrates most important steps in our risk management processes.

**Table 5. Holistic risk management approach**

<p><b>Step 1: Risk Identification and classification</b></p>	<p>Risk registers prepared by structural divisions act as a starting point in our risk management process. The registers present risks identified by each division at SOCAR AQS, as well as the control measures relevant for those risks. Risk Management Department reviews the risk registers and methodologically evaluates them together with the heads of the structural divisions. After making necessary amendments, Risk Management Department forwards the updated risk registers to the Risk Management Committee for approval.</p>
<p><b>Step 2: Risk assessment</b></p>	<p>Risk Management Department, together with the structural divisions, assesses each risk in the risk register per following categories:</p> <ul style="list-style-type: none"> <li>• The probability of each risk;</li> <li>• The potential consequences of each risk.</li> </ul>
<p><b>Step 3: Prioritization</b></p>	<p>Based on the risk assessments conducted, identified probabilities and consequences, risks are grouped into the following risk categories:</p> <ul style="list-style-type: none"> <li>• Low risk;</li> <li>• Medium risk;</li> <li>• Significant risk.</li> </ul> <p>These categories are used to prioritize risks and the results of such assessments and categorizations are reflected in Risk passports.</p>
<p><b>Step 4: Preparation and implementation</b></p>	<p>Afterwards action plans corresponding to risks are developed, approved, and sent to the responsible persons for execution, indicating the risks, measures for their management, and responsible persons. During the indicated implementation period, the persons responsible shall carry out the intended measures.</p>
<p><b>Step 5: Monitoring</b></p>	<p>Our risk management process also requires us to have an approved monitoring plan, which serves to carry out monitoring of the implementation status of measures reflected in the risk passports. Performance of the Risk Management Department is quarterly monitored by the Risk Management Committee, which consists of executives from Finance, Legal, Operations and HSE departments.</p>

Moreover, as management of risk in every business activity gets interactively assessed with the cooperation of Risk Management department and the relevant business process owner, we have developed an optimized change management procedure (MOC). This procedure ensures that all health, safety

and environmental risks are monitored during operational, strategic and technological changes.

### Future outlook

We are committed to maintaining a continuously advanced and improved

dynamic risk management system at SOCAR AQS.

We believe, by having employees who are certified experts at the risk management area will help us to identify potential risks and respond to them in a timely manner. For this purpose, in the near future

we plan to introduce trainings for risk management employees on the essential standards that are required.



# Supply chain

At SOCAR AQS, we promote consistency in the procurement and logistics practices within our supply chain, sharing our vision and values with business partners. As a member of Decent Work in Global Supply Chains Action Platform of the United Nations Compact, we continue to direct our supply chain activities by fundamental principles of human and labor rights, urging our suppliers to maintain decent working conditions through long-term trustable and transparent relationships.



Our collaborative efforts are aimed to increase operational efficiency and productivity, and reduce idle time occurred due to equipment and supply chain related matters to a minimum level as much as possible. To meet expectations of our clients, we should be able to implement annual Drilling Operations plan on time. Therefore, we target to lower equipment related NPT (non-productive time) below 3% and equalize supply chain related NPT to zero for accomplishing project in accordance with the planned dates.

### Supply chain management

Currently, we execute various oil and gas drilling projects with six rigs on five platforms in four offshore oil and various gas fields under local and international contracts. Our accomplishments in global tenders are the outcome of our responsible commitment to the highest standards of corporate citizenship, sustainable procurement practices and engagement with suppliers. We expect the same effort and performance from our business partners as well. Therefore, we meticulously pay attention to the responsible implementation of labor practices and environmental management by our vendors, adherence to the required service/product quality standards.

For this purpose, we have developed a responsible sourcing process to ensure that our suppliers are in compliance with the specified requirements of SOCAR AQS internal policy and procedures, Labor Code of the Azerbaijan Republic, ISO 9001, ISO 14001, ISO 45001 standards, and API Q2 Specifications.

For the sake of maintaining structured management and communication approach to our vendors, we have classified our vendors based on the level of their impact to our operations:

Figure 3: Our supplier classification



The key factors influencing our decisions during the five stage vendor selection process (Figure 3) are product/service quality, operational safety and the environmental responsibility. Selection process is guided by the “Supplier Selection and Contract Demand” Form.

**1. Market Research:** We conduct a market research in order to compile a list of potential suppliers of a product/service necessary for the continuity of our business operations;

**2. Initial Assessment:** Potential critical suppliers (A category) undergo a specific risk-evaluation process, which investigates the quality, environmental and social aspects of the vendor through site visits by the team consisting of the members from the Quality, Procurement and requestor departments. Non-critical suppliers (B and C category) are also assessed based on their product/service quality and portfolio (list of previous projects implemented and

Figure 4. Vendor selection process



services rendered) as stated on the “Non-critical Supplier Evaluation” form.

**3. Onboarding:** After assessment, new supplier is added to the list of “Approved list of vendors” for further procurement activities. Purchasing activities are guided by internal “Purchasing procedure”.

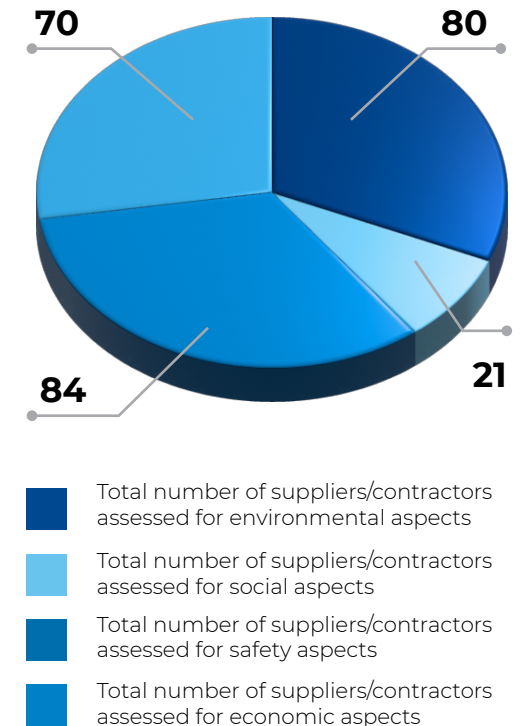
**4. Performance Assessment:** A standardized process of an assessment or audit ensures that suppliers deliver high quality service and products, meet KPIs and critical success factors. A and B category suppliers are audited per specific criteria every 2 years, while C category non-critical vendors are assessed every 3 years. Performance assessment change is implemented based on the “Control of non-conformities, corrective and preventative actions” internal procedure, which was prepared according to API and ISO standards.

**5. Continuous improvement process:** We support strategic suppliers’ development

to enhance their contribution to our goal of continuous enhancement of sustainable practices in our value chain. For instance, we constantly deliver recommendations and share knowledge about process optimization, environmental, quality and social standards.

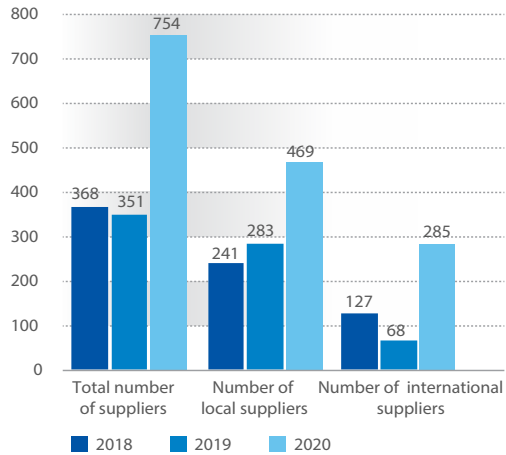
Our responsible sourcing process is the integral part of our procurement activities. It defines the beginning of the cooperation, and is repeated through continuous review, analysis and improvement with existing suppliers. Hence, we assess our suppliers in respect to various aspects Figure 5. Supplier assessment.

Figure 5. Supplier assessment

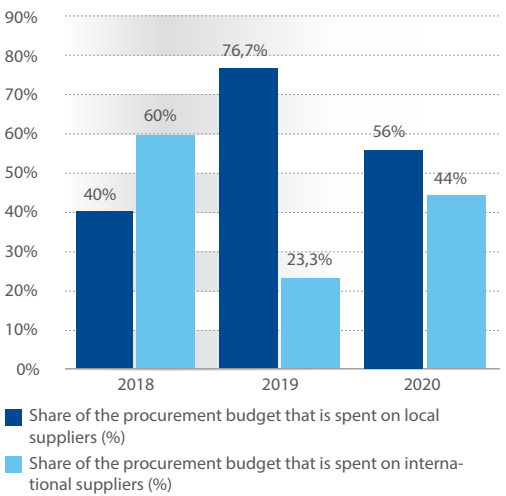


Within the framework of “SDG8: Decent work and economic growth”, we highly support the development and partnerships our local businesses.

**Figure 6. Number of suppliers**



**Figure 7. Share of procurement budget on local and international suppliers, %**

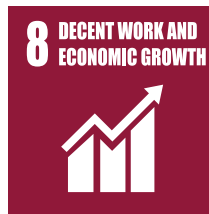


As can be seen from the Figure 6. Number of suppliers, in 2020, 62% of suppliers were local businesses.

Accordingly, 56% of the procurement budget is spent on goods and services provided by local suppliers.

**Future outlook**

The environmental, ethical and social aspects of our business presence are becoming more and more significant; hence, they are presented alongside with the key commercial and operating indicators. Our future plan is to integrate environmental and social impacts made during supplier business operations to our partnership contracts. Commitment pillars of UN Global Compact Decent work in Global Supply Chain - Communication, Transparency, Engagement, Leadership, Collaboration, and Accountability will become determining factors in our engagement with suppliers. Upon these steps, we aim to achieve diversified sustainable growth in every aspect of our supply chain process. Furthermore, we will be focusing on the introduction of a digital sourcing system (e-sourcing), establishing control elements for strengthening the procurement processes to become more agile and transparent.



# Our people

At SOCAR AQS, we are deeply committed to build an ethical and contemporary workplace by respecting human rights, maintaining a diverse and inclusive environment, and investing in the talents of our people. Perceiving the importance of our people in the Company value chain, we strive to empower our employees, reveal their true potential, and hence, maximize their contribution to the long-term growth and success of the Company.







In 2019, Human Capital (HC) department was restructured in order to follow its ultimate strategy to create a flexible-scalable human value delivery model. The model allows us to easily adapt to

the Company growth and effectively manage our departmental resources. As the part of structural changes planned within the scope of the utmost strategic goal of aligning organizational structure

to strategic intent, we created a center of excellence that includes divisions shown in Table 6. HC department structural changes, as well as shared services center. We also created HC business partners

function, which consists of HC members applying HC practices on site. The divisions demonstrated in Table 6. within the HC function was created as the result of the mentioned restructuring:

**Table 6. HC department structural changes**

Divisions	Main functions
Talent acquisitions department	Managing recruitment processes, ensuring that the new hires meet Company's technical and position related requirements, at the same time sharing corporate values.
Total rewards department	Designing and developing reward and benefits system to retain talents and ensure fair and efficient recognition system.
Talent optimization development	Developing and retaining talents by competency and performance assurance, career and succession management and knowledge management.
Organization development department	Maintaining organizational design to ensure efficient flow of business processes and improve employee engagement by enhancing culture to enable the Company achieve strategic intent.
Human capital business partnership department	Implementing human capital processes with internal customers and addressing human capital issues of business units and people.
Human capital shared services department	Administration of human capital processes, coordinating statutory relationships and managing documentation to ensure uninterrupted operations.

### Employee engagement

We have built an inspiring and challenging working environment managed with a value-oriented leadership style. Such leadership style resulted in appreciative performance culture, which rewards outstanding performances and significant achievements through both attractive compensation plans and individual long-term development opportunities.

Additionally, since the start of the reporting year, we have been working on the creation of new whistleblowing channels in order to increase employee engagement and satisfaction. Employees can communicate their

concerns to the management through mail-box system and face-to-face meetings with HCambassadors. Along with the mail-box system, employees may raise their questions and concerns in town-hall meetings.

In 2019, we engaged an independent third party to hold anonymous people engagement survey with the purpose of assessing the employee engagement level, which incorporates satisfaction from leadership, motivation, affiliation and commitment to SOCAR AQS and its values. Even though our corporate goal for this index was 75% for 2019, we achieved an overall 98% employee engagement score, which is significantly higher than industry average.

### Human resources indicators

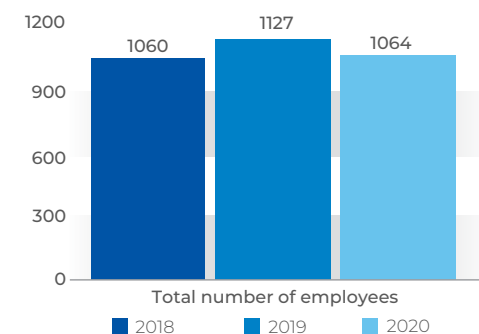
At SOCAR AQS, we continuously monitor the people related key performance indicators as part of our people management procedures. In 2020, we underwent restructuring process to increase the effectiveness of our operations. As a result our employee turnover rate increased from 7.10% in 2019 to 12.31% in 2020.

### Diversity and inclusiveness

We inject values of mutual understanding and develop modern corporate culture inclusive of people from different backgrounds, regardless of their nation, gender, or age.

Despite the fact that our industry has low female representation in general, we always seek to increase the number of our female employees by creating equal opportunities

**Figure 8. Total number of employees**



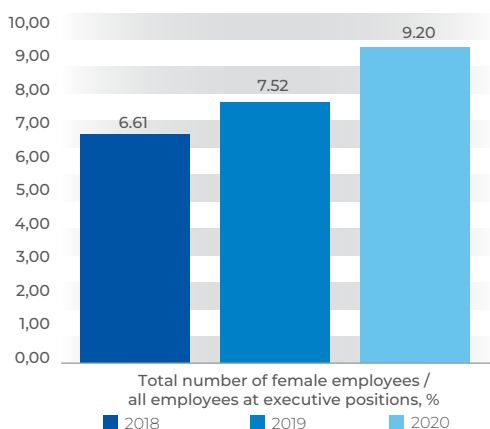
for them as their male counterparts. More importantly, we have increased female representation in our executive level positions from 6.61% in 2018 to 9.2% in 2020.

Thanks to our inclusive culture, we have managed to obtain very high employment satisfaction scores from our female employees in employee engagement survey held in the year 2019.

### Employee development

To be ahead of the competition and keep pace with the industry best practices and knowledge, our workers are encouraged to participate in various trainings, seminars and conferences relevant to their job description and skills set. SOCAR AQS continually supports their self-development and skill enhancement by supporting them both morally and financially. Additionally, our contractors are also required to participate in the necessary trainings to be acquainted with the Company culture and operations for guaranteeing continuity of workflow.

Figure 9. Female representation at leadership positions



### Training and Education

During the reporting period, a significant number of trainings, employee development programs, and courses were organized for the Company's employees. Within the Learning and Capability development unit, trainings were segregated as technical and obligatory and general and soft. Main highlights of development programs for 2020 is that trainings started to be conducted on platforms. One of the core values of the Company is to maintain the safety of workers, for this purpose technical trainings are organized for bases workers, including well-controlled training and certification. Within a reporting year training plan and map were created by the unit of the Human Capital department.

We actively conduct and participate in competence and leadership development trainings for employees in HC, finance and other departments. One such trainings focused on professional development and capacity building was the participation of our employees in the international training of The RBL group for HC business partners, which was organized by parent holding NEQSOL.

In order to obtain international experience in procurement and supply chain, our procurement and supply chain team participated in the Chartered Institute of Purchasing and Supply (CIPS) training. Moreover, to increase our employees' awareness of sustainability and the social aspects at work, we have engaged the third party to provide our employees with extensive training on these topics.

### Training management tool

One of the main learning tools designed in 2020 was the Learning Management System (LMS) organized by NEQSOL

Academy, which aims to improve the competences of offshore, onshore, and office staff with personalized and custom learning experiences. In the meantime, LMS contains more than 1,000 learning content/courses in several languages in various topics, including leadership, soft skills, and technical/engineering topics. Each learning is a user with their own personal cabinet and learning tracking facilities. The LMS is planned to be launched in 2021.

We believe this exhibits the commitment of our management to the learning and development of the Company's employees, as well as our dedication to creating a motivating workplace environment that constantly encourages learning and development initiatives.

The development of employee competencies was identified as one of the key priority areas for SOCAR AQS based on the results of the strategy workshop organized in 2019. Therefore, our Learning and capability development (L&CD) department prepared a personnel training and development program that takes into account the main strategic corporate targets, individual employee needs, and the requirements of the international standards.

The main highlights of our development trainings are summarized below



As can be evidenced from the figure below, our total training hours in 2020 have increased compared to 2019.

Provision of more tailored high quality trainings to all employees within the framework of our Competency Assurance Accreditation, which was received in July 2020 is main responsibility of our team. The main goal of the program is to provide evaluation of bases employees during implementation of the technical work on oilfield onshore platforms.

### COVID-19 Response program

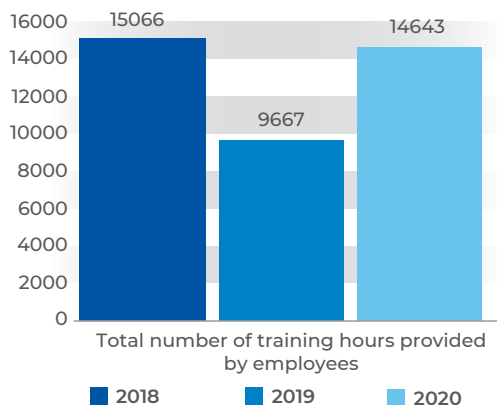
SOCAR AQS continued to enhance employee improvement through trainings and development programs. Easy access to training programs through online platforms led to the increase in the number of training hours in 2020.

We considered that pandemic can have psychological impact on people and the assistance provided for our employees was one of the main directions for the Company's activity. Following trainings were provided with a purpose of lowering Pandemic's impact, boosting motivation of employees and leading employees to adjust for working from home:

- Online webinars with psychologist
- Employee well-being webinars
- Fibonacci games
- Webinars on remoted work
- Stress Management
- Working remotely efficiently

In 2019, we were proud to be awarded the “Exemplary Training Company of the Year” by the International Association for Continuing Education and Training (IACET) for the 2nd year in a row. We believe this exhibits the commitment of our management to the learning and development of the company’s employees, as well as our dedication to create a motivating work-place environment that constantly encourages learning and development initiatives.

**Figure 10. Total training hours**



### Performance management

Providing high-quality service depends on the superior knowledge and expertise of our workers. Thus, we pay special attention to acknowledging the contributions of our employees by building a comprehensive and fair reward system. Performance management at SOCAR AQS is the responsibility of Total Rewards department. We are planning to engage an experienced third party-consulting firm to improve our internal

policy and procedures in this area further. For 2020, job segregation based on grading system was conducted with the assistance of a consulting firm.

Our performance management system puts emphasis on rewarding employees that meet their performance targets and help SOCAR AQS reach its strategic goals. In order to ensure an integrated alignment of the Strategy Deployment Program within the Company, we have cascaded all the corporate goals down to the individual positions. These goals are subsequently transformed into individual key performance indicators (KPIs) that are taken into account in employee performance evaluations. In fact, all individual KPIs incorporate both position-specific and shared Company goals. Such approach assists our employees to understand the significance of their position in the whole value chain. Individual score cards filled based on individual KPIs, serve as the basis for evaluation off all employees.

### Investment in youth

Recruiting, retaining, and investing in the development of the right people have always been among the top priorities. SOCAR AQS actively participate in various career fairs and career development events to support the development of Azerbaijani youth.

Our investment in youth can also be evidenced by the organization of a Summer Internship Program for undergraduate students on an annual basis. Within the scope of this initiative, in 2019, SOCAR AQS worked not only with local universities, but also welcomed brilliant students from the world’s well-known international universities like

MIT, Texas M&A, Heriot-Watt, University of Aberdeen, Middle East Technical University and Arizona State University. We chose our young professionals based on both technical and interpersonal skills, who were willing to learn, collaborate and contribute to our family. We provided them with a multicultural environment, where they could easily generate fresh ideas, utilize their mental capabilities to the fullest, were able to experience true diversity and be a part of dynamic experience in the cradle of the oil and gas industry.

One of the projects organized by our employees was Energy Hackathon project in cooperation with Texas A&M. Within the project devoted to sustainable society and global energy solutions, students were giving innovative solutions for further development of international startup project. Winners of the first stage participated in the virtual stage of Invent for the Planet 2020 competition, continuously providing solutions for the specific energy problems posed during first stage. Furthermore, events organized with the purpose of investment in youth are mentioned in Community engagement chapter of the Report.

We will continue supporting young and bright minds by developing different talent development programs in the future.

### Future Outlook

Human Capital is our greatest asset, therefore all future steps and measures are designed to improve the well-being and competencies of our people. After restructuring of HC department and services, we believe that we will contribute

the best to the implementation and success of long-term corporate strategy.

SOCAR AQS creates work environment accommodated by constant learning and development, our future goal is to achieve 98 % training coefficient. We aim to accomplish our future goal with the implementation of our new Training and Development Program involving each employee specialization and self-development areas.





# Community Engagement

We understand the importance of community and community support. Since our establishment, we strive to build a strong and diverse relationship with the communities that surround us. As with prior years, during the reporting period we were involved in multiple social projects of diverse backgrounds, issues and targets. Community engagements and social projects, in which we participated, are summarized in Table 7.

Table 7. Summary of community engagement projects by SOCAR AQS for 2019-2020

Project name	Participants	Short description	Year of engagement
TOM Baku	113 companies	Global disability movement, disabled people & community support	2019
ADA University Career Week	1500 college students	Education support, youth development	2019
“Asan Kadr “ career center held Career Fair at Baku Higher Oil School	Students of Baku Higher Oil School	Employment support, youth development	2019
Career Fair organized with AAA-The US - educated Azerbaijan Alumni Association	Alumni and students	Networking and training, employment support	2019
IADC Caspian Conference	200 professionals, 20 companies	Industry, government & country collaboration	2019
WoWoman organizational partnership	More than 20,000 women	Cooperation with the largest and most active women empowerment organization in Azerbaijan, mentorship for the members of the organization, financial support to the overall organization, women empowerment	2019
Texas A&M Invent For the Planet 2020 sponsorship	More than 140 students from around the world	Financial support of an international innovative solutions competition, sustainable solutions development, 48 hours competition for the college students around the world to tackle the challenging issues our planet faces	2019
The 2nd volume of the book “Molla Nasreddin traveling around the world”	500 people including academicians and government officials	“Molla Nasreddin traveling around the world” and www.mollanasreddin.az portal prepared with the financial support from SOCAR AQS & community support & development, book containing anecdotes collected from Central Asia and Turkic nations including the Balkans that reflects on the national folklore	2019
Planting 2,000 trees in a tree planting campaign	Our employees	Environmental protection & volunteering	2019
Scholarship program	Students	Four 4th year students were selected under the SOCAR AQS scholarship program for the 2020-2021 academic year. Two of these students studied at ADNSU and two at BANM. The selection took place in September 2020.	2020
International Roadshow “Oil and Gas Turkmenistan” in Dubai, UAE	300 delegates from 113 companies and oil & gas corporations	TAPI – the pipeline for peace and cooperation (Turkmenistan-Afghanistan-Pakistan-India) gas pipeline and a roadshow on attracting investment in the oil & gas sector of Turkmenistan	2020



AIESEC National Conference	Members of student organization	Discussion of the Company's activities and projects organized for youth	2020
Graduation- career exhibition organized by the Society of Exploration Geophysicist and the Azerbaijan State Oil and Industry University administration	Representatives from different companies, students	Networking and communication, employment opportunities	2020
Energy Hackathon project	Students from different universities	The project devoted to sustainable society and global energy solutions	2020
SOCAR AQS-UN workshop	Representatives of the UN agencies, civil society, private sector, youth organizations, and the media	Identification the strategic priorities for the UN-Azerbaijan Sustainable Development Cooperation Framework (UNSDCF) covering the 2021-2025 period.	2020

SOCAR AQS is a leading name in the country regarding supporting and raising awareness around sustainability and sustainable development. We heavily invest and initiate projects, which benefit local community via, education, talent development, environmental protection,

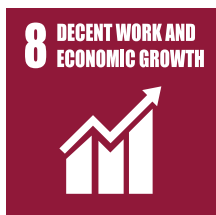
women empowerment and community support. At the same time, we believe, our contributions will also call other local companies and institutions for action.

Due to the COVID-19 pandemic around the globe, SOCAR AQS allocated

1,500,000 AZN to the government fund to support the fight against the pandemic – “Coronavirus Response Fund”. Moreover, SOCAR AQS was one of the first companies in the country to mobilize at the beginning of the pandemic. The Company kicked-off the remote work

option for its office employees and ensured the supply of hand-sanitizers, protective masks, and disinfection of the facilities on a daily basis. As a company powered by people, we do our best to ensure the safety and wellbeing of our people.

## Health and safety



Safety is at the top of our Company's values. It is the key component of our corporate culture. We foster healthy and safe environment for our employees, contractors and customers by applying sustainable practices into our operations. We focus on providing a safe working place with zero fatalities and zero injuries by complying with international safety standards and continuously improving our Health & Safety (H&S) Management System. Every year, our H&S team launches various initiatives that enable us to reach our corporate sustainability goals thereby contributing to global sustainable development goals (SDGs)

### Health and Safety management

Our integrated H&S Management System is aimed at improving the working environment and developing personal responsibility. The system covers planning, organization, coordination and monitoring of all safety related issues and taking measures for continuous improvement of safety KPIs.

We continue to ensure full compliance with the Law on labor protection and the Labor code of the Republic of Azerbaijan, as well as international labor standards and the Company's internal rules on occupational health and safety.

### Key elements of our H&S Management System



Our H&S Management System is implemented in accordance with ISO 45001: 2018, API Q2 and IADC implemented the IADC CAA which includes the process of defining standards, specifications and other requirements that are applicable to our operations while fulfilling our obligations.

Our senior management is responsible for the provision of H&S Management System framework, which commits to the:

- improvement of occupational health and safety of our people;

- elimination of H&S non-conformances, incidents and accidents;
- customer satisfaction;
- planning, responding to and recovering from any emergency.

### H&S performance indicators

We strive to do our best to prevent accidents, as well as to ensure the long-term working capacity of each employee. In recent years, we have made significant progress in improving safety of our operations by paying attention to interaction of people, work systems and processes.

It is the result of thorough incident investigation processes conducted in previous years that enable us to observe these improvements in 2020. Corrective

**14<sup>th</sup> year without fatalities**

**Zero oil spills during 2007-2020 years**

**Number of days lost due to incident decreased by 83% in 2020**

actions were made based on the evaluation and analysis of the risks that may have affected our stakeholders.

Incident investigations revealed insufficient practice in equipment/tools management that has led to the increase of first aid injuries. All the necessary actions including newly designed training plan will be implemented in order to avoid increase of such cases.

**Table 8. Health and Safety indicators**

	2018	2019	2020
Number of fatalities	0	0	0
Total number of recordable injuries	4	2	4
Number of Lost Time Injuries (LTI)	2	2	1
Number of days lost due to incident	9	144	24
Total recordable injury frequency rate (TRIFR), per 1,000,000 hours	2.4	1.04	1.95
LTI (lost time injury) frequency rate, per 1,000,000 hours	1.21	1.04	0.49
Total hours worked	1,646,367	1,920,427.5	2,048,155





We follow IADC reporting guidelines for recording and calculation of our safety performance. Our Company makes every effort to ensure the accuracy and reliability of data contained in reports developed based on IADC Incident Statistics Program (ISP).

### Risk assessment

We have developed our own hazard identification and risk assessment (HIRA) procedure to identify work-related hazards, assess risks and determine necessary controls.

Figure 11. Steps of HIRA process



Any type of the work undergoes formal process of HIRA on a routine and non-routine basis. The process is carried out by managers or process owners together with the Assessment Team comprised of our employees, who have the necessary qualifications. Monthly, quarterly and annual incident statistics and investigation outcomes of occurred incidents are kept within H&S department and help to measure the effectiveness of HIRA process.

Our key goal in developing HIRA is introducing a risk identification and assessment model that can be used in the operations of the entire group at all levels. We constantly update the risk assessment criteria and make a meaningful assessment for new operations and locations.

### Raising H&S culture

At SOCAR AQS, safety culture is raised starting from the first day of our people at the Company. We strive to develop personal responsibility by clearly setting out safety obligations and encouraging direct participation in building a safe working place. Currently, we empower our people to raise non-conformance reporting (NCR) cards any time for observed unsafe act or situation. This system is managed by our Quality team (please see section 10 for more information). In 2019, a separate reporting system for safety behavior observation has been developed by our H&S department, which is actively used in 2020. Moreover, in 2020 we have introduced a workflow STOP procedure whereby every employee can stop work that has a safety risk and report it. The employee can communicate this by using reporting tools such as the SOC card or NCR form, as well as by email, communication devices, etc. To engage employees in H&S processes, we have implemented the Safety Award program, through which an employee can be rewarded for the timely reporting of a significant hazard and emergency situation without any reprisal. We believe that such tools and activities allow us to involve our people with H&S issues and develop positive safety culture through the Company.

We encourage open-door policy where employees can share their concerns related to H&S matters during our

weekly meetings. As a part of our H&S Management System, no blame culture is developed and maintained where all of our employees can feel free to share their ideas and observations without fear of reprisal.

Different programs are provided for our employees aimed at improving their health and well-being. Our H&S specialists take an active approach to preventing violations through the implementation of the 5-Star Safety Program, trainings and professional development. In addition, we provide our employees with the necessary tools and equipment to perform tasks safely and efficiently.

We continue the implementation of our 5-Star Safety Program that allows us to evaluate the behavior of personnel and encourages active employee participation in complying with the health and safety standards. It is a financially supported incentive designed to motivate our people in ensuring safe and efficient provision of our services.

Depending on the circumstances, SOCAR-AQS periodically determines the training needs, including ensuring the competence of employees in the HIRA process, and conducts training to meet these needs and evaluate performance. In addition, if any gaps are identified related to the competence of employees in HIRA or the overall HIRA process during the investigation of incidents, training needs are reported to the Learning and Development Department. Annual training matrix has been developed and implemented, which includes mandatory H&S trainings for employees depending on their position and role in the workplace. Trainings are mainly provided for onshore employees, with the exception

of introductory H&S trainings conducted on the work and some instructions provided to employees prior to starting work. In 2020, 14,920 hours of trainings were conducted.

### Future outlook

SOCAR AQS will continue to improve the Company's safety system so that all operational and technological changes are planned, reviewed and approved before implementation to reduce the likelihood of service disruption or new hazards. We also strive to improve our security performance by constantly focusing on the areas of greatest risk inherent to our Company. For this purpose, we plan to constantly update our software for the H&S Management System, which prevents potential risk factors affecting the safety and health of our employees at the Company.

## Environmental management

Our commitment to sustainable development cannot be fulfilled without the protection of the environment. We have the obligation to reduce our carbon footprint and minimize the negative effect on the environment. With this in mind, during the reporting period, we created the Environmental Sustainability Department. New department will allow us, to streamline our operations and create a self-aware and transparent work culture. The scope of the new department's work includes environmental protection, waste management, sustainable resource consumption and environmental risk assessment.

Our environmental policy and procedures apply to all of our employees and units and comply with international standards and industry best practices, such as ISO 14001. Within the framework of ISO 14001, we have conducted 15 monitoring and surveillance programs, as well as 130 impact assessments of our operations and processes as of reporting date. We updated our "Identification of environmental aspects" procedure. We have also revised the grading forms of the environmental aspects to further improve the procedure and reflect world best practices.

It is our fervent aim, to have zero environmental releases. Therefore, it is not surprising that most of our policy and procedures, as well as, Service Execution Cycle include controls that focus on eliminating any major spills and releases. In addition to serving to minimize our negative environmental impact.

**Disclaimer:** In 2020, we have reviewed and updated our methodology to

calculate air pollutants such as CO, NOx, NMVOCs and SOx to make it more in line with the local legislations. Direct GHG emissions (Scope 1) figures are calculated using IPCC tier 1 approach, based on default emission factors. We have also changed presentation of water related KPIs to reflect water withdrawal and water discharge besides water consumption. All comparative year figures are restated accordingly.

### Loss of containment

At SOCAR AQS, we understand that any spills can have significant negative effects on the environment. Thus, since the Company's establishment, we continuously attempt to build rigorous preventions systems for such spills, while also developing our incident investigation processes by closely evaluating any incidents or near misses.

In 2019, we did not have any reportable releases that would qualify as a spill. We remain committed to our goal of zero spills, and constantly revise and review our approach to be at the forefront of technological innovations by applying industry best practices.

### Energy consumption & Greenhouse Gases (GHG)

Energy consumption is a main driving force behind our GHG emissions and environmental impact. In our industry, the platform owner is responsible for the fuel used by the drilling rig. Hence, we work closely with our stakeholders and

clients to ensure that they adhere to the international standards, best practices and local legislative requirements.

Diesel consumption by our generators is the primary source of GHG emissions in our offshore drilling platforms, offices and warehouses. During the reporting period, a number of our large projects were completed, including the Bulla project. Furthermore, limited operations as well as the impact of COVID-19 has led to a decrease in operating hours of the generators, as well as, diesel consumption in 2020. Subsequently, our direct GHG emissions decreased significantly. Even though, this can be considered a step towards our direct GHG emission reduction targets, we understand, such operational reductions are not sustainable.

**Table 9. Diesel Consumption and GHG emissions**

	2018	2019	2020
Diesel Consumption, tons	6,316	6,015	3,983
Direct GHG emissions (Scope 1), tons CO <sub>2</sub> e <sup>1</sup>	-	19,392	11,368

At the same time through our "Digitalization and Automation" process, we are optimizing our processes and automating them. This process will not only optimize our work by eliminating human errors, but also reduce our

operating hours. We believe, this reduction in the operating hours will be subsequently reflected in our energy consumption and GHG emissions.

### Waste management

At SOCAR AQS, we are actively working to minimize waste as part of our efforts to reduce Company's negative environmental impact. Effective handling of waste in all forms is fundamental to our processes, thus, we attempt to recycle the collected waste or reuse it in our operations as much as possible. We have outsourced all our waste processing operations to licensed subcontractors, whom we monitor on a continuous basis to ensure the proper treatment. Thanks to the measures taken to ensure the safe handling and disposal of waste, we are able to timely identify and eliminate dangerous risks that affect both the environment and the health of our employees.

### Sorting, storage and transportation of waste

Currently, our waste management processes are guided by the internal "Waste management" procedure adopted in 2016, which is reviewed every year. Our internal procedures comply with the appropriate local legislations and international standards.

There are two main categories of waste generated in the course of our operations:

- **Hazardous waste** - this category includes waste that poses a significant or potential threat to public health or

<sup>1</sup> In 2018, direct GHG emissions (Scope 1) were not included in the sustainability report. The emission-related indicators covered only CO<sub>2</sub> emissions. However, since 2019, SOCAR AQS has started to include total direct GHG emissions (Scope 1) according to IPCC Tier 1 approach.



the environment. It has toxic, infectious, oxidizing or corrosive properties.

- **Non-hazardous waste**- this category includes types of waste that are not particularly hazardous and are generated as the result of the Company's administrative activities.

We sort, separate and store both hazardous and non-hazardous waste in accordance with the internal policies. In our Company, we use color-coded categories to sort waste efficiently. Each color characterizes the specifics of corresponding category of waste and its impact on the environment and people. Determining the characteristics of waste allows us to optimize sorting and processing depending on each category's specifics. For example, careful sorting of raw materials helps us to use some of such waste as secondary materials in our operations, besides reducing the overall quantity of waste. Storing of hazardous waste in special sealed containers to protect the health of our employees is another very beneficial example of this color-coding practice at SOCAR AQS.

As our initiative to recycle plastic and paper at the offices and warehouses was very successful, we started implementing it at platforms as well in 2019. In 2020, due to the COVID-19, there was significantly less operational activity, consequently the amount of waste produced was reduced compared to the previous year. In 2020, we developed a strategy to expand waste classification for better sorting, collection and transfer of waste to a third party.

SOCAR AQS has organized special sites for temporary storage of waste, with limited access by unauthorized people in order to improve the efficiency of mechanisms for using secondary raw materials in working processes. Moreover, waste labeling is

another important tool to optimize waste storage and disposal processes. These initiatives aim not only achieving cost efficiency, but also significantly reducing pollutants to the environment.

The transportation of waste meets sanitary and epidemiological requirements and is carried out depending on the type of waste using special vehicles. All types of waste are sealed during transportation in order to minimize losses and reduce environmental pollution; both on offshore platforms and on shore.

### Waste management monitoring

SOCAR AQS constantly monitors waste indicators to improve its waste management system. The monitoring tool is regular management meetings, during which reports are prepared on the Company's progress in achieving waste management goals. We reduce waste by changing production, optimizing work processes, improvement and reuse of materials. Table 10. General and hazardous waste shows the hazardous and general waste generated as the result of our activities over the past 3 years. In 2020, we managed to reduce not only the amount of hazardous waste, but also the amount of non-hazardous waste.

Table 10. General and hazardous waste

	2018	2019	2020
Hazardous waste, excluding drilling cuttings, m <sup>3</sup>	1,250	1,200	832
Non-hazardous waste, m <sup>3</sup>	631	811	744

### Drill cuttings

As in previous years, our Company continues its drilling activities in accordance with the international DNV certificate. We continue to use drying method for processing drilling cuttings in order to improve environmental performance and reduce the volume of drilling mud and transported waste. In 2020, the amount of drilling cuttings has decreased significantly due to limited operations and exploitation changes.

Table 11. Drilling cuttings

	2018	2019	2020
Drilling cuttings, tons	8,328	9,780	4,577

### Water consumption

Sustainable water use is a cornerstone of our environmental and ecological development approach. We aim to reduce the use of water, through recycling and reuse. Just as with fuel, it is the responsibility of the platform owner to provide the water necessary for operational use. Hence, we work closely with our customers to use the reverse osmosis system to purify seawater, allowing us to safeguard a natural resource that is fresh water.

As a preventive measure, we constantly communicate and conduct field observations to check that water used is recycled or discharged in an appropriate way by the responsible third parties. We also ensure that international standards and local legislative requirements are followed through. Additionally, our employees undergo

awareness raising trainings on responsible consumption.

SOCAR AQS provides water required for consumption and administrative purposes, to our offices, warehouses and offshore platforms, from different sources. Main sources of the water withdrawn are third party water and a well located in the premises of our small office. Up to 2019 the use of water from the well was not tracked. However in 2020, counters were installed and water consumption started to be recorded. Water discharge is sent to Hovsan Aeration Station for treatment. We monitor our water consumption to identify any inefficiencies in our water management process. Table 12. Water consumption (tons) summarizes our water related KPIs. In 2020, we observed a decrease in water consumption and sewage water generation due to limited operational activities, as most employees worked from home.

Table 12. Water withdrawal (tons)

	2018	2019	2020
Water Withdrawal	35,180	32,583	7,980

### Environmental monitoring

Besides managing our environmental impact, we also conduct environmental monitoring on a continuous basis. During environmental monitoring, we prepare environmental impact assessments, as well as analyzing circumstances in which human activities may carry a risk of harmful effects on the environment. The results of monitoring are reviewed during monthly meetings, data is analyzed and records of analysis are kept in Company's internal servers.

Starting from 2020, we have updated our emission calculation methodology and introduced the estimation of air pollutants. As the main sources of air pollution at our facilities are diesel generators, the proper methodology allows us to focus our activities on reducing their volume and mitigating the adverse effects of our operations on the environment.

### Biodiversity and Marine Wildlife

Our main field of operation is the Caspian Sea, which is a water body with a very diverse and yet delicate bio marine wildlife. From 2004, regular water and plankton surveys are conducted by SOCAR AQS to monitor the conditions and communities present. As part of our environmentally safe technology policy, we are implementing sophisticated control systems in our offshore equipment to prevent spills and blowouts. Reducing the risk of water pollution during our offshore drilling operations. This equipment makes sure that the excess cement washout into the water, as well as blowout preventer (BOP) test discharges, wastewater discharges, residual water-based drilling mud used in drilling operations (WBM) discharges and other such materials are controlled and minimized, to prevent substantive negative impact on the seawater and marine wildlife.

We are also committed to investing in modern technology for offshore operations, to minimize underwater noise and vibration. Our aim is to minimize our negative impact on the marine ecosystem and wildlife, caused by drilling and exploration equipment and mobile offshore drilling units.

### Environmental risk management

Based on ISO 31000/COSO ERM requirements, we take a holistic approach to risk management. This includes environmental risk management, which is conducted in the steps presented in Figure 12. Environmental risk management.

Figure 12. Environmental risk management



Before we start a new project, we always define the scope of the work to be done including, Drilling Unit, location, and equipment listing during the Service Execution Planning. Afterwards we identify direct and indirect significant environmental aspects. During the risk assessment of environmental aspect, we evaluate their significance. Those classified as significant environmental aspects are the main focus of our environmental management system. Significant environmental aspects are streamlined during our Service Design Phase by establishing one or more of the following controls: elimination, substitution, engineering or other administrative controls.

Environmental management can often be more complicated than needed. The key to our EMS success is getting the environmental aspects right at the very beginning, during our Contract & Compliance Obligation Review. Identifying the environmental aspects saves time and enables us to achieve great benefits once our Aspects, Impacts and Controls are integrated into the Service Execution.

### Implementation of international and local standards

It is important for us to develop and document operating procedures, in order to address risks faced in the preoperational and planning stages. We document these procedures and risks faced in form of work instruction and or guidelines. When the new industry or regulatory standards are introduced, requiring changes in our procedures, risks related to the implementation of the new standards are assessed prior to implementing of the changes. In 2020, no major changes were made to the internal procedures, as there were no significant updates to the legislative norms or international standards.

We fully comply and follow the necessary local legislative requirements. In addition, we have a Certified ISO 9001, ISO 14001, ISO 45001 and API Q2 Management System. During the reporting period, our department was both internally and externally audited for compliance regarding these certificates. No significant issues were identified as the result of such audits. We also follow the Service Execution Cycle Recommended Practice (RP-SEC), which includes a process for identifying all legal standards, specifications and other requirements that are applicable to our operations and contracts.

### Future outlook

At SOCAR AQS, we constantly strive to minimize our negative impact on the environment. Our plans for the future include further initiatives in hybrid technology and reforestation. Hybrid technology will consist of advanced mechanisms that will be equipped with smart sensors that will enable engineers to assess the condition of equipment remotely. On top of this, in 2020, we are developing a methodology for calculating the thermal effect of stationary gases that will enable us to report all of our emissions using the standardized methodology. Moreover, we plan to educate employees on how they can support our environmental goals by reducing the carbon footprint. To this end we are currently in the process of building a community park at the base of Umid, where our employees have been engaged as volunteers to maintain the environmental condition of the platform area. In the near future we are also planning to build a park on the Bulla base and engage specialists to supervise the parks on a regular basis.



# Service quality & well integrity

Our aim is to provide high quality and transparent service to our clients and stakeholders. To ensure high service quality we strive for strong safety record through well integrity. The well integrity processes adopted by us are integrated with the Service Execution Cycle following the requirements of the API SPEC Q2 and IADC CAA. Additionally our Integrated Management System (IMS) allows us to ensure overall high quality of service provided to our stakeholders. Our IMS encompasses various policy and procedures that adhere to international standards such as ISO 9001:2015, ISO14001:2015, ISO45001:2018, and covers both employees and contractors.

Our Integrated Management System is divided into Quality Control and Quality Assurance teams. Quality Control team focuses on the quality of products purchased and services rendered at the bases and facilities. To ensure that the procurement of low quality goods is minimized, we include all necessary requirements in to the procurement plan in the SAP system. On the other hand, Quality Assurance team ensures the quality of processes by reviewing their compliance with the necessary standards and certificates. Moreover, both teams are directly involved in audits conducted both internally and for suppliers. Audits are a corner stone of our quality review and well integrity strategy. Last year all of our departments, offshore platforms and contractors were audited.

### Internal control system and audits

For internal audits our teams create audit plans and once approved, Quality Guarantee team conducts refresher trainings to auditors. This is to make sure

that our auditors understand requirements set by the plan and the technical aspects of the process audited. Once the audit is completed, the lead auditor analyzes the deviations stated in the Non-Conformance Reports (NCRs). As soon as the analysis is finalized, approved action and/or correction plan is sent to the process owner.

For the audit of contractors, created plan is sent to procurement department, which in hand contacts the necessary contractor and organizes suitable audit dates. Auditors, after refresher trainings, conduct site visits to check workplace management. Additionally for some critical suppliers we audit the quality of equipment used and services provided. If contractors adhere to the same standards as SOCAR AQS, the audit is conducted via a questionnaire.

To ensure the quality of audit, process owners are sent feedback forms based on audit results and process. Based on the feedback, action plans are created to improve the technical as well as transferable skills of our auditors. Low scorers are not involved in next audit,

rather are sent to trainings, including internal trainings.

Transparency is vital for us, hence we encourage any of our employees to report a deviation observed on behalf of the contractors or our teams. If necessary, we contact the contractors or process owners regarding deviations observed, and give them time to conduct root cause analysis, establish corrective action plan and take any other necessary step to ensure that the deviation is amended. Afterwards our team reviews the corrections implemented.

Once the deviation is observed, the NCR is registered. Using this register, verification process is conducted via trend analyses broken down to key process areas and procedures. All these steps are done to ensure that we provide the highest possible quality of service and minimize the risk of any possible accidents that might cause harm to our people or environment.

### Management of change

Our Management of Change (MOC) process, based on API and ISO Standards, is an essential part of ensuring quality review during transformation of our processes. MOC can be initiated either by process owner or by our management for the following changes that may influence the execution of our services:

- Changes in organizational structure;
- Changes in key or essential personnel;
- Changes in critical suppliers;
- Changes to the management system procedures;

- Changes related to critical equipment;
- Changes in the approved design of drilling process.

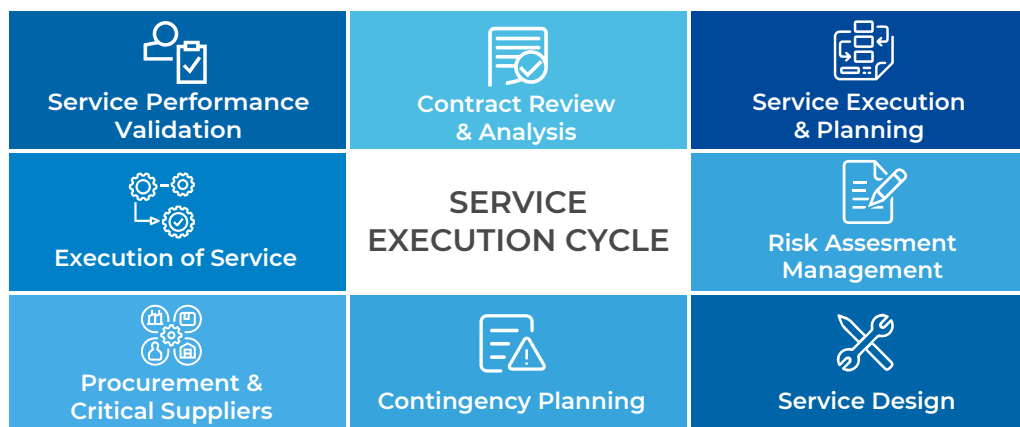
Prior to a change, Management of Change Requirement form is completed. Both prior to and during MOC, Quality team conducts analysis of the proposed changes, including review of the existing processes, description of the change, action plans proposed and risk assessments. Prior to implementation of the change, responsible and affected personnel and or contractors are notified of the change via different communication channels.

During the reporting period, this process was used to manage changes in platforms, management procedures, to implement updated ISO 45001 standard requirements, and changes in key management personnel. All of the requirement forms and action plans are reviewed and used in future events to improve the process. This transparent system allows us to further increase quality of the service provided.

### Future outlook

All of our audits include environmental, social and governance matters, as part of ISO standards. From 2021, new sustainability matters will be included in our audit and quality review processes, as part of our environmental protection program. In 2021, we also aim to automate and digitalize our processes, via the use of software such as SAP. Currently half of our processes are managed through SAP, and it is our fervent aim to extend this coverage.

Figure 13. Service Execution Cycle: Eight Steps of Well Integrity



## Financial performance

It is our aim to enable sustainable development and maximize financial value created for our shareholders. We seek to deliver greater financial performance while minimizing our environmental impact and increasing our responsible social engagement.

In 2020, we generated AZN 273 million of total Company revenue, a 2% increase from year 2019 as only completion services have been provided since 2019. Our operating

Figure 14. Economic Value Generated

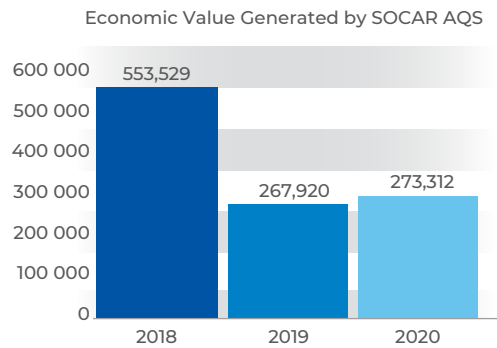
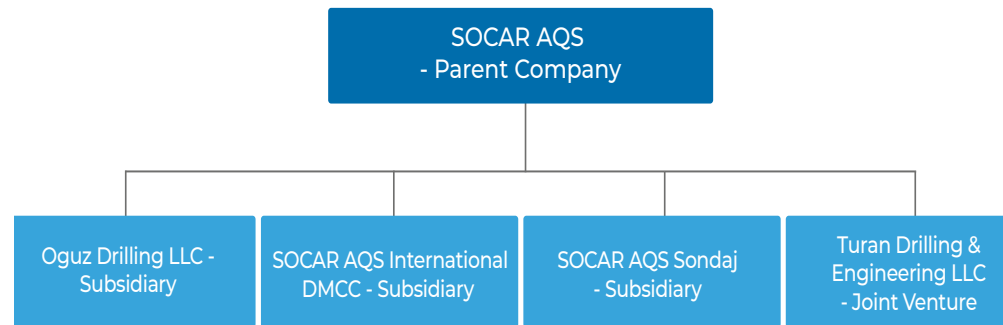


Figure 13. Summary of financial indicators

Financial Indicator (AZN)	2018	2019	2020
Economic Value Generated	553,529,056	267,920,213	273,311,781
Economic Value Distributed	354,392,967	256,882,163	290,509,740
Economic Value Retained	199,136,089	11,038,050	(17,197,959)

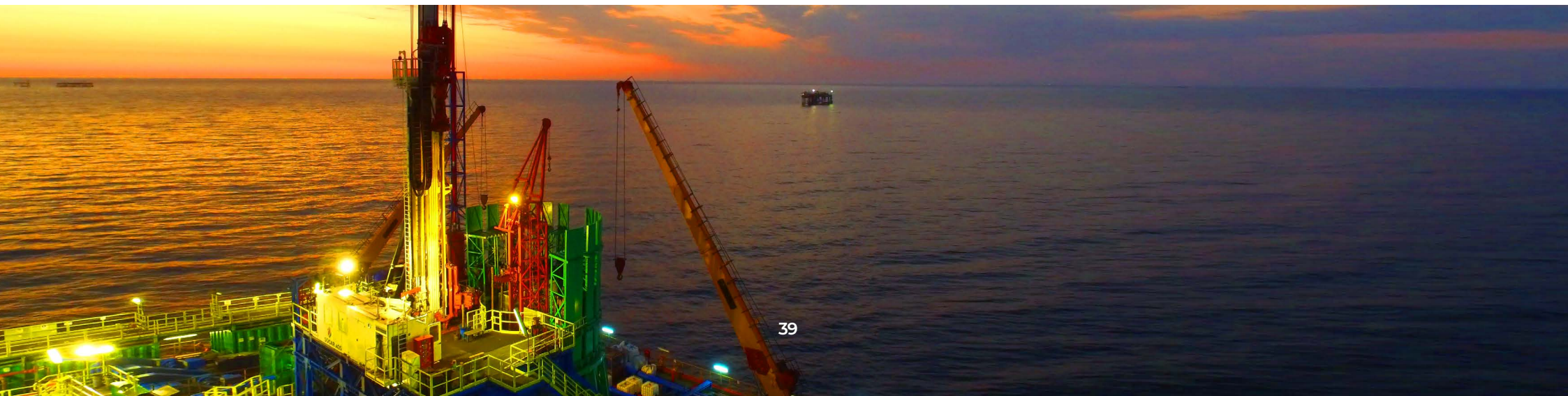
Figure 15. List of all entities included in SOCAR AQS's consolidated financial statements



costs for 2019 also decreased due to finalization of major projects in previous year.

We are planning to start implementing new projects both locally and internationally. Therefore, we invested in new inventory and established subsidiary in Turkey. This led to an increase in total assets as well as total equity and liabilities. Just as in previous reporting period, neither SOCAR AQS nor its subsidiaries received any financial assistance from the government.

Oil Well Drilling and Service industry, involves many risks with potential to impact financial and business performance negatively. Majority of these risks are external and cannot be controlled by SOCAR AQS. It is therefore our aim to minimize the effects of these disruptions, through market analysis, monitoring, transparency and stable financial performance. We, therefore, disclose the necessary information for the entire group, including our subsidiaries, in accordance with the International Financial Reporting Standards (IFRS). It is our fervent goal to ensure long-term growth through sustainable development.



# Technology & Innovation

Technological advancements and digitization in drilling operations are crucial to the sustainable development of SOCAR AQS. We offer a wide range of services and solutions to ensure high productivity and strive to explore new business models and innovative technologies to meet changing needs. SOCAR AQS regularly monitors the entire operations to rethink and innovate the way we work.



**Monitoring is specifically carried out to:**



Quality and safety controls are very important aspects of the drilling industry. Defects or failures can be very costly for both business and people, as they can cause unplanned shutdowns to the operations and injuries to people. Therefore, at SOCAR AQS, we always strive to ensure that the equipment and materials used comply with the highest quality standards. This helps to mitigate the risk of accidents and costly delays as much as possible. In order to

identify problem areas, the Technical Limit Department constantly performs investigations to identify root causes of malfunctions in our work processes. Following such investigations, they work on developing solutions aimed at improving the efficiency and safety of operations by eliminating identified deficiencies.

Since 2018, our Company's maintenance is performed in accordance with the guidelines of International Standards and Product Manufacturing and Maintenance Practices (PMMP). Collecting data on preventive maintenance allows us to forecast and monitor equipment's maintenance status and predict the potential risks associated with their operation. To monitor Preventive Maintenance and Inspection Test Programs (PMITP), SOCAR AQS uses the Computerized Maintenance Management Systems (CMMS) SAP program integrated system.

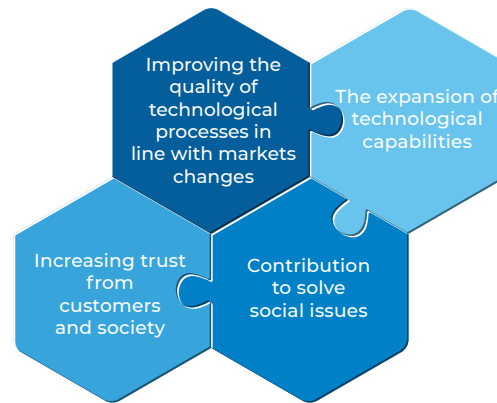
We have also maintained our proactive approach to process reliability measurements by continuing measuring uptime rather than downtime and non-productive time. Focusing on this measure helps us to build a better relationship with clients by delivering continuous high quality services.

**Sustainable innovation**

Sustainable innovation is of utmost importance to us, in order to meet client needs. Therefore, we use long-term innovation methods to promote sustainability related design criteria in well-drilling. SOCAR AQS aims to make sustainable development an integral part of our technological processes by developing new programs with the appropriate transparency level.

In 2019, SOCAR AQS for the first time made changes to the drilling technology and installation of wellhead equipment at the Umid field by using innovative first-class equipment. We were also able to carry out geophysical exploration at the Bulla-Deniz field, which made SOCAR AQS the first drilling company in the Azerbaijani sector of the Caspian region to conduct drilling operations with Horizon V and Horizon VII in accordance with the international standards.

**Positive impacts of innovative technologies**



**Future outlook**

One of the most important goals of the Company is maintaining high level of productivity and high quality of service. To do this, we constantly improve the operational excellence of equipment, as well as the productivity and efficiency of our people. To improve work efficiency in all departments, we plan to automatize most of the manual tasks in near future. This will reduce the time spent on daily tasks and minimize human errors.

**Contributing to SDGs through technology and innovations**

SOCAR AQS aims to maximize impact on all stakeholders, taking into account the potential of the Company's technologies and processes. We plan to further develop our technological processes and continue to pursue the following goals:



## Performance tables

### Financial indicators

Financial Indicators (AZN)	2018	2019	2020
Direct economic value generated	553,529,056	267,920,213	273,311,781
Revenue	553,529,056	267,920,213	273,311,781
Economic value distributed	354,392,967	268,882,163	290,509,740
Operating expenses	323,753,105	219,404,454	247,361,953
Salaries (gross)	23,429,369	28,178,406	32,236,859
Property Tax	597,209	971,742	843,190
Withholding tax	5,000	379,804	975,290
22% SSPF charges	6,608,283	7,947,755	9,092,447
Economic value retained	199,136,089	11,038,050	(17,197,959)
Total Capitalization	597,121,832	646,650,082	660,647,173

### Our people

Total number of employees, by gender	2018		2019		2020	
	Male	Female	Male	Female	Male	Female
Total number of employees by employment contract						
Part-time employees	9	4	4	1	1	0
Full-time employees	958	89	1017	105	971	92



Total number of employees by employment type							
Permanent employees	0	0	0	0	0	0	0
Temporary employees	967	93	1021	106	972	92	
Total number of employees by employment position							
Senior management	30	6	28	6	36	5	
Middle management	50	3	60	5	54	5	
Technician position	575	27	613	32	599	32	
Administrative position	312	57	320	63	283	50	

Employee indicators, by age	2018			2019			2020		
	Under 30	30 to 50	Over 50	Under 30	30 to 50	Over 50	Under 30	30 to 50	Over 50
Percentage of employees	28.96%	52.83%	18.21%	25.5%	55%	19.5%	17.67%	61.65%	20.68%
Number of hires	124	39	82	85	62	0	19	40	9
Number of dismissals	19	19	3	34	39	7	48	55	26

Turnover indicators, by gender	2018		2019		2020	
	Male	Female	Male	Female	Male	Female
Number of dismissed employees	40	1	78	2	99	30
Number of employees who left voluntarily	39	1	76	2	59	21
Number of hired employees	232	13	135	12	49	19
Employee turnover rate, by gender	4.14%	1.08%	7.63%	1.9%	9.3%	2.81%
Employee turnover rate	3.87%		7.10%		12.12%	



Compensation indicators, by gender	2018		2019		2020	
	Male	Female	Male	Female	Male	Female
Minimum wage (for Azerbaijan)	180	180	250	250	250	250
Ratios of standard entry level wage by gender compared to local minimum wage	5.23	5.23	1.57	1.9	3.87	3.87
Ratio of basic male salary to basic female salary	100%		165%		87%	

Parental leave indicators, by gender	2018		2019		2020	
	Male	Female	Male	Female	Male	Female
Total number of employees that were entitled to parental leave	0	93	0	106	0	92
Total number of employees that took parental leave	0	5	0	5	0	6
Total number of employees that returned to work in the reporting period after parental leave ended	0	4	0	6	0	5
Total number of employees that returned to work after parental leave ended that were still employed 12 months after their return to work	0	1	0	3	0	1

Number of employees by vulnerable groups	2018	2019	2020
Total number of employees, by vulnerable groups			
People with disabilities	11	12	12
Internally displaced people	29	33	7 <sup>2</sup>

Total Training hours	2018	2019	2020
Total training hours	15,066	9,667	14,643
Average hours of training per year per employee	14.21	8.58	13.76

<sup>2</sup> Due to the restructuring in 2020 within the Company, number of employees decreased, including the number of internally displaced people.



General indicators	2018		2019		2020	
Proportion of senior management hired from the local community, %	92		97		98	

Diversity of governance bodies and employees	2018		2019		2020	
	Male	Female	Male	Female	Male	Female
Number of individuals within the Company's governance bodies, by gender	1	0	1	0	1	0
Percentage of individuals within the Company's governance bodies, by gender	100%	0	100%	0	100%	0

## Environment

Energy and emission indicators	2018	2019	2020
Diesel Consumption, tons	6,316	6,015	3,983
Natural gas consumption, m <sup>3</sup>	N/A <sup>3</sup>	N/A	55,546
Direct GHG emissions, tons CO <sub>2</sub> e	-	19,392	11,368
CO <sub>2</sub> emissions, tons	-	19,320	11,330
N <sub>2</sub> O emissions, tons CO <sub>2</sub> e <sup>4</sup>	-	48,300	12,854
CH <sub>4</sub> emissions, tons CO <sub>2</sub> e <sup>4</sup>	-	23,200	24,330

Air pollutants <sup>5</sup>	2018	2019	2020
CO, tons	N/A	N/A	0.70
NO <sub>x</sub> , tons	N/A	N/A	30.33
NMVOCs, tons	N/A	N/A	0.11
SO <sub>x</sub> , tons	N/A	N/A	68.43

<sup>3</sup> Natural gas indicator shown as "N/A" was not measured in the years 2018-2019

<sup>4</sup> Indicators such as CH<sub>4</sub> and N<sub>2</sub>O were multiplied by their Global warming potential (GWP) factors (28 for CH<sub>4</sub> and 265 for N<sub>2</sub>O are GWP factors). GWP was developed to allow comparisons of the global warming impacts of different gases.

<sup>5</sup> As a new methodology for calculating air pollutants was introduced in 2020, data for the period 2018-2019 is not included in the report.

Waste Indicators	2018	2019	2020
Waste Materials including, m <sup>3</sup> :			
Hazardous Waste Generated, m <sup>3</sup>	1,250	1,200	832
Non-hazardous waste, excluding drilling cuttings, m <sup>3</sup>	631	811	744
Drilling Cuttings, tons	8,328	9,780	4,577

Water Indicators	2018	2019	2020
Water Withdrawal, tons	35,180	32,583	7,980

### Health and Safety

Health and Safety Indicators	2018	2019	2020
Fatality rate, per 10,000 employees	0	0	0
Total number of fatalities	0	0	0
Total number of recordable injuries	4	2	4
Number of Lost Time Injuries (LTI)	2	2	1
Number of days lost due to incident	9	144	24
Lost time injury (LTI) frequency rate (Per 1,000,000 hours worked)	1.21	1.04	0.49
Total hours worked	1,646,367	1,920,427.5	2,048,155
Total recordable injury frequency rate (TRIFR), per 1,000,000 hours	2.4	1.04	1.95

## Supply Chain

Supply chain indicators	2018	2019	2020
Total number of suppliers	368	351	754
Number of local <sup>6</sup> suppliers	241	283	469
Number of international suppliers	127	68	285
Percentage of the procurement budget that is spent on local suppliers (%)	40%	76.7%	56%
Percentage of the procurement budget that is spent on international suppliers (%)	60%	23.3%	44%
Total number of suppliers/contractors assessed for environmental aspects	209	200	80
Total number of suppliers/contractors assessed for social aspects	55	52	21
Total number of suppliers/contractors assessed for safety aspects	264	252	84
Total number of suppliers/contractors assessed for economic aspects	185	98	70

<sup>6</sup> Local suppliers refer to the suppliers registered in Azerbaijan

## Methodology and Assumptions

In our second year of reporting, we have made an effort to make our disclosures more in line with GRI and IADC reporting guidelines. In order to make clearer and more detailed disclosures, we have continued our attempts to improve our internal reporting system. Such attempts include better coordination of the data collection and the reporting processes, automation of manually conducted processes using software, optimization of calculation methodologies in line with industry best practices and so on.

As in the prior year, the main data sources for the information reported here are interviews with process owners, questionnaires, Company internal reports and information provided by independent third parties. While compiling current year data, we have reviewed the quantitative data reported in our prior year report to make revisions, if necessary. As the result of this review, we identified immaterial misstatements in emission, water consumption and human resources indicators and restated them where necessary.

### Methods of data collection and reporting methodologies

#### Environmental Indicators

GRI standards and local legislations guide our data collection and reporting methodology for environmental indicators. Environmental information here covers all operations of SOCAR AQS (excluding the operations of subsidiaries) in Azerbaijan.

**GHG emissions and Power:** To report

our power consumption performance, we follow the requirements of GRI 302 Energy Standard. The scope of energy consumption covers all generators and all vehicles belonging to SOCAR AQS. The main difference from prior year is the change in the presentation of energy indicators to make their disclosure more in line with the industry best practices.

GRI 305.1-305.5 Emissions Disclosure Standards guide our reporting on direct GHG emissions (Scope 1) emissions. To calculate direct GHG emissions indicators we use the tier 1 approach of the IPCC (Intergovernmental Panel on Climate Change). Greenhouse gasses included in the emissions are CO<sub>2</sub>, N<sub>2</sub>O and CH<sub>4</sub>. Inputs for the calculation come from our internal energy consumption records and IPCC default emission factors. We are planning to have our diesel generators measured by independent third parties for their emissions by the end of 2020. This will help us to switch to the more detailed tier 2 or 3 approach in the upcoming years.

**Air emissions:** Our emissions disclosures follow the requirements of GRI 305.7 Emissions Disclosure Standard and the methodology, developed in 2020, in accordance with local legislation for monitoring and reporting significant air emissions. With the updated methodology, we have started monitoring and reporting on air pollutants such as CO, NO<sub>x</sub>, NMVOCs and SO<sub>x</sub> from 2020.

**Water:** We use GRI 303 Water Disclosure Standard to measure and report our water performance. To make our disclosures more complaint with GRI-303 standard,

this year we report on water withdrawal and water discharge indicators besides water consumption.

**Significant spills and waste:** GRI 306 Effluents and Waste Disclosure Standards and local legislations guide our measurements and reporting processes related to significant spills and waste performance. All wastes (general, as well as, hazardous) are submitted to third parties for disposal or recycling. Waste classifications into hazardous and general categories are in line with the requirements of local legislations. To convert the volume of household waste from cubic meters to tons, we use the average conversion coefficients based on the types of waste generated. We are reporting on drilling cuttings as part of our industry specific hazardous waste.

**Biodiversity:** We follow the requirements, recommendations and guidance of GRI 304 Biodiversity Disclosure Standard and local legislations to report the impact of our operations on biodiversity.

#### Social Indicators

**Health and safety:** Our health and safety performance disclosures in 2020 follow GRI 403 Occupational Health and Safety (OHS) standard, IADC health and safety reporting guidelines, as well as the local legislative requirements. Health and Safety data is collected at the site level and further consolidated at the Company level. Again, only the operations of SOCAR AQS (excluding the operations of subsidiaries) in Azerbaijan are covered.

Internal reporting system built on incident investigations reports act as the main

source of the disclosed information. For incident investigation purposes, we use Supplemental Incident Report (SIW) forms recommended by IADC. Disclosed information in this report includes all employees, regardless of their contract type.

**Other Social Indicators:** 400 series of the GRI Standards guide our social performance disclosures. Social performance data covers all operations of SOCAR AQS (excluding the operations of subsidiaries) in Azerbaijan. Main data source for social KPIs and qualitative data is the Company's internal reporting system. The information for HC indicators is supplemented by the third party surveys and reports.

#### Economic Indicators

Financial performance indicators follow International Financial Reporting Standards (IFRS) and The International Accounting Standards Board (IASB) Conceptual Framework. Financial indicators cover all operations of SOCAR AQS Group (including all subsidiaries) in all geographic locations. The key facts and figures included in this report correspond to those in the financial statements.



## GRI Index

Standard	Description	Status	Reference/Comment
<b>GRI 102: GENERAL DISCLOSURES</b>			
<b>Organizational profile</b>			
<b>102-1</b>	Name of the organization	Covered	Company profile
<b>102-2</b>	Activities, brands, products, and services	Covered	Our operations
<b>102-3</b>	Location of headquarters	Covered	Headquarters of SOCAR AQS is located in Baku, Azerbaijan.
<b>102-4</b>	Location of operations	Covered	Company profile
<b>102-5</b>	Ownership and legal form	Covered	Company profile
<b>102-6</b>	Markets served	Covered	Company profile, Our operations
<b>102-7</b>	Scale of the organization	Covered	Performance tables
<b>102-8</b>	Information on employees and other workers	Covered	Performance tables
<b>102-9</b>	Supply chain	Covered	Supply chain
<b>102-10</b>	Significant changes to the organization and its supply chain	Covered	Company profile
<b>102-11</b>	Precautionary Principle or approach	Covered	Risk management
<b>102-12</b>	External initiatives	Covered	About the report
<b>102-13</b>	Membership of associations	Covered	We are members of the International Drilling Association of Drilling Contractors, IADC, IACET PNG, AmCham, GRI community and we hold participatory status in the United Nations Global Compact, Reporting on SDGs and Decent Work in Global Supply Chains Action Platforms.
<b>Strategy</b>			
<b>102-14</b>	Statement from senior decision-maker	Covered	Message from General Director
<b>102-15</b>	Key impacts, risks, and opportunities	Covered	Message from General Director
<b>Ethics and integrity</b>			
<b>102-16</b>	Values, principles, standards and norms of behavior	Covered	Vision and mission
<b>102-17</b>	Mechanisms for advice and concerns about ethics	Covered	Business ethics, Employee engagement

Standard	Description	Status	Reference/Comment
<b>GRI 102: GENERAL DISCLOSURES</b>			
<b>Governance</b>			
<b>102-18</b>	Governance structure	Covered	Corporate governance
<b>102-19</b>	Delegating authority	Covered	Corporate governance
<b>102-20</b>	Executive-level responsibility for economic, environmental, and social topics	Covered	Sustainable development management structure
<b>102-21</b>	Consulting stakeholders on economic, environmental, and social topics	Covered	Consultations with stakeholders on environmental topics are held by QHSE Department, on social topics HC Department, and on economic topics - by the Finance Department.
<b>102-22</b>	Composition of the highest governance body and its committees	Covered	Corporate governance
<b>102-23</b>	Chair of the highest governance body	Partially covered	The General Director of SOCAR AQS is the chair of the highest governance body of the Company.
<b>102-24</b>	Nominating and selecting the highest governance body	Covered	The General Director is appointed by the Board of Directors of the Parent Company. Criteria used for nomination and selection of the highest governance body are independence, diversity, technical knowledge and ESG expertise.
<b>102-25</b>	Conflicts of interest	Partially covered	Conflicts of interest arising from both internal and external stakeholders are disclosed in accordance with our Code of Conduct.
<b>102-26</b>	Role of the highest governance body in setting purpose, value, and strategy	Covered	Corporate governance The General Director and BoD of the parent company approve the organization's purpose, vision and mission statements, strategies, policies, and goals related to economic, environmental, and social topics.
<b>102-27</b>	Collective knowledge of highest governance body	Covered	Corporate governance
<b>102-28</b>	Evaluating the highest governance body's performance	Covered	Corporate governance The BoD assesses SOCAR AQS's top management performance.
<b>102-29</b>	Identifying and managing economic, environmental, and social impact	Covered	Sustainability approach at SOCAR AQS
<b>102-30</b>	Effectiveness of risk management processes	Covered	Risk management
<b>102-31</b>	Review of economic, environmental, and social topics	Covered	Sustainability approach at SOCAR AQS
<b>102-32</b>	Highest governance body's role in sustainability reporting	Covered	The General Director reviews and approves the organization's sustainability report and ensures that all material topics are covered.
<b>102-33</b>	Communicating critical concerns	Covered	Business ethics

Standard	Description	Status	Reference/Comment
<b>GRI 102: GENERAL DISCLOSURES</b>			
<b>Governance</b>			
<b>102-34</b>	Nature and total number of critical concerns	Not covered	
<b>102-35</b>	Remuneration policies	Covered	Corporate governance
<b>102-36</b>	Process for determining remuneration	Covered	Corporate governance
<b>102-37</b>	Stakeholders' involvement in remuneration	Not covered	
<b>102-38</b>	Annual total compensation ratio	Not covered	
<b>102-39</b>	Percentage increase in annual total compensation ratio	Not covered	
<b>Stakeholder engagement</b>			
<b>102-40</b>	List of stakeholder groups	Covered	Stakeholder engagement
<b>102-41</b>	Collective bargaining agreements	Covered	At SOCAR AQS, our employees are not covered by any collective agreements.
<b>102-42</b>	Identifying and selecting stakeholders	Covered	Stakeholder engagement
<b>102-43</b>	Approach to stakeholder engagement	Covered	Stakeholder engagement
<b>102-44</b>	Key topics and concerns raised	Covered	Stakeholder engagement
<b>Reporting practice</b>			
<b>102-45</b>	Entities included in the consolidated financial statements	Covered	Financial performance, Methodology and Assumptions
<b>102-46</b>	Defining report content and topic Boundaries	Covered	About the report
<b>102-47</b>	List of material topics	Covered	About the report
<b>102-48</b>	Restatements of information	Covered	Methodology and Assumptions
<b>102-49</b>	Changes in reporting	Covered	Methodology and Assumptions
<b>102-50</b>	Reporting period	Covered	About the report
<b>102-51</b>	Date of most recent report	Covered	Most recent Sustainability report was issued in 2019 covering 2016-2018 years.
<b>102-52</b>	Reporting cycle	Covered	Methodology and Assumptions
<b>102-53</b>	Contact point for questions regarding the report	Covered	At the end of the report

Standard	Description	Status	Reference/Comment
<b>GRI 102: GENERAL DISCLOSURES</b>			
Reporting practice			
<b>102-54</b>	Claims of reporting in accordance with GRI Standards	Covered	About the report
<b>102-55</b>	GRI content index	Covered	GRI Index
<b>102-56</b>	External assurance	Covered	Report profile
<b>GRI 103: MANAGEMENT APPROACH</b>			
<b>103-1</b>	Explanation of the material topic and its Boundary	Covered	Throughout the report
<b>103-2</b>	The management approach and its components	Covered	Throughout the report
<b>103-3</b>	Evaluation of the management approach	Covered	Sustainability approach at SOCAR AQS
<b>GRI 201: ECONOMIC PERFORMANCE</b>			
<b>201-1</b>	Direct economic value generated and distributed	Covered	Performance tables
<b>201-2</b>	Financial implications and other risks and opportunities due to climate change	Not covered	
<b>201-3</b>	Defined benefit plan obligations and other retirement plans	Covered	Performance tables
<b>201-4</b>	Financial assistance received from the government	Covered	As in 2018, neither SOCAR AQS nor its subsidiaries received any financial assistance from the government.
<b>GRI 202: MARKET PRESENCE</b>			
<b>202-1</b>	Ratios of standard entry level wage by gender compared to local minimum wage	Covered	Performance tables
<b>202-2</b>	Proportion of senior management hired from the local community	Covered	Performance tables
<b>GRI 203: INDIRECT ECONOMIC IMPACTS</b>			
<b>203-1</b>	Infrastructure investments and services supported	Covered	Community engagement
<b>203-2</b>	Significant indirect economic impacts	Covered	Our positive indirect impacts include supporting jobs, enhancing the knowledge and skills of our employees, and use of equipment and services from local suppliers.
<b>GRI 204: PROCUREMENT PRACTICES</b>			
<b>204-1</b>	Proportion of spending on local suppliers	Covered	Performance tables

Standard	Description	Status	Reference/Comment
<b>GRI 205: ANTI-CORRUPTION</b>			
<b>205-1</b>	Operations assessed for risks related to corruption	Covered	We do not currently assess suppliers for corruption related risks.
<b>205-2</b>	Communication and training about anti-corruption policies and procedures	Covered	Anti-corruption, equal employment, anti-discrimination and harassment
<b>205-3</b>	Confirmed incidents of corruption and actions taken	Covered	Compliance integrity
<b>GRI 206: ANTI-COMPETITIVE BEHAVIOR</b>			
<b>206-1</b>	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	Covered	No such anti-competitive behavior related incidents occurred during the reporting period.
<b>GRI 207: TAX</b>			
<b>207-1</b>	Approach to tax	Not covered	
<b>207-2</b>	Tax governance, control, and risk management	Not covered	
<b>207-3</b>	Stakeholder engagement and management of concerns related to tax	Not covered	
<b>207-4</b>	Country-by-country reporting	Covered	Financial performance
<b>GRI 301: MATERIALS</b>			
<b>301-1</b>	Materials used by weight or volume	Covered	Performance tables
<b>301-2</b>	Recycled input materials used	Not covered	
<b>301-3</b>	Reclaimed products and their packaging materials	Not applicable	
<b>GRI 302: ENERGY</b>			
<b>302-1</b>	Energy consumption within the organization	Covered	Performance tables; Methodology and Assumptions
<b>302-2</b>	Energy consumption outside of the organization	Not covered	
<b>302-3</b>	Energy intensity	Not covered	
<b>302-4</b>	Reduction of energy consumption	Covered	Energy consumption & Greenhouse Gases (GHG)
<b>302-5</b>	Reductions in energy requirements of products and services	Not covered	
<b>GRI 303: WATER AND EFFLUENTS</b>			
<b>303-1</b>	Interactions with water as a shared resource	Covered	Water consumption; Methodology and Assumptions

Standard	Description	Status	Reference/Comment
<b>GRI 303: WATER AND EFFLUENTS</b>			
<b>303-2</b>	Management of water discharge-related impacts	Covered	During the reporting period, SOCAR AQS did not pass the limits imposed by local legislations for effluent water discharges or no water sources have been significantly affected by any withdrawal of water.
<b>303-3</b>	Water withdrawal	Covered	Performance tables; Methodology and Assumptions
<b>303-4</b>	Water discharge	Covered	Performance tables; Methodology and Assumptions
<b>303-5</b>	Water consumption	Covered	Performance tables; Methodology and Assumptions
<b>GRI 304: BIODIVERSITY</b>			
<b>304-1</b>	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Covered	Biodiversity and Marine Wildlife
<b>304-2</b>	Significant impacts of activities, products, and services on biodiversity	Covered	Biodiversity and Marine Wildlife
<b>304-3</b>	Habitats protected or restored	Not covered	
<b>304-4</b>	IUCN Red List species and national conservation list species with habitats in areas affected by operations	Not covered	
<b>GRI 305: EMISSIONS</b>			
<b>305-1</b>	Direct (Scope 1) GHG emissions	Covered	Performance tables; Methodology and Assumptions
<b>305-2</b>	Energy indirect (Scope 2) GHG emissions	Not covered	
<b>305-3</b>	Other indirect (Scope 3) GHG emissions	Not covered	
<b>305-4</b>	GHG emissions intensity	Not covered	
<b>305-5</b>	Reduction of GHG emissions	Covered	Energy consumption & Greenhouse Gases (GHG)
<b>305-6</b>	Emissions of ozone-depleting substances (ODS)	Not covered	
<b>305-7</b>	Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	Covered	Performance tables; Methodology and Assumptions
<b>GRI 306: WASTE</b>			
<b>306-1</b>	Waste generation and significant waste-related impacts	Covered	Waste management
<b>306-2</b>	Management of significant waste-related impacts	Covered	Waste management



Standard	Description	Status	Reference/Comment
<b>GRI 306: WASTE</b>			
<b>306-3</b>	Waste generated	Covered	Waste management
<b>306-4</b>	Waste diverted from disposal	Not covered	
<b>306-5</b>	Waste directed to disposal	Covered	Waste management
<b>GRI 307: ENVIRONMENTAL COMPLIANCE</b>			
<b>307-1</b>	Non-compliance with environmental laws and regulations	Covered	We have not identified any non-compliance with environmental laws and/or regulations.
<b>GRI 308: SUPPLIER ENVIRONMENTAL ASSESSMENT</b>			
<b>308-1</b>	New suppliers that were screened using environmental criteria	Covered	Supply chain
<b>308-2</b>	Negative environmental impacts in the supply chain and actions taken	Covered	We did not identify significant environmental negative impacts in our supply chain during the reporting period.
<b>GRI 401: EMPLOYMENT</b>			
<b>401-1</b>	New employee hires and employee turnover	Covered	Performance table
<b>401-2</b>	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Covered	All benefits, such as health care and parental leave, are provided to all our direct employees.
<b>401-3</b>	Parental leave	Covered	Performance table
<b>GRI 402: LABOR/MANAGEMENT RELATIONS</b>			
<b>402-1</b>	Minimum notice periods regarding operational changes	Covered	We adhere to the Labor Code of the Republic of Azerbaijan.
<b>GRI 403: OCCUPATIONAL HEALTH AND SAFETY</b>			
<b>403-1</b>	Occupational health and safety management system	Covered	Health and safety
<b>403-2</b>	Hazard identification, risk assessment, and incident investigation	Covered	Health and safety
<b>403-3</b>	Occupational health services	Covered	Health and safety
<b>403-4</b>	Worker participation, consultation, and communication on occupational health and safety	Covered	Health and safety
<b>403-5</b>	Worker training on occupational health and safety	Covered	Health and safety
<b>403-6</b>	Promotion of worker health	Covered	Health and safety



Standard	Description	Status	Reference/Comment
<b>GRI 403: OCCUPATIONAL HEALTH AND SAFETY</b>			
<b>403-7</b>	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Covered	Health and safety
<b>403-8</b>	Workers covered by an occupational health and safety management system	Covered	All employees and workers who are not employees but whose work and/or workplace is controlled by the organization, are covered by our H&S Management System. All sites are also covered by this system.
<b>403-9</b>	Work-related injuries	Covered	Health and safety
<b>403-10</b>	Work related ill health	Covered	There were no cases of health deterioration related to work during the reporting period.
<b>GRI 404: TRAINING AND EDUCATION</b>			
<b>404-1</b>	Average hours of training per year per employee	Covered	Performance table
<b>404-2</b>	Programs for upgrading employee skills and transition assistance programs	Covered	Employee development; Raising H&S culture
<b>404-3</b>	Percentage of employees receiving regular performance and career development reviews	Covered	In 2020, SOCAR AQS's performance management was not evaluated. The main reason for this was COVID-19, which affected the Company's operations and the ongoing portfolio management.
<b>GRI 405: DIVERSITY AND EQUAL OPPORTUNITY</b>			
<b>405-1</b>	Diversity of governance bodies and employees	Partially Covered	Diversity and inclusiveness
<b>405-2</b>	Ratio of basic salary and remuneration of women to men	Covered	Performance table
<b>GRI 406: NON-DISCRIMINATION</b>			
<b>406-1</b>	Incidents of discrimination and corrective actions taken	Covered	Anti-corruption, equal employment, anti-discrimination and harassment We did not identify any incidents of discrimination during the reporting period.
<b>GRI 407: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING</b>			
<b>407-1</b>	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Covered	No such cases were identified during the reporting period.
<b>GRI 408: CHILD LABOR</b>			
<b>408-1</b>	Operations and suppliers at significant risk for incidents of child labor	Covered	Human rights management No incidents of child labor were identified during the reporting period.





Standard	Description	Status	Reference/Comment
<b>GRI 409: FORCED OR COMPULSORY LABOR</b>			
<b>409-1</b>	Operations and suppliers at significant risk for incidents of forced or compulsory labor	Covered	No such cases were identified during the reporting period.
<b>GRI 410: SECURITY PRACTICES</b>			
<b>410-1</b>	Security personnel trained in human rights policies or procedures	Covered	Trainings in human rights policies and procedures were developed within 2020 and is planned to be provided in 2021.
<b>GRI 411: RIGHTS OF INDIGENOUS PEOPLES</b>			
<b>411-1</b>	Incidents of violations involving rights of indigenous peoples	Not applicable	Trainings in human rights policies and procedures were developed within 2020 and is planned to be provided in 2021.
<b>GRI 412: HUMAN RIGHTS ASSESSMENT</b>			
<b>412-1</b>	Operations that have been subject to human rights reviews or impact assessments	Covered	Human rights management No operations were subject to human rights reviews or human rights impact assessments during the reporting period.
<b>412-2</b>	Employee training on human rights policies or procedures	Covered	Human rights management
<b>412-3</b>	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	Not covered	
<b>GRI 413: LOCAL COMMUNITIES</b>			
<b>413-1</b>	Operations with local community engagement, impact assessments, and development programs	Covered	Community engagement
<b>413-2</b>	Operations with significant actual and potential negative impacts on local communities	Covered	There were no operations with significant negative impacts on local communities during the reporting period.
<b>GRI 414: SUPPLIER SOCIAL ASSESSMENT</b>			
<b>414-1</b>	New suppliers that were screened using social criteria	Covered	All of our new suppliers are screened using social criteria covered in supplier contracts. Supply chain management
<b>414-2</b>	Negative social impacts in the supply chain and actions taken	Covered	We did not identify any negative social impacts in our supply chain during the reporting period.



Standard	Description	Status	Reference/Comment
<b>GRI 415: PUBLIC POLICY</b>			
<b>415-1</b>	Political contributions	Covered	There were no political contributions during the reporting period made by the Company.
<b>GRI 416: CUSTOMER HEALTH AND SAFETY</b>			
<b>416-1</b>	Assessment of the health and safety impacts of product and service categories	Not covered	
<b>416-2</b>	Incidents of non-compliance concerning the health and safety impacts of products and services	Covered	We did not identify any non-compliance with regulations and/ or voluntary codes concerning the health and safety impacts of our operations and services during the reporting period.
<b>GRI 417: MARKETING AND LABELING</b>			
<b>417-1</b>	Requirements for product and service information and labeling	Not applicable	
<b>417-2</b>	Incidents of non-compliance concerning product and service information and labeling	Not applicable	
<b>417-3</b>	Incidents of non-compliance concerning marketing communications	Not applicable	
<b>GRI 418: CUSTOMER PRIVACY</b>			
<b>418-1</b>	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Covered	No breaches of customer privacy were identified during the reporting period
<b>GRI 419: SOCIOECONOMIC COMPLIANCE</b>			
<b>419-1</b>	Non-compliance with laws and regulations in the social and economic area	Covered	Compliance management

# Independent limited assurance report



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## INDEPENDENT ASSURANCE REPORT

Independent practitioner's limited assurance report by Deloitte & Touche LLAC ("Deloitte") to the Board of Directors of SOCAR-AQS LLC ("the Company") on the 2020 Sustainability Report for the year ended 31 December 2020:

### Scope of assurance

We have been engaged by the Company to perform an assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) ("the Standard") to provide independent limited assurance on accuracy of Selected Data presented in "SOCAR AQS Sustainability Report 2020" ("the Report") prepared in accordance with the "Core" option requirements of Global Reporting Initiative ("GRI") Sustainability Reporting Standards for the year ended 31 December 2020.

### Assurance procedures and roles

We carried out limited assurance on accuracy of the following data related to 2020 year and included into the Report:

- (1) Selected key performance indicators specified below in the section "Selected non-financial performance data for limited assurance", and
- (2) The Company's self-declaration in preparing the Report in accordance with the "Core" option requirements of GRI Sustainability Reporting Standards as stated on "Report Profile" subsection of the Report.

### Our key assurance procedures

To achieve limited assurance, the ISAE 3000 (Revised) requires that we review the processes, systems and competencies used to compile the areas on which we provide our assurance. Considering the risk of material error, we planned and performed our work to obtain all of the information and explanations we considered necessary to provide sufficient evidence to support our assurance conclusion.

To form our conclusions, we undertook the following procedures:

- Analyzed on a sample basis the key systems, processes, policies and controls relating to the collation, aggregation, validation and reporting processes of the selected sustainability performance indicators;
- Conducted interviews with employees of the Company responsible for sustainability performance, policies and corresponding reporting;
- Conducted selective substantive testing to confirm accuracy of received data to the selected key performance indicators;
- Made enquiries of management and senior executives to obtain an understanding of the overall governance and internal control environment, risk management, materiality assessment and stakeholder engagement processes relevant to the identification, management and reporting of sustainability issues; and
- Performed selective review of disclosures in the Report on compliance with GRI Sustainability Reporting Standards.

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

### Inherent limitations

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a more detailed description of DTTL and its member firms.

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Inherent limitations exist in all assurance engagements due to the selective testing of the information being examined. Therefore fraud, error or non-compliance may occur and not be detected. Additionally non-financial information, such as that included in reporting documents is subject to more inherent limitations than financial information, given the nature and methods used for determining, calculating and sampling or estimating such information.

Our work has been undertaken so that we might state to the Company those matters we are required to state to them in this Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our work, for this Report, or for the conclusions we have formed.

Our engagement provides limited assurance as defined in ISAE 3000 (Revised). The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and 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.

### Roles and responsibilities

The Directors of the Company are responsible for the preparation, accuracy and completeness of the sustainability information and statements contained within the Report. They are responsible for determining the Company sustainability objectives and for establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived.

Our responsibility is to independently express a conclusion on the Selected Data based on our procedures. We conducted our engagement in accordance with the ISAE 3000 (Revised) Assurance Engagements other than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board.

### Independence and quality control

We have complied with the independence and other ethical requirements established by the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which are based on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Deloitte applies the International Standard on Quality Control 1 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.

### Selected non-financial performance data for limited assurance

We have been engaged by the Company to perform limited assurance procedures on accuracy of the following key performance data of the 2020 reporting year included into the Report:

#### Health & Safety

- Total number of fatalities, direct employees
- Total number of recordable injuries, direct employees
- Number of lost time injuries, direct employees
- Number of days lost due to incident
- Lost time injury frequency rate, per 1,000,000 hours worked
- Total number of hours worked, direct employees
- Total recordable injury frequency rate, per 1,000,000 hours

<b>Supply Chain</b>	<ul style="list-style-type: none"> <li>• Number of local suppliers</li> <li>• Number of international suppliers</li> <li>• Percentage of procurement budget spent on local suppliers</li> <li>• Percentage of procurement budget spent on international suppliers</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>• Total number of employees</li> <li>• Number of employees, by gender</li> <li>• Number of permanent employees, by gender</li> <li>• Number of temporary employees, by gender</li> <li>• Number of hired employees</li> <li>• Number of employee turnover</li> <li>• Ratio of entry level wage by gender compared to local minimum</li> <li>• Employee turnover rate</li> </ul>
<b>Energy</b>	<ul style="list-style-type: none"> <li>• Diesel consumption</li> </ul>
<b>Water</b>	<ul style="list-style-type: none"> <li>• Water withdrawal</li> </ul>
<b>Emissions</b>	<ul style="list-style-type: none"> <li>• Direct GHG emissions (Scope 1)</li> </ul>
<b>Waste</b>	<ul style="list-style-type: none"> <li>• Number of oil spills</li> <li>• Amount of drilling cuttings</li> <li>• Hazardous waste generated</li> </ul>

### Limited assurance conclusion

Based on the scope of our work and the assurance procedures performed we conclude that nothing has come to our attention that causes us to believe that the aforementioned Selected Data, which we were engaged to provide limited assurance on, as specified in the "Roles and responsibilities" section above are materially misstated.





**Contact person for suggestions:**

We value the feedback and recommendations from our stakeholders and are open to any suggestions that will improve our Sustainability Report and performance.

**Ulkar Abdullayeva - Public Relations Manager**

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