

SCF

Sovcomflot



**ANNUAL
REPORT**

2019

About the report

Annual report of Sovcomflot (PAO Sovcomflot, the Company) for 2019 includes the operating results of PAO Sovcomflot and its subsidiary companies, referred to as Sovcomflot Group (SCF Group). It discloses the operational and financial results, and certain aspects of the activity and figures in the area of sustainable development.

The report is prepared in accordance with the requirements of the Regulation on Information Disclosure by Issuers of Issue-Grade Securities approved by order of the Central Bank of the Russian Federation dated 30 December 2014 No. 454-P, by taking into account a model structure of the joint-stock company's annual report, shares of which are in federal ownership, approved by Resolution No. 1214 of the Russian Government dated 31 December 2010, and by taking into account the recommendations of the Corporate Governance Code of the Bank of Russia.

The report is drawn up based on an analysis of the operational data and figures of the financial statements of PAO Sovcomflot for 2019 prepared in accordance with International Financial Reporting Standards. Perimeter of the information disclosed in the report coincides with the consolidation perimeter for purposes of the statements preparation under IFRS. The report may contain discrepancies in calculation of shares, percentages, amounts due to rounding of estimates.

The accuracy of information contained in this report is certified by the Auditing Commission of the Company.

On 7 April 2020 the 2019 annual report of PAO Sovcomflot was preliminarily approved by the Company's Board of Directors (Minutes No. 192 of 8 April 2020) and approved by the Annual General Meeting of Shareholders.

Annual reports of PAO Sovcomflot for the previous years are available on the Company's website in the [Investors](#) section

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SOVCOMFLOT GROUP: KEY FACTS

Russia's largest shipping company and one of the global leaders in marine transportation of hydrocarbons (crude oil and petroleum products, liquefied gas) and in transport servicing of oil and gas projects on the continental shelf, including offshore seismic exploration.

SCF Group is involved in servicing large oil and gas projects in Russia and abroad: Yamal LNG, Arctic LNG 2, Sakhalin-1, Sakhalin-2, Varandey, Prirazlomnoye, Novy Port, Tangguh (Indonesia).

The SCF fleet includes the world's first Aframax tankers specially designed to run on LNG.

Main charterers include major international and Russian oil&gas companies and traders, such as Gazprom, Sakhalin Energy, Exxon Neftegas, Royal Dutch Shell, Lukoil, Novatek, Vitol, ExxonMobil, Yamal Trade, Trafigura, Glencore, Gunvor, Total, Phillips 66, BP, Chevron, Sibur, Repsol, PetroChina, Equinor, Eni.

The Group has offices in Moscow, St. Petersburg, Novorossiysk, Murmansk, Vladivostok, Yuzhno-Sakhalinsk, Limassol, London, and Dubai.

>7,700

EMPLOYEES

at sea and ashore

83

ICE-CLASS VESSELS

SCF Group is the world's largest owner and operator of ice-class vessels suited to harsh environments

AS OF 31 DECEMBER 2019

147

VESSELS

in operation

12.87

MILLION TONNES

total deadweight¹

4

NEW VESSELS

added in 2019

10.8

VESSELS

average age of vessel

 SCF OFFICE

 SCF-SERVICED PROJECT

 PORT

¹ Including the fleet of joint ventures (4 LNG carriers and 9 LR I product tankers).

2019 – Key events and achievements

January

A liquefied natural gas (LNG) supply system was commissioned in the Kaliningrad Region, as part of Gazprom's offshore gas receiving terminal and the floating storage and regasification unit (FSRU) named Marshal Vasilevskiy. Technical management for the FSRU is provided by SCF Group.



February

Yevgeny Primakov, a multifunctional icebreaking platform supply vessel, was named Support Vessel of the Year by Offshore Support Journal, an international trade publication.

The Aframax-sized tanker Korolev Prospect was added to the SCF Group fleet. The vessel continues the 'Green Funnel' series, is fuelled by LNG and meets the highest international environmental requirements.



March

The crew of the tanker SCF Surgut rescued 12 people from the Pajarita yacht in distress in the Caribbean Sea.

Sovcomflot celebrated the tenth anniversary of the start of liquefied natural gas (LNG) shipments from the Sakhalin-2 project. In March 2009, the Grand Aniva LNG carrier delivered the first Russian LNG cargo to consumers. The successful implementation of the project enabled Russia to become a full fledged member of the club of LNG exporting nations, which at that point included just 15 countries.

The Vernadsky Prospect tanker was put into service in continuation of the Green Aframax tanker series.



April

The Arctic shuttle tanker Mikhail Ulyanov loaded the milestone 10-millionth tonne of oil produced at the Prirazlomnaya platform in the Sea of Pechora. This shipment became the 150th in succession from the start of transport operations in April 2014.

Samuel Prospect, the sixth tanker in the revolutionary 'Green Funnel' series of LNG-fuelled Aframax tankers, joined the SCF fleet.

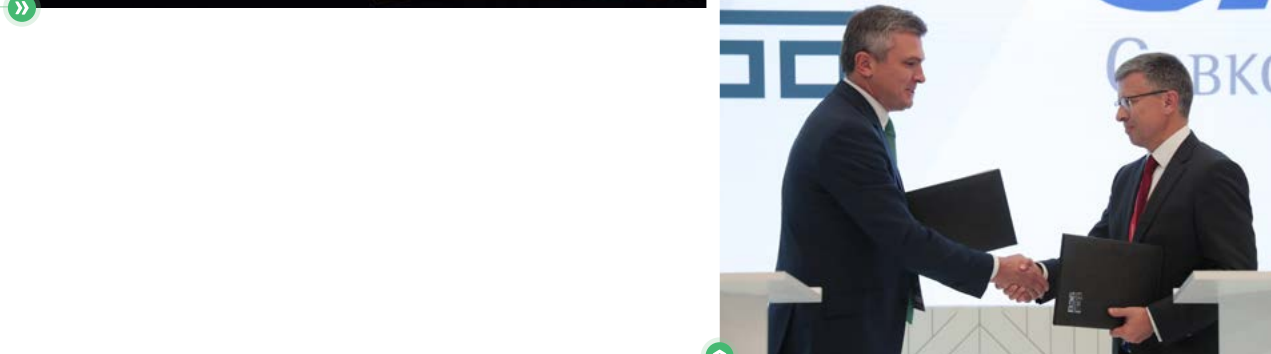


May

The Gagarin Prospect tanker was named 'Ship of the Year' at the Marine Propulsion Awards 2019.

The 18th Annual Sovcomflot Group Business Partners Meeting was held in Moscow. It was attended by about 200 representatives from leading Russian and global oil and gas companies, Russian Federation ministries and agencies, investment, finance, insurance and law companies and expert organisations.

SCF Group entered into a US\$297 million credit facility for up to 10 years with three international banks - ING Bank, KfW IPEX-Bank and Crédit Agricole Corporate and Investment Bank. The funds were intended to finance the construction of two LNG carriers, which will operate under long-term contracts with Royal Dutch Shell.



June

SCF Group and VEB.RF Group signed a package of agreements to finance the construction of three new-generation product carriers fuelled by LNG. The vessels are being built at the Zvezda Shipbuilding Complex (Primorsky Krai).

SCF Group and Gazprom Neft Marine Bunker entered into an agreement to cooperate on bunkering Sovcomflot Group ships with LNG fuel.

The Gagarin Prospect tanker won the Next Generation Ship Award 2019. The award giving ceremony was held in Oslo as part of the opening ceremony for Nor-Shipping 2019, the world's largest shipping exhibition and conference.



September

Being guided by the resolutions of an extraordinary general meeting of shareholders dated 23 September 2019 and under directives of the Russian Government, the PAO Sovcomflot Board of Directors elected Sergey Frank as its Chairman. Igor Tonkovidov was appointed as the Chief Executive Officer of PAO Sovcomflot.

Sovcomflot and NOVATEK signed an agreement to set up a joint venture SMART LNG. The company will be the owner and operator of a tanker fleet for year-round transportation of natural liquefied gas under the Arctic LNG 2 and other current and prospective projects of NOVATEK.

The SCF Group fleet was supplemented with the Arctic shuttle tanker of the Shturman Albanov series. In the run-up to the 200th anniversary of the discovery of Antarctica by a Russian expedition led by Bellingshausen and Lazarev, the new tanker was named after Mikhail Lazarev, an outstanding Russian pioneer. Mikhail Lazarev continues the series of shuttle tankers operating for Gazprom Neft's Novy Port project.

The large-capacity tanker Korolev Prospect made a voyage via the Northern Sea Route using exclusively environmentally friendly LNG fuel along the whole route for the first time in the history of navigation.

Joint ventures of Sovcomflot Group and NYK Line entered into a US\$176 million credit facility for up to 8 years with a consortium of three international banks: Sumitomo Mitsui Banking Corporation, Société Générale and Shinsei Bank. The raised funds were used to refinance two ice-class LNG tankers, Grand Aniva and Grand Elena, jointly owned and managed by Sovcomflot and NYK Line.



November

Sovcomflot Group and VEB.RF Group entered into an agreement for lease financing of a pilot Arctic LNG carrier for the Arctic LNG 2 project. At the same time, Sovcomflot Group and NOVATEK Group signed a long-time charter agreement for operation of the LNG carrier under the Arctic LNG 2 project. The vessel will be built at the Zvezda Shipbuilding Complex in Bolshoy Kamen, Primorsky Krai.



December

Sovcomflot Group won the award for 'Company of the Year' at the 2019 Lloyd's List Europe Awards.

The crew of Gennadiy Nevelskoy, a multifunctional icebreaking supply vessel, rescued three fishermen in distress in the Sea of Okhotsk.

Message from the Chairman of the Board of Directors



2019 was the first year of implementation of our new strategy through to 2025 – Strategy 2025. This strategy is consistent with the successfully implemented Strategy 2005-2010 and Strategy 2011-2018. It retains the focus on further aligning SCF Group's business model with the servicing of long-term industrial projects, while maintaining pre-eminence in our traditional segments of the conventional tanker market. To achieve this we will need to further strengthen our technological leadership and operational excellence.

Strategy 2025 continues our adherence both to our guiding principles of doing business in a responsible manner, for which SCF has gained a strong reputation within the global shipping and offshore industries, and to our spirit of innovators and explorers, which has lead us to introduce several game-changing vessels and trading routes over the recent years.

Strategy 2025 goes further by acknowledging some fundamental changes to the mechanics of the global economy, the constraints governing the development of the energy sector and how they may impact the economics of global shipping and last but not least, the environmental challenge to shipping itself and its environmental footprint for the future.

The Board was very pleased with the financial and operational results from the first year of Strategy 2025. In 2019, the Group achieved all its key performance targets, whilst substantially outperforming on several.

In 2019, SCF's net profit climbed to USD 225.4 million and, in accordance with our dividend policy, this enabled a significant RUB 7.18 billion dividend payment to be distributed to our Shareholder.

In the reporting period, the Board remained committed to incorporating sustainable business practices across the Group. Strategy 2025 details our sustainability priorities, namely: ensuring the highest possible safety and quality standards of our services; reducing the Group's environmental impact; remaining supportive and responsible towards communities and maritime clusters we operate in; supporting maritime education and research, and retaining and developing our human capital, which remains our most valuable asset.

We have made it our priority to reduce the emissions footprint of our operations and made significant progress during the year. All vessels delivered to SCF Group in 2019 comply with both existing and anticipated environmental regulations and requirements. Similarly, all future vessels added to our order book during the year are, without any exaggeration, the smartest and most technically advanced in their categories. In 2019, we became one of the first shipowners to support the Poseidon Principles, an initiative launched by leading international banks to promote environmentally responsible shipping.

The Board of Directors would like to express its gratitude to all of SCF's partners and clients for their continued support and collaboration and for entrusting us with their valuable cargoes and service requests. On behalf of the Board, I would like to thank our masters and crews across the whole of our fleet, and likewise, our shorebased personnel, for their continued dedication and excellent performance in 2019.

Sergey Frank
Chairman
of the Board of Directors
PAO Sovcomflot

Message from the President and Chief Executive Officer



In 2019, SCF Group operated against the backdrop of a gradual recovery in conventional tanker freight rates, after nearly three years of depressed tanker markets. Despite the market volatility remaining high, conventional tanker shipowners benefited from a positive trend in freight rates over the year, something that was especially evident in the fourth quarter.

In this context, SCF Group achieved steady growth in its key operating and financial metrics, many of which rose in 2019 close to their historic record levels. Time charter equivalent (TCE) revenues increased by 17.8 per cent to over USD 1.27 billion, whilst EBITDA rose by 41.7 per cent to reach USD 823 million and net profit exceeded USD 225 million. Significantly, our conventional crude oil transportation operations increased their revenues.

In 2019, the Board of Directors approved SCF Group's strategy for the period to 2025, which mandates the Group to focus its further development on maintaining business stability and the sustainability of our results. We will continue to pay special attention to expanding our participation in long-term industrial projects, primarily shipping liquefied gas and servicing offshore energy production, with a special emphasis on operations in challenging climatic and ice conditions.

Against this background, SCF Group continued to successfully develop its strategic partnership with NOVATEK. During the year, the two companies established SMART LNG, a joint venture that will own and operate a fleet of LNG carriers for the Arctic LNG-2 project. Five such LNGCs have been ordered at Zvezda Shipyard in Russia's Far East, whilst associated lease

finance agreements have been signed with VEB.RF Group, and time charters have been concluded with the project's operator.

The prior experience of operating Christophe de Margerie, the world's first icebreaking LNG carrier that serves the Yamal LNG project, led to the integration of various advanced engineering solutions into the design of new LNGCs for Arctic LNG-2, which will provide these new carriers with high icebreaking capabilities and manoeuvrability when operating in the challenging ice conditions of the Arctic.

We continued to renew our fleet during 2019, with an emphasis on improving its efficiency and introducing innovations, including those reducing the fleet's environmental impact. 2019 marked the first year of successfully operating the pioneering 'Green Funnel' series of LNG-fuelled Aframax crude oil tankers, and the resulting data is very encouraging. It confirmed that the use of LNG fuel enables a significant reduction in emissions, with carbon dioxide (CO₂) emissions reduced by 30 per cent, nitrogen oxides (NO_x) emissions cut by 94 per cent, and both sulphur oxides (SO_x) and particulate matter emissions eliminated altogether. Currently, SCF has six LNG-fuelled tankers in operation and a further five under construction.

Over the year, the global professional community recognised SCF's accomplishments in developing and adopting advanced technologies and engineering solutions on numerous occasions. SCF was named 'Company of the Year' at the Lloyd's List Europe Awards 2019, while Gagarin Prospect, the lead vessel in the 'Green Funnel' series, was named 'Ship of the Year' at the 2019 Marine Propulsion Awards and won the Nor-Shipping Next Generation Ship Award.

SCF Group is consistently introducing environmentally friendly LNG fuel in the Arctic shipping operations. In September-October 2019, three 'Green Funnel' LNG-fuelled Aframax tankers completed commercial voyages along the Northern Sea Route.

Overall, the positive results achieved in 2019 were only possible through the concerted efforts of all our employees: the masters and crews of SCF's vessels, shipbrokers and technical managers, as well as other onshore units. On behalf of the Executive Board, I extend my gratitude to all SCF team members for their work and dedication. We value the contribution of each and every one of you.

Igor Tonkovidov
President
and Chief Executive Officer,
Chairman
of the Executive Board
PAO Sovcomflot

1. ABOUT SOVCOMFLOT GROUP



Sovcomflot is Russia's largest shipping company and one of the global leaders in the maritime transportation of hydrocarbons (crude oil and petroleum products, liquefied gas), as well as the servicing of oil and gas projects on the continental shelf, including offshore seismic exploration.

1.1. Company profile

SCF’s own and chartered fleet includes 147¹ vessels with a total deadweight of 12,874 thousand tonnes and an average age of 10.8 years. 83 vessels have an ice class.

The structure of the SCF fleet includes five operating segments²

Offshore services	
Supply and servicing of offshore platforms, management of terminals, shuttle transportation	<div><div>• 10 Aframax (and 2 under construction), 5 Panamax and 4 MR shuttle tankers</div><div>• 10 multifunctional ice-breaking vessels</div></div>
Gas transportation	
Transportation of liquefied natural and petroleum gas (LNG and LPG)	<div><div>• 9 LNG tankers³ (and 8⁴ under construction)</div><div>• 4 LPG tankers</div></div>
Crude oil transportation	
Transportation of crude oil	<div><div>• 2 VLCC, 15 Suezmax and 39 Aframax crude oil tankers (and 2 under construction)</div></div>
Oil products transportation	
Transportation of oil products	<div><div>• 7 LR II, 9⁵ LR I, 25 MR (and 3 under construction) and 4 Handysize product and chemical tankers</div></div>
Other	
Offshore seismic exploration and transportation of bulk cargoes	<div><div>• 2 seismic research vessels</div><div>• 2 Panamax bulkers</div></div>

Public Joint-Stock Company Sovcomflot is Russia’s largest shipping company, as well as a global leader in the maritime transportation of hydrocarbons and the servicing of offshore oil and gas exploration and production.

More detailed information can be found in section [3.1.1. of this Annual Report](#), Composition of the fleet, [3.2. Investment activities](#), and on the SCF website in the [List of vessels](#) section.

Sovcomflot Group operates vessels in segments which attract the most demand from leading Russian and international oil and gas companies.The Group is involved in servicing large energy projects in Russia and beyond, including Yamal LNG, Arctic LNG 2, Sakhalin-1, Sakhalin-2, Varandey, Prirazlomnoye, Novy Port, Tangguh (Indonesia).

Our in-house engineering and a set of advanced technologies, especially related to shipments in extreme weather conditions, are unique for a shipping company, and enable the Group to satisfy the various requirements of our customers and to provide them with a safe, reliable and efficient transport service.

Commercial units of Sovcomflot Group focus on work with major oil & gas and trading companies. The tonnage is chartered out on a competitive basis under the principles of equal conditions and opportunities for all clients.

MAIN CHARTERERS OF SCF GROUP’S VESSELS¹



¹ Including the fleet of joint ventures (4 LNG carriers and 9 LR I product tankers).

² The breakdown into segments is provided in accordance with the IFRS financial statements.

³ Including the fleet of joint ventures: 4 LNG carriers.

⁴ Including the vessels that were ordered by a VEB Leasing Group company, with one vessel to be transferred for operation to SCF Group and four to SMART LNG, a joint venture of PAO Sovcomflot and PAO NOVATEK after completion of construction. The shipbuilding contracts for the construction of vessels for SMART LNG concluded in 2019 entered into force after the end of the reporting period.

⁵ The fleet of joint ventures.

¹ By the share in time charter equivalent revenues.

Transportation of crude oil, petroleum products and liquefied natural gas accounts for nearly one-third of global seaborne freight, and its growth over the past five years has been outpacing that in other segments. Yet, the international tanker market is still characterised by a clear cyclicality and large fluctuations of freight rates due to changes in tonnage demand and supply.

1.2. Industry overview

1.2.1. SITUATION IN GLOBAL MARKETS

Demand for tanker transportation is affected by a number of factors, including supply and demand for crude oil and oil products, the availability of refining capacity and storage facilities, the economic situation in global and regional markets, the distances over which oil and petroleum products are transported, and competition from other modes of transport.

Supply in the tanker market is also affected by a number of factors, including the pace and quantities of new ship deliveries, old tonnage disposal rate, conversion of existing fleet, and changes in industry regulation

Oil market

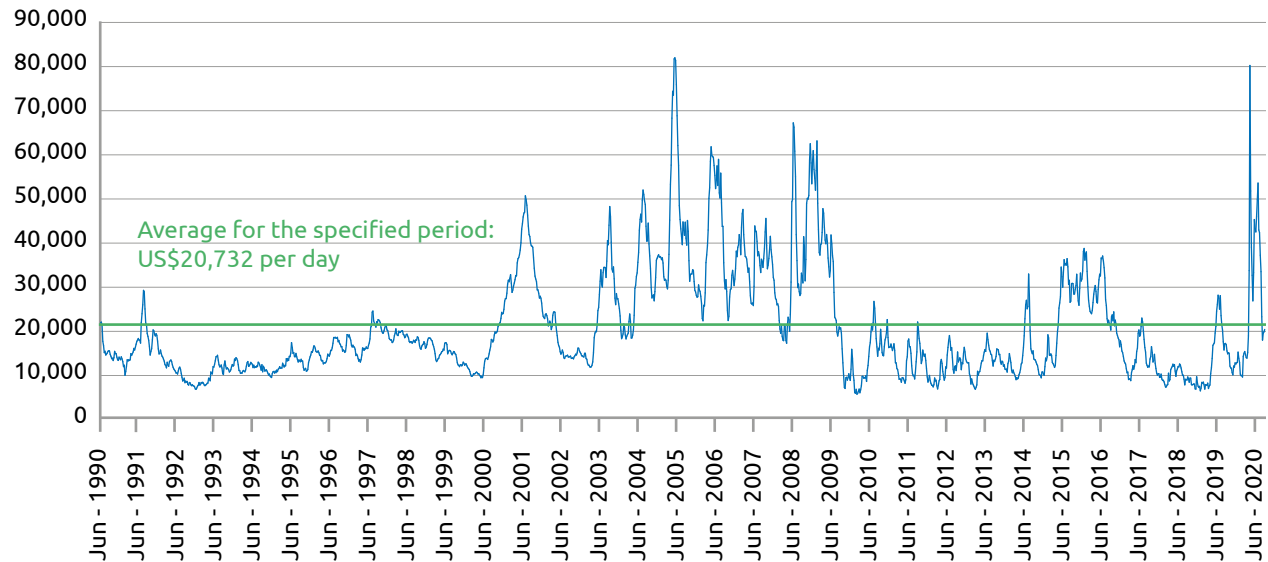
Crude oil production in OPEC countries decreased from 33 million barrels per day in November 2018 to less than 31 million barrels per day in February 2019 and remained at this level during 2019, negatively affecting the demand for tanker transportation up to the fourth quarter. Key reasons for the decrease in crude oil production included Saudi Arabia’s policy of sharply reducing crude oil exports, even beyond the commitments under the OPEC+ deal, and the forced reduction of exports by Venezuela and Iran due to political and economic pressure. Brent prices rose since the beginning of 2019, averaging US\$57.36 per barrel in January and reaching US\$67 per barrel by the end of February, but then remained at US\$62-63 per barrel during the rest of the reporting period.

Tanker market

Excess of tanker tonnage supply over demand due, in particular, to an increase in speculative tanker orders amid a short-lived market rally in 2015, in combination with the OPEC+ output cap, resulted in freight rates for crude oil carriers reaching the lowest levels in the past 25 years not long before the start of the reporting period. The fourth quarter of 2018, however, saw some signs of recovery in market conditions. Tanker markets grew, largely thanks to the decisions taken to revise the agreement limiting crude oil output and amid the seasonal increase in demand for transportation of crude oil and petroleum products, and by the beginning of 2019 the rates reached the level seen at the end of 2015.



ClarkSea¹ Index dynamics for the period from 5 January 1990 to 3 January 2020 (USD per day)



Given the positive trends in the fourth quarter, in 2019 the ClarkSea Index averaged US\$22,168 per day, almost twice as much as in 2018 (US\$11,216 per day). The lowest value of the index was recorded in 1992 at US\$8,983 per day.

The high market period continued until the end of February 2019. In March, freight rates for crude oil tankers declined significantly and remained at low levels during 2Q and 3Q 2019. Despite an improvement in the fundamental demand and supply balance, tanker markets saw a decline by the end of Q1, which was mainly attributable to a decrease in exports from Iran and Venezuela resulting from sanctions and, to a considerable extent, a sharp cut in exports by Saudi Arabia under the OPEC+ agreement.

The drop in spot rates in March did not affect demand for time charter contracts for crude oil tankers and LR II ships owing to positive fundamental expectations and uncertainty about the impact of new requirements for marine fuel under IMO 2020. Time-charter rates were progressively rising during 2Q and 3Q 2019.

Expectations of a rise in tanker rates were realised at the end of 3Q and during 4Q 2019. The explosive growth in tanker rates was triggered by an attack on Saudi Arabia’s oil infrastructure in September 2019 and the sanctions imposed by the U.S. against one of the largest VLCC owners in October 2019. Also, during the year there was a significant increase in demand for crude oil transportation by large-capacity tankers due to a rise in U.S. oil exports.

As a result, tanker rates for some destinations reached record levels since the beginning of the century amid high short-term market volatility. In some cases, the rates for VLCC and Suezmaz carriers exceeded US\$250,000 per day.

»

22,168
US\$ PER DAY
the average ClarkSea Index value in 2019

¹. See the [Glossary](#).

A rise in rates was recorded virtually for all destinations of shipments by oil tankers and (to a lesser extent) by product tankers. Despite an increase in the demand for transportation of refined products, growth in rates in this segment during the year was constrained by the fundamentally excessive supply of tonnage. The switch to transportation of crude oil by some large-capacity product carriers had a positive effect on the rate dynamics in petroleum products shipping markets during the second half of the year.

During the past period, tonnage supply growth rates in the tanker market declined significantly due to a decrease in the number of new vessels put into service against the background of the existing fleet's obsolescence. Also, there was a decline in new ship ordering activity of shipowners, with the ratio between the new order portfolio and global fleet size being at a historical low.

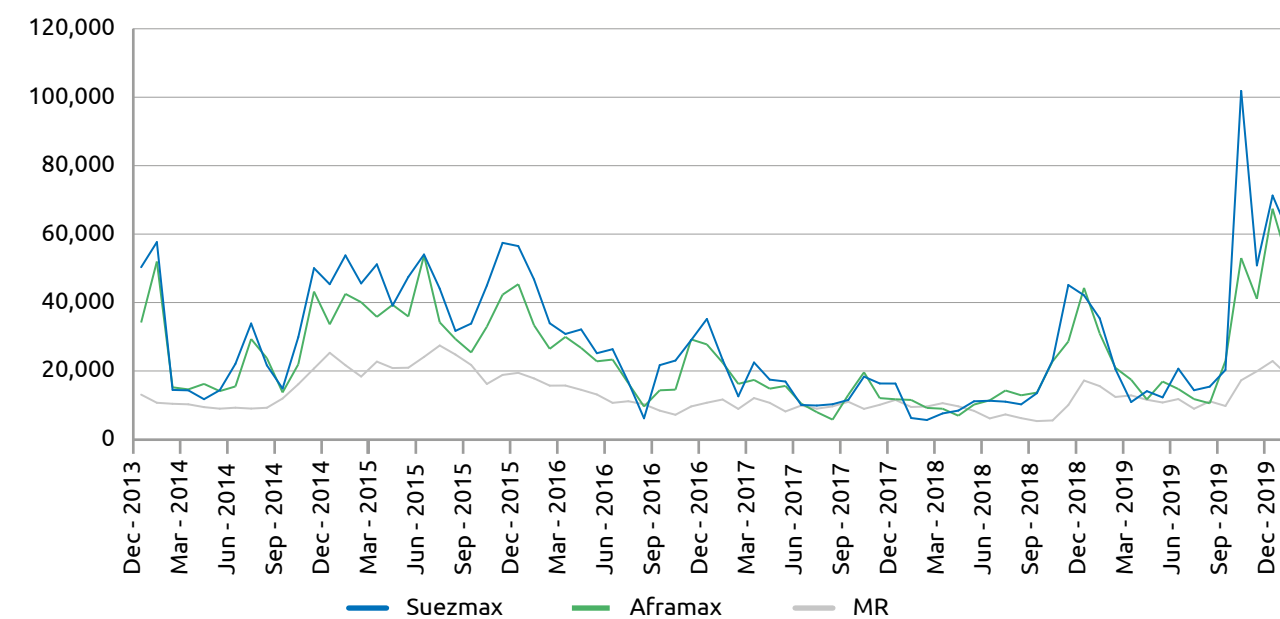
As a result of a substantial market improvement in 4Q the weighted average spot TCE in some segments exceeded that for 2018 by more than 100 %. Weighted average one-year time charter rates also increased significantly.

Weighted average spot TCE, USD per day

Vessel size category	2019	2018	Difference, %
VLCC tankers	41,364	15,561	165.82
Suezmax tankers	31,560	16,466	91.67
Aframax tankers	26,225	16,175	62.13
MR product carriers	13,740	8,750	57.03
Handysize product tankers	14,560	6,734	116.22

Source: Clarksons

Dynamics of spot tanker freight rates, USD per day



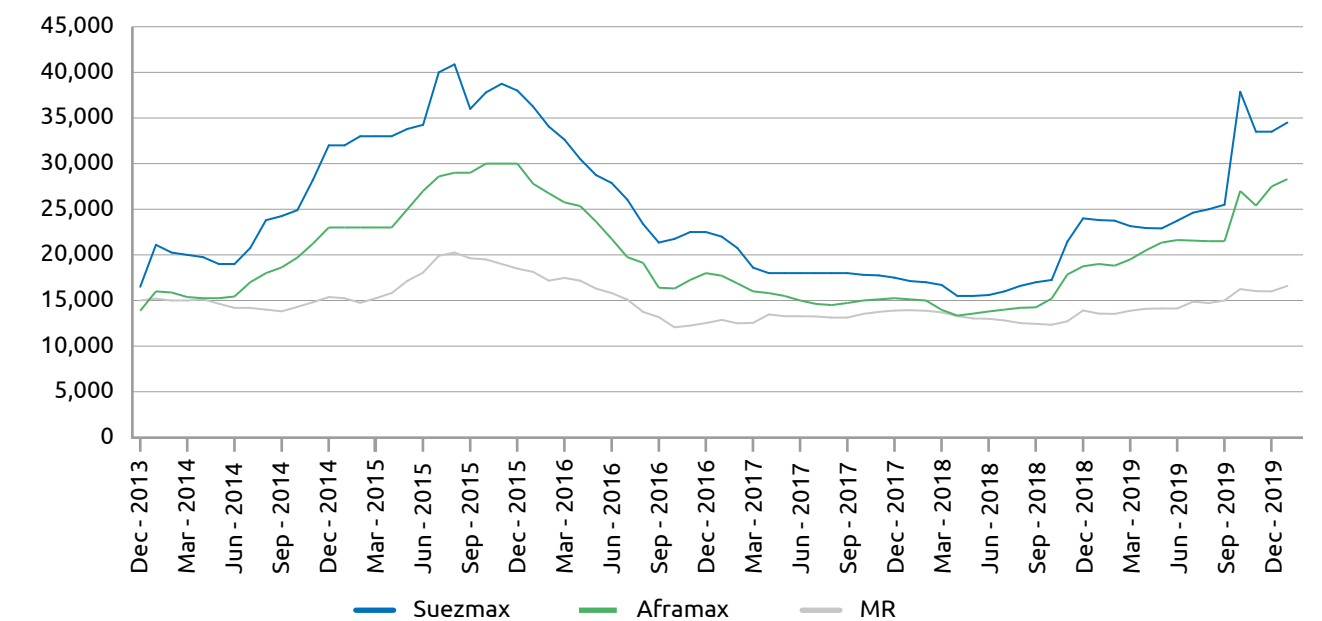
Source: Clarksons

Weighted average one-year time charter rates, USD per day

Vessel size category	2019	2018 ¹	Difference, %
VLCC tankers	36,358	22,899	58.78
Suezmax tankers	26,649	17,486	52.40
Aframax tankers	22,091	14,925	48.01
Product carriers (dark petroleum products)	14,683	13,120	11.91
Product carriers (light petroleum products)	13,425	11,572	16.01

Source: Clarksons

Dynamics of tanker time charter rates, USD per day



Source: Clarksons

¹ Clarksons Research Services data for 2018 as of 31 December 2019 were updated in comparison with similar data as of 31 December 2018.

All SCF Group vessels are employed or being built for long-term LNG transportation contracts for major international charterers and projects.



LNG shipping market

2019 saw significant fluctuations in both short-term and long-term markets for LNG transportation.

The beginning of the year was marked by a fall in the spot market from a historical high of about US\$220 per day for a modern vessel achieved in 4Q 2018 to US\$50 per day and less, depending on the vessel type, by the beginning of 2Q 2019. The lowest rates in April 2019 reached US\$20,000 for a vessel with a steam turbine and US\$35,000 for a trifuel vessel. By the beginning of the fourth quarter spot rates showed a strong seasonal growth, from US\$100,000-140,000 per day for prior generation vessels to US\$150,000 for modern vessels. This spike, however, was quickly replaced by a fall, failing to reach the previous year’s record levels. The main reasons for the market fall probably include a significant decline in demand for LNG due to unrealized fore-casts of temperature drops in the winter period, a reduction in arbitrage supplies due to a sharp fall in gas prices, commissioning of new vessels, and cargo programmes being covered by medium-term transportation contracts in advance.

The beginning of 2019 was also marked by increased activity of charterers in concluding long-term charters for newbuilds to cover long-term contracts for gas supply with the commissioning of new LNG facilities around the world and to replace prior generation vessels in the fleet. By mid-year charter rates for seven or more years peaked at US\$71,000 for a newly built standard gas carrier. Amid increased activity from charterers orders for new gas carriers from both well-established shipowners and newcomers in the gas segment increased significantly. The number of speculative orders without pre-agreed transportation contracts rose considerably. In the second half of the year, the demand for long-term contracts from potential charterers declined substantially due to the current needs being sufficiently covered and investment decisions on new long-term projects being postponed to a later time. As a result, rates for modern ship sizes under long-term contracts concluded by the end of 2019 dropped to US\$60-62.

The increase in market volatility in 2019 similarly to 2018, the rise in the number of players, amount of free capacity and additional volumes indicate a further reorientation of conventional gas transportation to the medium and long-term market model. All SCF Group vessels are employed or being built for long-term LNG transportation contracts for major international charterers and projects.

New build and S&P market

The demand in the second-hand vessel market in 2019 was 12.80 % higher than in 2018, with 379 deals (total deadweight: 34,127 thousand tonnes, total value: US\$5,952 million) against 336 deals (total deadweight: 32,015 thousand tonnes, total value: US\$4,995 million) in 2018. A significant factor in the initial decline in buyers’ interest in tonnage, apart from low freight rates, was the uncertainty regarding the impact of the approaching entry into force of the 0.5 % cap on sulphur content in bunker fuel from 2020 and the need to factor in investments in ballast water treatment systems that must necessarily be installed on vessels during dock repairs after September 2019. Due to the same factors prices for second-hand tonnage dropped significantly in 2019, and this in turn attracted buyers to the market.

During the first three quarters of 2019 prices in the tanker sale and purchase market declined by 20-25 %, but between October and December 2019 prices for crude oil tankers rose significantly, having gained 20 % compared to the end of 2018. Following growth in 2017, bulker prices stagnated in 2018 and during 2019.

Activity in the second-hand tanker market

Indicator	2019	2018 ¹	Difference, %
Number of ships sold	379	336	12.80
Total deadweight of sold ships ('000 tonnes)	34,127	32,015	6.60
Total value of sales (USD million)	5,952	4,995	19.16

Source: Clarksons

¹ Clarksons Research Services data for 2018 as of 31 December 2019 were updated in comparison with similar data as of 31 December 2018.

During 2019, the bulk of the demand in the shipbuilding market was for LNG carriers. This was associated with the development of new large liquefied gas production projects and high freight rates (speculative demand). Besides, there was heightened demand for large-capacity container carriers and conventional tankers. The demand for bulkers stagnated. Overall, the total number of orders for new ships in 2019 decreased compared to 2018.

In 1H 2019, prices for newbuilds were rising at Korean yards, while shipbuilding contract prices in China and Japan were stable. The stagnation of prices in China since the beginning of 2019 was due to a reduction in government support for fleet renewal programmes of local shipowners. The price disparity between South Korean and Chinese yards increased by mid-year, and a significant number of customers for ships (excluding LNG carriers) gave preference to Chinese yards. The demand for services of Korean shipbuilders declined, causing a small price correction. The start of the merger between Korea's Hyundai Heavy Industries and Daewoo Shipbuilding & Marine Engineering, as well as between China's largest state-owned shipbuilding companies CSSC and CSIC, did not lead to an increase in shipbuilding contract prices as at the end of 2019.

Dynamics of the number of new ship orders

Type of vessel	2019	2018 ¹	Difference, %
Crude oil and product tankers	184	207	-11.11
Chemical tankers	35	62	-43.55
LNG carriers	57	49	16.33
LNG carriers	61	77	-20.78
Total	337	395	-14.68

Source: Clarksons

¹. Clarksons Research Services data for 2018 as of 31 December 2019 were updated in comparison with similar data as of 31 December 2018.

1.2.2. COMPETITIVE POSITION

Main competitors of Sovcomflot Group in core business areas are

- Fredriksen Group, Cyprus;
- Teekay Corporation, Canada;
- Euronav N.V., Belgium;
- Knutsen OAS Shipping, Norway;
- China COSCO Shipping, China;
- Mitsui O.S.K. Lines, Japan;
- Nordic American Tankers (NATS), Norway;
- Marmaras Navigation, Greece;
- Dynacom Tankers, Greece;
- Ocean Tankers (Pte) Ltd, Singapore;
- Scorpio Group, Monaco;
- Torm A/S, Denmark;
- Minerva Marine, Greece;
- BW Group, Bermuda;
- Tsakos Group, Greece;
- MISC, Malaysia.

The global tanker shipping market is considerably fragmented and is characterised by high competition and the absence of serious barriers for entry. The SCF Group's share of the freight market does not exceed 1 %. Any change in this indicator over the past three years is considered immaterial (less than 0.01 %) due the continued presence of a significant number of fleet owners and operators, estimated in total at about 3,200 (including approximately 200 companies with a fleet of 10 or more tankers).



» According to Clarksons, at the end of the reporting period Sovcomflot Group held the following positions in global shipowner rankings:

1 RANK
Arctic shuttle tanker fleet

1 RANK
Ice-class tanker fleet

1 RANK
Aframax tanker fleet

1 RANK
Multifunctional icebreaking vessel fleet

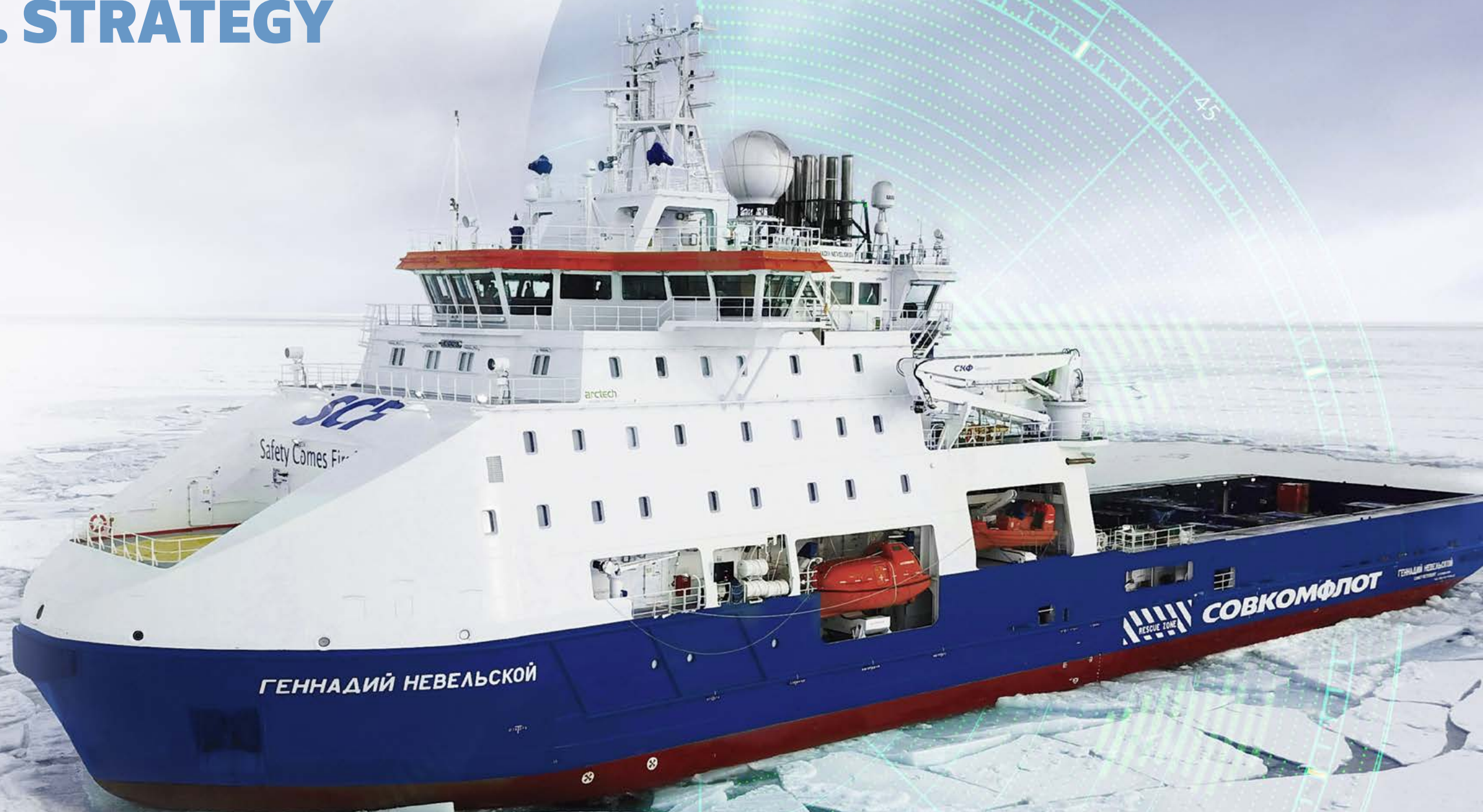
3 RANK
Shuttle tanker fleet

5 RANK
Size of tanker fleet

5 RANK
Ice-class LNG tanker fleet

8 RANK
Product tanker fleet

2. STRATEGY



Sovcomflot's development strategy is to further expand the share of industrial business while focusing on the most profitable conventional business segments, based on implementation of advanced technologies, including those related to environmental protection, and strengthening of cooperation with key charterers.

2.1. Development strategy of Sovcomflot Group

In May 2019 the PAO Sovcomflot Board of Directors approved the Group Strategy for 2019-2025¹. The document reflects the next stage of the strategic planning cycle of PAO Sovcomflot and takes into account the results of implementation of the Group Strategy in effect from 2011 to 2018², as well as changes in the external business environment and market dynamics.

The goal of Strategy 2025 is to maintain the company’s global leadership and ensure its sustainable growth by further expanding the industrial portfolio with a focus on major Russian oil and gas projects.

Under the base case scenario underlying the strategy, by 2025 the share of the fleet serving industrial projects under long-term charter contracts may reach 40-50%, with revenues from these vessels accounting for up to one-third of the company’s total revenue.

Strategy 2025 provides for the following main directions of the Group’s development:

- Maintaining the focus on energy shipping (crude oil, petroleum products and liquefied natural gas) and servicing of offshore hydrocarbon production;
- Further expanding the share of industrial business while focusing on the most profitable conventional business segments;
- Strengthening leadership in a number of key global market segments with an emphasis on serving major national projects in difficult climatic and ice conditions, as well transportation of lique-fied gas under international projects of leading oil&gas companies.

Strategy 2025 also sets forth the Sovcomflot Group’s priorities in sustainable development: ensuring navigation safety, reducing adverse environmental impacts, implementing innovative technical and technological solutions, and continuous investment in human capital.

2.2. Long-Term Development Programme of Sovcomflot Group

The Long-Term Development Programme (LDP) of PAO Sovcomflot intended for the period 2014 – 2020 was approved by the company’s Board of Directors in November 2014¹ after coordination with relevant agencies and review at a meeting held with the participation of representatives of the Government of the Russian Federation. The document was designed to refine the company’s development strategy in effect at the time the LDP was adopted, and therefore the basic goals and objectives of the LDP correspond to those of the strategy. Currently work is underway to update the PAO Sovcomflot LDP in accordance with Strategy 2025 approved in 2019.

Main activities to implement the company’s LDP in the reporting year:

- commissioning of new vessels (see section [3.2.3. Implementation of the shipbuilding programme](#));
- repair and modernisation of vessels to comply with international environmental protection standards.

The main quantitative targets established by the LDP were formulated in a set of financial and industryspecific key performance indicators (KPIs), with the targets approved for each of them for the effective term of the programme.

The results of implementation of the Sovcomflot Group LDP are subject to independent review. The opinion and main conclusions regarding implementation of the LDP must be disclosed in the annual report².

LDP 2019 results were reviewed by KPMG. The report containing a positive opinion was received on 26 March 2020. According to it, the Report on the implementation of the updated LDP is prepared, in all material aspects, in accordance with the applicable legal requirements, standards, regulatory methodological guidelines and recommendations and internal documents of the Company.

¹. Minutes of the Board of Directors No. 182 dated 27 May 2019.

². The Group Strategy up to 2017 was approved by the Board of Directors in September 2011 (Minutes of the Board of Directors No. 113 dated 12 September 2011). The strategy parameters were updated in 2013 with the planning horizon extended to 2018 (Minutes of the Board of Directors No. 127 dated 20 March 2013).

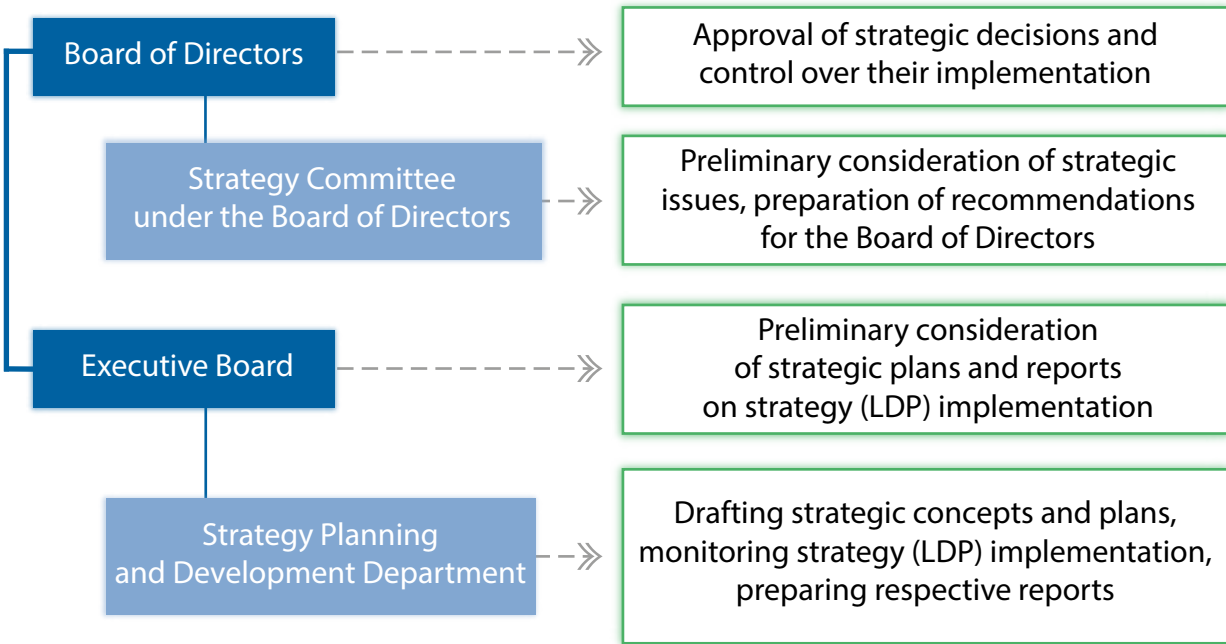
¹. Minutes of the Board of Directors No. 139 dated 24 November 2014.

². Minutes of the Board of Directors No. 144 dated 19 May 2015.

2.3. Strategic decision-making structure

Organisational and strategic decision-making structure is shown in the figure below.

Organisational and strategic decision-making structure



Key strategy decisions are made at the Board of Directors level (approval of the strategy (LDP), approval of target KPIs, and controlling their implementation) with preliminary consideration by the Strategy Committee under the Board of Directors. The Strategic Planning and Development Directorate is monitoring the implementation of Group Strategy, preparing relevant reports and executive summaries.

2.4. Key performance indicators of the Long-Term Development Programme

The table below shows the attainment of targets set by the PAO Sovcomflot LDP for 2019 broken down by approved KPIs.

Attainment of KPI targets set by the LDP in 2019¹

Nº	KPI	Target value (basic scenario)	The lowest scenario	Actual value	Comments
1	Net revenue (time charter equivalent income), USD million	≥1,560	≥1,230	1,337.51	The main reasons for the deviation ² : <ul style="list-style-type: none">Significant changes in global geopolitics and in the macroeconomic and industrial environment that have taken place since the approval of the current version of LDP in 2014 and have affected the prospects for implementing the projects embedded in the LDP;Unfavourable freight market conditions.
2	Profit/loss, USD million	≥350	≥130	225.38	
3	EBITDA margin, %	≥65 %	≥64 %	68.39 %	
4	EBITDA, USD million (for reference)	≥1 020	≥790	914.77	
5	Total dividends (index of dynamics of dividend payments vs. average level during the past three years), %	≥100 %	100 %	208.92 %	
6	Return on Invested Capital (ROIC), %	≥6.6 %	≥5.3 %	6.11 %	
7	Return on Equity (ROE), %	≥7.3 %	≥4.1 %	6.73 %	
8	Net Debt / EBITDA	≤8	≤8	3.58	Attained
9	Utilisation efficiency of fixed assets (fleet), %	≥95 %	≥95 %	96.82 %	Attained
10	Implementation of the innovative development programme, %	≥100 %	≥100 %	105.57 %	Attained

¹ Except for items 5, 9 and 10, target and actual KPI values are calculated using proportional consolidation of the results of joint venture operations according to the methodology approved by the Board of Directors on 10 December 2014 (Minutes of the Board of Directors No. 140 dated 12 December 2014).

² Relevant to items 1, 2, 4, 6, 7

The table below shows the attainment of targets set by the PAO Sovcomflot LDP for 2019 compared to the previous year.

No.	KPI	Actual for 2018	Actual for 2019
1	Net revenue (time charter equivalent income), USD million	1,138.05	1,337.51
2	Profit/loss, USD million	- 45.56	225.38
3	EBITDA margin, %	54.40 %	68.39 %
4	EBITDA, USD million (for reference)	619.10	914.77
5	Total dividends (index of dynamics of dividend payments vs. average level during the past three years), %	46.42 %	208.92 %
6	Return on Invested Capital (ROIC), %	2.75 %	6.11 %
7	Return on Equity (ROE), %	- 1.34 %	6.73 %
8	Net Debt / EBITDA	5.48	3.58
9	Utilisation efficiency of fixed assets (fleet), %	97.85 %	96.82 %
10	Implementation of the innovative development programme, %	114.07 %	105.57 %

Attainment of targets set by the PAO Sovcomflot LDP broken down by approved KPIs on average for 2015-2019¹

No.	KPI	Target value (basic scenario)	The lowest scenario	Actual	Comments
1	Net revenue (time charter equivalent income), USD million	≥1,401.78	≥1,201.78	1,225.63	Actual between the basic and lowest sce-nario
2	Net profit, USD million	≥262.74	≥92.74	125.63	
3	EBITDA margin, %	≥61.86 %	≥60.06 %	60.29 %	Actual is comparable to the lowest scenario (the margin is less than 2 %)
4	EBITDA, USD million (for reference)	≥876.16	≥722.16	745.89	Actual between the basic and lowest sce-nario
5	Total dividends (index of dynamics of dividend payments vs. average level during the past three years), %	≥100.00 %	≥100.00 %	135.03 %	Attained
6	Return on Invested Capital (ROIC), %	≥6.03 %	≥4.49 %	4.83 %	Actual between the basic and lowest sce-nario
7	Return on Equity (ROE), %	≥6.16 %	≥2.64 %	3.88 %	
8	Net Debt / EBITDA	≤8.00	≤8.00	4.54	Attained
9	Utilisation efficiency of fixed assets (fleet), %	≥95.00 %	≥95.00 %	97.36 %	Attained
10	Implementation of the innovative development programme, %	≥100.00 %	≥100.00 %	113.80 %	Attained

^{1.} Except for items 5, 9 and 10, target and actual KPI values are calculated using proportional consolidation of the results of joint venture operations according to the methodology approved by the Board of Directors on 10 December 2014 (Minutes of the Board of Directors No. 140 dated 12 December 2014).



3. OPERATING RESULTS



« The operational results achieved in 2019 attest to the advantages of the Company's current business model, which provides for faster growth and consistent development in market segments with a high value added, such as the servicing of offshore projects and liquefied gas transportation, while maintaining leadership positions in individual conventional transportation segments. Participation in large oil and gas projects ensures stable revenue for Sovcomflot Group even in the situation of high market volatility.

3.1. Production activities

3.1.1. COMPOSITION OF THE FLEET

As of 31 December 2019, the Group's fleet included 147 vessels with a total deadweight of 12,874 thousand tonnes.

Composition of the Sovcomflot Group fleet¹

Vessels by type	Number of vessels			Total deadweight, '000 tonnes		
	31.12.2019	31.12.2018	31.12.2017	31.12.2019	31.12.2018	31.12.2017
Oil tankers	56	53	59	7,424	7,006	7,653
Product tankers	45 ²	48	49	2,814	3,071	3,120
Shuttle tankers	19	16	16	1,552	1,301	1,301
LNG and LPG carriers	13	13	13	887	870	870
Bulk carriers	2	2	2	149	150	150
Multifunctional icebreaking vessels	10	10	9	42	38	35
Seismic exploration vessels, chartered vessels	2	2	2	6	7	7
Total	147	144	150	12,874 ³	12,443	13,136

4
NEW VESSELS

were added to the SCF fleet in 2019

10.8
YEARS

the average age of the Group's fleet at the end of 2019

For more information about the fleet, broken down by operating segments, see section 1.1. of this Annual Report, [Company profile](#). Detailed information about the vessels and their technical characteristics is available on SCF Group's website in the [List of vessels](#) section.

In 2019 the Company continued to add new vessels to its fleet in accordance with the adopted strategy and long-term development programme aimed at promoting growth and renewal of the fleet as well as its technological enhancement and improvements in energy efficiency. During the year the SCF Group fleet was augmented by 4 vessels delivered by shipyards under previously concluded shipbuilding contracts (for more details see section 3.2.3. of this Annual Report, [Implementation of the shipbuilding programme](#)).

The Long-Term Development Programme of PAO Sovcomflot provides for timely disposal of older vessels, as dictated by market conditions and prescribed by conventions, registries, and other national and international requirements (those of the International Maritime Organisation, classification societies, and charterers). In 2019 Sovcomflot Group sold one MR product tanker aged above 15 years in the second-hand vessel market.

Thus, in 2019 the number of SCF Group vessels increased by 2.1 %. The total deadweight of the fleet increased by 431,000 tonnes or by 3.5 %.

The average age of the Group's fleet at the end of 2019 was 10.8 years, which is 18 % less than the average for leading tanker companies (according to Clarksons).

Age characteristic of the Group's fleet as of 31 December 2019

Vessels by type	Average age in years
Crude oil tankers	13.7
Product tankers	11.7
Shuttle tankers	10.1
LNG and LPG carriers	8.4
Bulk carriers	7.0
Multifunctional icebreaking vessels	7.9
Research vessels and chartered vessels	8.1
SCF Group fleet	10.8

3.1.2. OPERATION OF THE FLEET

The system covers all key regions for Sovcomflot. The head office is located in Dubai (UAE) and provides the management of foreign-flagged vessels. The division in St. Petersburg is responsible for the management of Russian-flagged vessels.

Main functions of the companies belonging to the SCF Management Services system: organising fleet operations, controlling the technical condition of ships, repairs and modernisation, equipment service support as well as engineering support for new projects, supervision of ship construction and crewing services. Companies operating under the SCF Management Services brand also provide technical management services for ships of third-party owners.

The SCF fleet operates in accordance with the Integrated Safety Management System (the ISMS) in effect at Sovcomflot Group.

SCF Group manages the operation of the fleet based on the provisions of the Technical Policy. This policy is a set of measures and actions that enable the Group to achieve operational advantages in the maritime transportation and service market sectors.

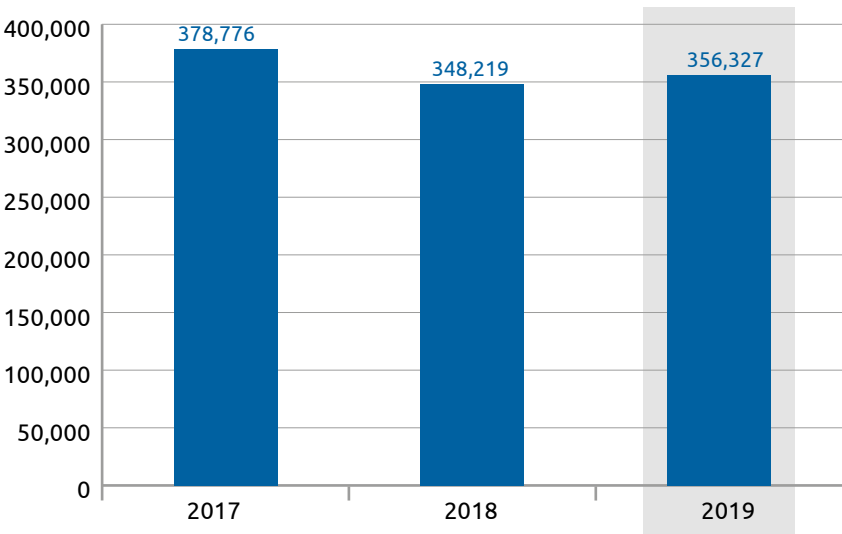
In accordance with the ISMS, Sovcomflot Group strives to optimise the system of providing vessels with the required financial and material resources to maintain them in good working order, and also applies advanced methods to monitor and analyse the technical condition of each vessel and its equipment.

» Technical operation of SCF Group's own and chartered fleet is carried out by companies integrated into a single system under the umbrella brand SCF Management Services.

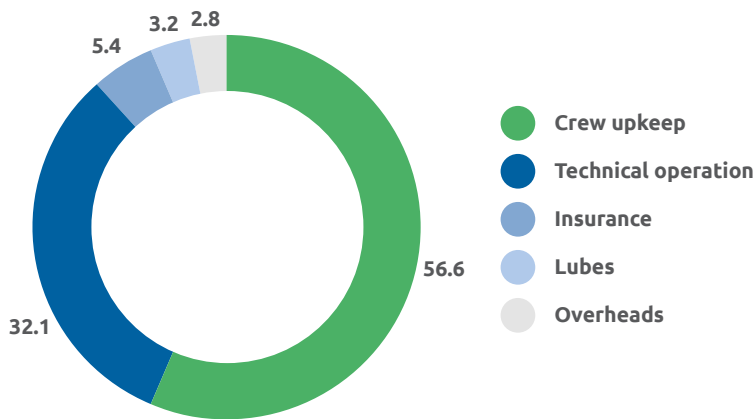
» 356.3
US\$ MILLION
the amount of vessel's running costs in 2019, which is 4.1 % below the approved 2019 budget

¹ Including the fleet of joint ventures: 9 LR I product tankers and 4 LNG carriers.
² Taking into account the transfer of Zaliv Baikal and Zaliv Vostok from the product tanker category to the shuttle tanker category.
³ Data for 2019 as of 31 December 2019 were updated in comparison with similar data as of 31 December 2018.

Dynamics of actual operating expenses for 2017-2019 ('000 USD)



Structure of operating expenses in 2019, %



Within the structure of operating expenses the majority are attributable to crew upkeep (56.6 %), while technical operation and modernisation account for 32.1 %, insurance for 5.4 %, lubes for 3.2 %, and other operating expenses for 2.8 %.

The SCF Group’s Technical Policy stipulates:

- A five-year classification survey period in docks that facilitates optimising maintenance and repair work;
- A scheduled preventive maintenance plan for each vessel, approved in accordance with the class of vessel.
- Monitoring the technical condition of individual types of vessels and critical equipment to make sure that they comply with PAO Sovcomflot requirements.
- Maintaining the external appearance of each ship at a high level.

The Technical Policy also prescribes the following actions to ensure the high quality of maintenance and repair work on vessels and their equipment:

- Competitive selection of the most effective and qualified shipyards.
- Using certified spare parts from original manufacturers when replacing worn-out or faulty components of equipment.
- Inspection of ships by classification societies, which ensures a high degree of supervision over the technical condition of vessels.
- Implementation of a modernisation programme for vessels and shipboard equipment to comply with the requirements of flag administrations and international conventions, and improve ship merchantability.

Maintenance and repair of vessels, 2017-2019

Indicator	2019	2018	2017
Dry dock repairs (number of vessels)	32	24	38
In-water inspections (number of vessels)	15	30	20
Actual expenses for dry docking and repair of vessels ('000 USD)	64.129	51.519	64.593

In 2019 32 vessels were dry docked and repaired (vs. 24 vessels a year earlier). One of the goals of SCF Group under the Technical Policy is to increase the interdocking period. In 2019 the intermediate survey for 15 vessels was carried out afloat - without dry-docking.

During the reporting period there were seven operational accidents, which resulted in damage to hull structures and vessel equipment, and required the decommissioning of vessels for repairs. SCF Group works proactively to reduce the number of accidents, and performs detailed analyses of them to prevent any repeats of incidents.

Under the ISMS the Group carries out regular maintenance and repairs of vessels, which is an essential precondition for their safe and reliable operation.

1 265.5

US\$ MILLION

TCE revenue for 2019
(up 17.8 % from 2018)

50.5

%

the share of revenues
from the servicing
of offshore oil
and gas production
by SCF vessels
and maritime
transportation of gas
in total TCE revenue (vs.
57.2 % in 2018)

3.1.3. OPERATING RESULTS

Overall results for Sovcomflot Group

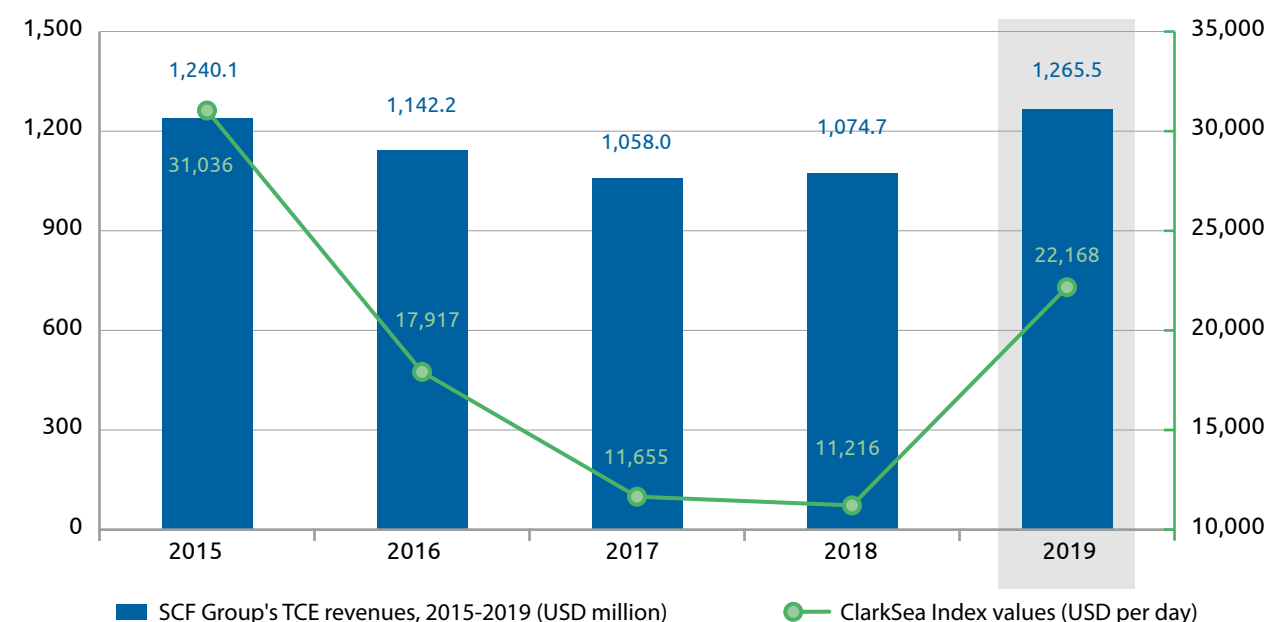
Key operating performance indicators improved in 2019 compared to 2018, despite the high volatility in conventional tanker markets. The main reasons for that were both the positive state of the freight market and measures taken to increase fleet performance, including renewal and modernisation of the fleet, a balanced freight policy, which ensures the effective use of the fleet in different phases of the tanker market, and cooperation with high-profile customers.

Time charter equivalent (TCE) revenue in 2019 amounted to US\$1,265.5 million under IFRS against US\$1,074.7 million in 2018. The Net earnings from vessels' trading of the Group also increased (by 30.4 %), to US\$909.2 million (vs. US\$697.5 million in 2018).

Sovcomflot Group cooperates with both foreign and Russian customers. In the reporting year the Group continued to meet Russian foreign trade requirements: its vessels participated in transportation of oil and petroleum products from different Russian ports, including Novorossiysk, Murmansk, Primorsk, Ust-Luga, Prigorodnoye, and others. In addition, the Group's vessels were used as floating storage units to facilitate the transshipment of export oil and petroleum products from river tanker vessels to sea tankers.

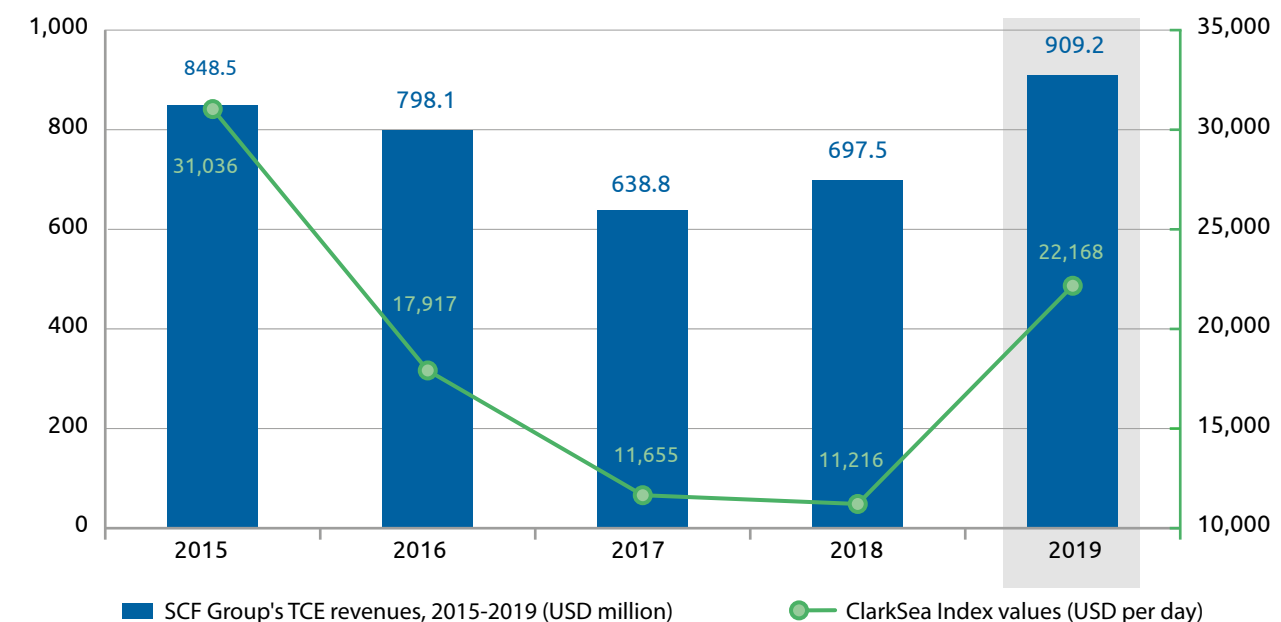
In 2019 the Group carried 62.4 million tonnes of Russian export and transit cargo exported through Russia, which is 15.6 % more than in 2018.

Dynamics of SCF Group's TCE revenues, 2015-2019 (USD million), versus the ClarkSea Index¹ values (USD per day)



^{1.} See the [Glossary](#).

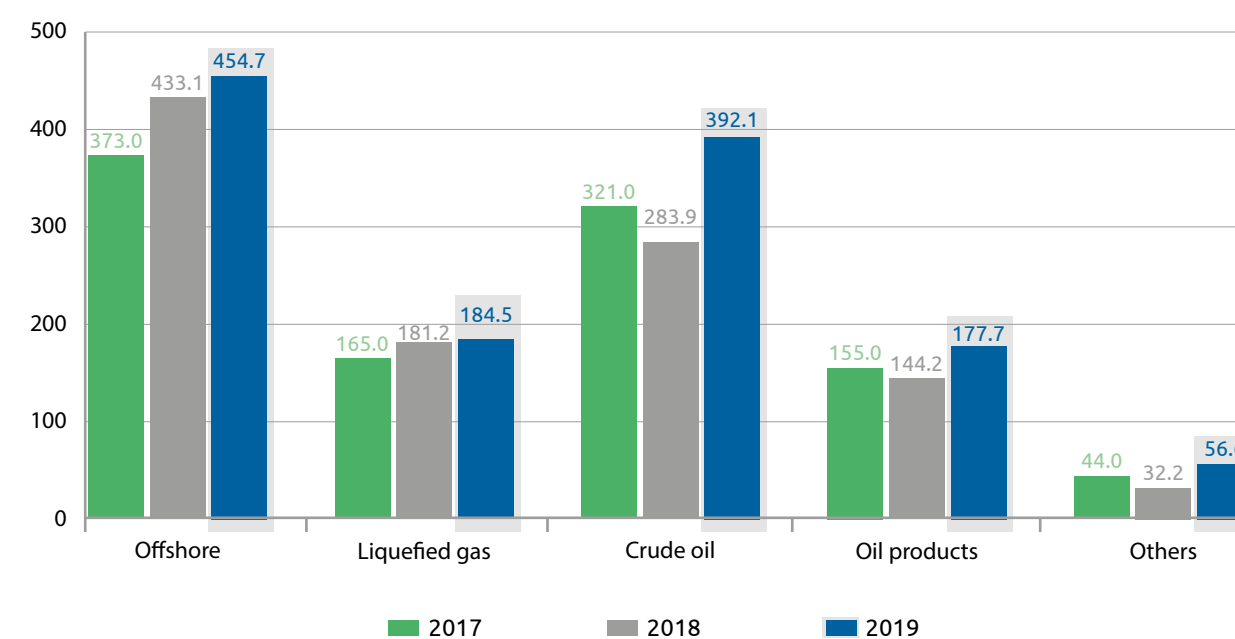
Dynamics of Net earnings from vessels' trading of the Group, 2015-2019 (USD million), versus the ClarkSea Index¹ values (USD per day)



Fleet performance indicators by lines of business

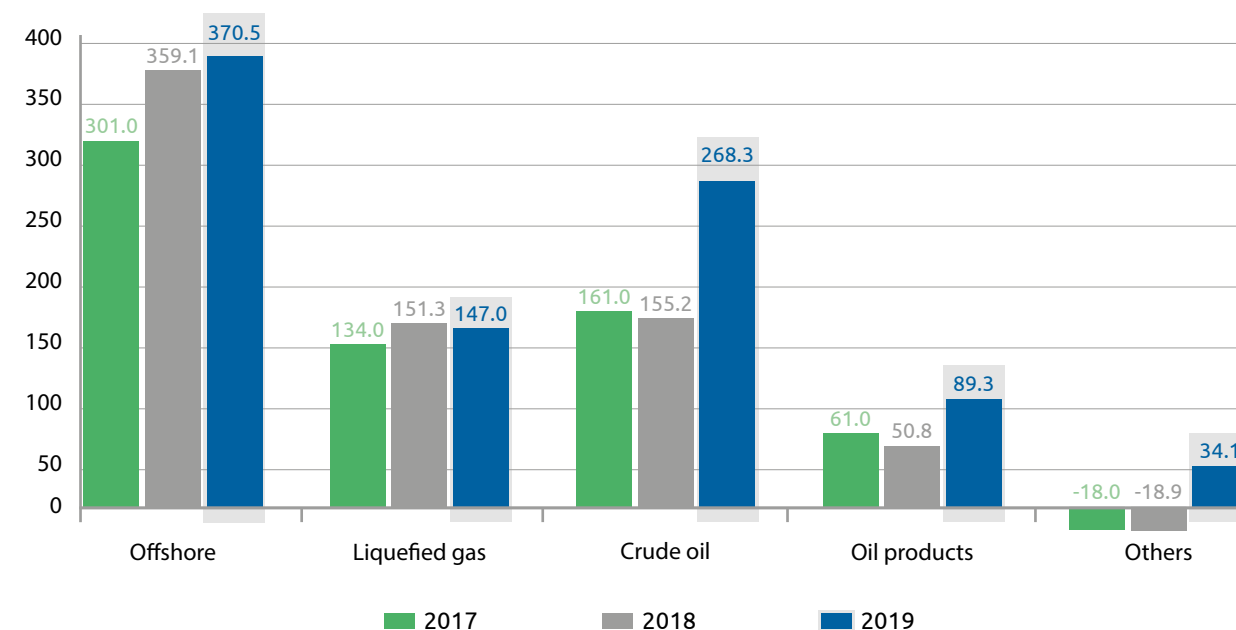
SCF Group's key operating performance indicators by main operating segments exhibited positive dynamics in 2019 both in conventional and industrial segments.

Dynamics of TCE revenue by operating segments, 2017- 2019 (USD million)²



^{1.} See the [Glossary](#).

^{2.} The breakdown into segments is provided in accordance with the IFRS financial statements.

Dynamics of the Net earnings from vessels' trading by operating segments, 2017-2019 (USD million)¹

The commissioning of new tonnage and the consistent expansion of participation of the Company's fleet in the maritime transportation of hydrocarbons for large industrial oil&gas projects had a positive impact on the Company's results.

The increase in TCE revenues and Net earnings from vessels' trading in the segment of crude oil and petroleum products transportation was due to the positive dynamics of freight rates in all segments of the conventional tanker shipping market.

The increase in TCE revenues and Net earnings from vessels' trading in the offshore services segment was driven by additions to the division's fleet.

The increase in TCE revenues for the reporting period in the segment of liquefied gas transportation occurred mainly due to the improvement of the LPG carriers SCF Tomsk and SCF Tobolsk operating results (the vessels commenced one-year time charters).

In the «Others» segment, which in 2019 included two bulkers and two seismic research vessels, TCE revenues increased by 1.8 times compared to 2018, resulting in a profit from vessels' trading versus a loss in 2018.

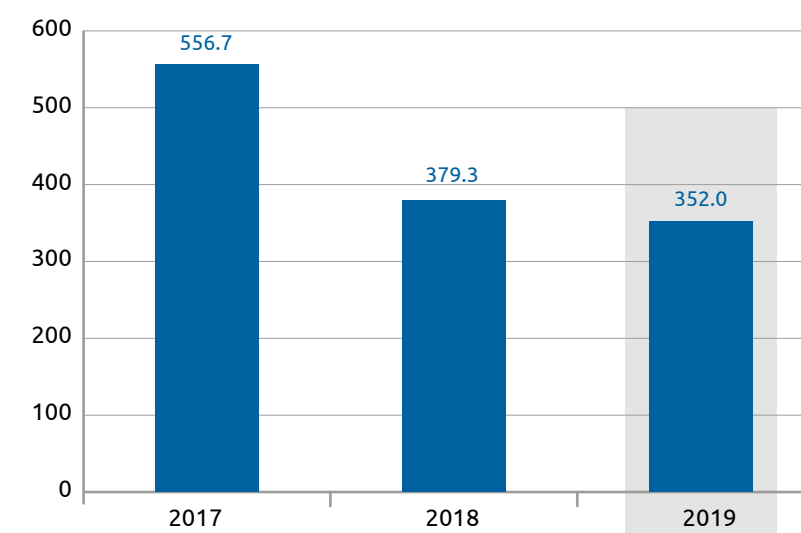
¹. The breakdown into segments is provided in accordance with the IFRS financial statements.

3.2. Investment activities

3.2.1. DYNAMICS OF INVESTMENTS

With due regard for SCF Group's strategic priorities, the Investment Programme chiefly focuses on the implementation of high-yield industrial projects in the field of liquefied gas transportation and the servicing of offshore hydrocarbon fields. In 2019 most investments were directed to these segments. Investments were also made in the repair and modernisation of the existing fleet of the Group.

The investment activities of Sovcomflot Group are performed as part of the Long-Term Development Programme. Every specific project is developed and evaluated according to the Company's internal regulations.

Dynamics of SCF Group investments, 2017-2019, USD million¹

In 2019 investment projects financing amounted to US\$352 million, which is 7.2 % less than in 2018.

¹. These are the costs of vessel construction in progress as reported in the cash flow statement in the consolidated financial statements of PAO Sovcomflot prepared under IFRS.

Investment projects of Sovcomflot Group in 2019

Client / project	Target	Number of vessels	Implementation stage (as of 31 December 2019)
PAO NOVATEK	Construction of LNG-fuelled MR tankers	3	The vessels are under construction ¹
Exxon Neftegas Limited / Sakhalin-1	Construction of Aframax shuttle tankers	2	The vessels are under construction
PAO NK Rosneft	Construction of dual-fuel Aframax tankers	2	The vessels are under construction ²
PAO NOVATEK / Arctic LNG 2	Construction of Yamalmax Arctic LNG carriers	5	The vessels are under construction ³
Shell	Construction of Atlanticmax LNG carriers	2	The vessels are under construction
Total	Construction of an Atlanticmax LNG carrier	1	The vessel is under construction ⁴
Shell ⁵	Construction of dual-fuel Aframax tankers	2+4	The vessels were put into operation in 2018-2019
Gazprom Neft / Novy Port	Construction of an MR Arctic shuttle tanker	1	The vessel has been put into service

^{1.} The vessels were ordered by a VEB Leasing Group company and are to be subsequently transferred to SCF Group for operation after completion of construction.

^{2.} The vessels were ordered by a VEB Leasing Group company and are to be subsequently transferred to SCF Group for operation after completion of construction.

^{3.} The vessels were ordered by a VEB Leasing Group company, with one vessel to be transferred for operation to SCF Group and four to SMART LNG, a joint venture of PAO Sovcomflot and PAO NOVATEK after completion of construction. The shipbuilding contracts for the construction of vessels for SMART LNG concluded in 2019 entered into force after the end of the reporting period.

^{4.} The LNG carrier SCF La Perouse was accepted for operation on 10 February 2020.

^{5.} Sovcomflot Group and Shell entered into long-time charter contracts for two vessels of the series in 2018. The other four vessels of the series (three of which joined the fleet in 2019) are operating in the open market.

3.2.2. IMPLEMENTATION OF INVESTMENT PROJECTS - KEY RESULTS

Dual-fuel Aframax and MR tankers

In 2019 the Group put into operation three LNG-fuelled Aframax crude oil tankers - Gagarin Prospect, Lomonosov Prospect, and Mendeleev Prospect. The vessels are part of a series of six ‘Green Funnel’ tankers specially designed to use LNG as the primary fuel. The first three vessels of the series were put into operation in 2018.

SCF’s ‘Green Funnel’ tanker series has set a new standard of environmental sustainability in the maritime shipping industry. The tankers’ main engines, auxiliary engines, and boilers are dual-fuel (using conventional ship fuel and LNG). In addition, these vessels are fitted with Selective Catalytic Reduction (SCR) technology, which enables compliance with Tier III regulations governing NOx emissions (Annex VI to the International Convention for the Prevention of Pollution from Ships) even when running on conventional fuel. SCF’s ‘Green Funnel’ tankers with a deadweight of 114,000 tonnes each have a hull with a high ice class (1A). In February 2018 Sovcomflot Group and Shell entered into long-term charter agreements for two vessels of the series. Shell also provides LNG supply.

Serial construction of ‘Green Funnel’ tankers has started at Russian shipbuilding facilities, at the Zvezda Shipbuilding Complex (Primorsky Krai), as part of cooperation between Rosneft and Sovcomflot. In September 2018, an order was placed for the construction of two Aframax crude oil tankers using LNG as the primary fuel, to be subsequently chartered to Rosneft under long-term time charter parties. The first vessel is scheduled to be commissioned in 2022.

In addition, an order for the construction of three MR product tankers using LNG as the primary fuel was placed with the Zvezda Shipbuilding Complex in 2019. The tankers are designed to transport petroleum products and gas condensate and have been chartered to NOVATEK under long-term time charters.



A new Arctic shuttle tanker of the Shturman Albanov series for the Novy Port project

In September 2019 Sovcomflot put into operation a new Arctic shuttle tanker with ice class Arc7, Mikhail Lazarev. The tanker is intended to serve the Novy Port project under a long-term charter agreement between PAO Sovcomflot and PAO Gazprom Neft.

In terms of its technical characteristics, the Arctic shuttle tanker Mikhail Lazarev is one of the most advanced and high-tech vessels in the global tanker industry. The vessel continues a series of unique tankers of the Shturman Albanov type, designed for year-round transportation of crude oil from the Novy Port oil and gas condensate field. These vessels are capable of operating in the Arctic at temperatures down to -45°C, and their draft enables them to manoeuvre freely in the shallow Gulf of Ob.

The first three vessels were put into service in 2016. Since then they have transported 9.5 million tonnes of oil via the Northern Sea Route. The successful experience in tanker operations in the extreme conditions of the Arctic and further development of the Novy Port project created pre-conditions for increasing the number of vessels in the series.



Fifth-generation Atlanticmax LNG carriers

The construction of three fifth-generation Atlanticmax LNG carriers continued in 2019.

The first of the three vessel, the LNG carrier SCF La Perouse, was put into operation on 10 February 2020 and commenced a long-term charter with Total. Two similar vessels to be operated under agreements with Shell are scheduled to join the SCF fleet in 2020-2021.

These LNG carriers with a capacity of 174,000 cubic metres are fitted with an upgraded Mark III Flex cargo containment system and dual-fuel diesel X-DF engines. Such a propulsion plant is more reliable and requires less time and resources for planned repairs compared to a dual fuel diesel electric engine (DFDE). This type of gas carrier consumes 30 % less bunkers than fourth-generation gas carriers. A small amount of boil-off gas and a boil-off gas partial re-liquefaction system will enable the charterer to maximally reduce cargo losses during long voyages and waiting time, giving vessels of this type a competitive advantage.



Yamalmax Arctic LNG carriers

In 2019, PAO Sovcomflot and PAO NOVATEK set up a joint venture, SMART LNG. This was a result of long-term cooperation started in 2010 when Sovcomflot proceeded to designing a logistic scheme for eastbound hydrocarbon shipments along the Northern Sea Route. Sovcomflot directly participated in developing the transport component of the successfully implemented Yamal LNG project, and today it operates the world’s first Arctic LNG carrier, Christophe de Margerie.

The main task of the joint venture is to provide year-round LNG transportation from the Arctic LNG 2 and other current and prospective projects of NOVATEK.

The Arctic LNG 2 project involves the construction of up to 15 new-generation Arctic LNG carriers with ice class Arc7 (plus two optional vessels).

Shipbuilding contracts for the first five vessels for the Arctic LNG 2 project were concluded in 2019. The LNG carriers were ordered by a VEB Leasing Group company, with one vessel to be subsequently transferred for operation to SCF Group and four to SMART LNG after completion of construction. The shipbuilding contracts for the LNG carriers for SMART LNG entered into force after the end of the reporting period.



Aframax shuttle tankers for the Sakhalin-1 project

In 2019, Sovcomflot Group entered into shipbuilding contracts for two Aframax shuttle tankers with ice class 1C and a deadweight of 105,000 tonnes each. The vessels are intended to operate under long-term charter contracts with Exxon Neftegas Limited, the operator of the Sakhalin-1 project (development of oil and gas reserves in the Sea of Okhotsk, on the north-eastern shelf of Sakhalin Island). The new vessels were ordered to renew the SCF Group fleet serving the De Kastri export terminal. They are scheduled to be put into service in 2022.



In 2019 Sovcomflot Group’s shipbuilding programme included 19 vessels of six different types, including those intended for the Novy Port, Sakhalin-1 and Arctic LNG 2 projects.

As at 31 December 2019 Sovcomflot Group’s order portfolio included

15
VESSELS
with a total deadweight of
1,242
TONNES.

3.2.3. IMPLEMENTATION OF THE SHIPBUILDING PROGRAMME

During the reporting period, Sovcomflot Group put into service four new vessels with a total deadweight of 381,000 tonnes: an Arctic shuttle tanker and three dual-fuel Aframax tankers.

Shipbuilding portfolio of the Group as at 31 December 2019¹

No.	Hull number	Type of vessel	Deadweight, tonnes	Ice class
1	8006	Atlanticmax LNG carrier ²	82,000	–
2	8007	Atlanticmax LNG carrier	82,000	–
3	8008	Atlanticmax LNG carrier	82,000	–
4	036	LNG-fuelled MR tanker	51,000	1B
5	037	LNG-fuelled MR tanker	51,000	1B
6	038	LNG-fuelled MR tanker	51,000	1B
7	041	Yamalmax Arctic LNG carrier	81,000	Arc7
8	042	Yamalmax Arctic LNG carrier	81,000	Arc7
9	043	Yamalmax Arctic LNG carrier	81,000	Arc7
10	044	Yamalmax Arctic LNG carrier	81,000	Arc7
11	045	Yamalmax Arctic LNG carrier	81,000	Arc7
12	131110	LNG-fuelled Aframax tanker	114,000	1B
13	131120	LNG-fuelled Aframax tanker	114,000	1B
14	2367	Aframax shuttle tanker	105,000	1C
15	2368	Aframax shuttle tanker	105,000	1C
Total			1,242,000	

3.3. Innovative activities and R&D

3.3.1. AREAS OF INNOVATIVE ACTIVITIES

Sovcomflot Group’s innovative activities are carried out in accordance with the requirements and methodological guidelines of the Federal Agency for State Property Management (Rosimushchestvo), the Russian Ministry of Economic Development and the Council for Economic Modernisation and Innovative Development under the President of the Russian Federation. Priority directions for innovative development of the Group are determined in accordance with Decree No. 899 of the President of the Russian Federation dated 7 July 2011.

Sovcomflot is developing its own engineering school. SCF’s engineering, operations and training centres have been integrated at the St. Petersburg headquarters, creating a unique blend of knowledge and practical experience accumulated by the company and giving an additional impulse to the development of unique industrial projects with an ice component.

The main areas of innovative activities and scientific, R&D and technological projects of Sovcomflot Group in 2019 were as follows:

- Exploring opportunities for improving energy efficiency and reducing carbon, sulphur and nitrogen oxides emissions:
 - using a boil-off gas reliquefaction system to return boil-off gas to the cargo tanks or use it as a fuel for the ship power plant on gas carriers (implemented as part of the construction of the LNG carrier SCF La Perouse added to the fleet in February 2020);
 - a hull air lubrication system to reduce the resistance and increase the speed of the ship for SCF La Perouse-class LNG carriers (not implemented at this stage, is being considered in the context of future projects);
 - fitting rotor sails to LNG-fuelled Aframax vessels (not implemented at this stage, is being considered in the context of future projects).

Sovcomflot is a world leader in developing and implementing innovations in the field of mari-time transport. The Group is actively and consistently improving technologies and equipment, implementing international best practices, improving fleet management and enhancing the scientific potential of employees, including seafarers and land-based specialists

^{1.} The vessels with hull numbers 036, 037, 038, 131110 and 131120 were ordered by a VEB Leasing Group company and are to be subsequently transferred to SCF Group for operation after completion of construction. The vessels with hull numbers 041, 042, 043, 044 and 045 were ordered by a VEB Leasing Group company, with one vessel to be transferred for operation to SCF Group and four to SMART LNG, a joint venture of PAO Sovcomflot and PAO NOVATEK, after completion of construction. The shipbuilding contracts for the LNG carriers for SMART LNG entered into force after the end of the reporting period.

^{2.} The LNG carrier SCF La Perouse was accepted for operation on 10 February 2020.

- Working on projects for new types of LNG-fuelled vessels - a VLCC tanker, an offshore platform supply vessel, an icebreaker.
- Participating in the development of automated and remote control technologies for large-capacity commercial vessels, which involves creating and validating technical tools and drafting requirements to be incorporated into Russian and international legal and technical regulations that create conditions for operating unmanned vessels. As at the end of the reporting period SCF Group masters were participating, as part of an expert council, in preparations for the first stage of pilot operation, which includes the development of the basic automated and remote control algorithms and their testing on shore test-bed based on the array of data received from vessels.
- Participating in the DecarbonICE project initiated by Maritime Development Center, a non-profit environmental research organisation. The company is exploring opportunities for employing the proposed technology, which allows using existing marine fuels while significantly reducing carbon dioxide generation.
- Conducting research, calculations and experiments to select optimal parameters for ship power plants in terms of compliance with conventional requirements.
- In the reporting period company experts carried out work at the SCF training centre in St. Petersburg to determine the conditions for safe navigation within the sea channel of the Gulf of Ob by modelling the movement of a gas carrier in waters covered with ice of various thickness and a counter movement of two vessels in the channel on a navigation simulator. Also, recommendations and regulations concerning navigation in the sea channel of the Gulf of Ob were developed. As a result, the Russian Ministry of Transport made a decision to reconstruct the sea channel.
- Employees from the SCF training centre took part in the research work on the topic «Development of regulations for bunkering ships with liquefied natural gas», which involves the development of national level standards that set uniform requirements for all participants in the open market for LNG bunkering services.
- The Sovcomflot Group's Green Charter - a declaration of commitments to fight climate change by using innovative technologies and raising personnel awareness on environmental protection (for more details see section [6.4.1. Environmental protection policy](#)) - was approved in March 2019.

Sovcomflot stimulates professional development among its staff and encourages employees to pursue additional education in order to gain in-depth knowledge of modern technologies in fleet management. SCF's engineering staff have very high scientific capabilities: currently, 33 seafarers, who completed post-graduate studies and received the title of Candidate of Technical Sciences or are preparing to defend their theses, work in the Company's fleet.

The functional capabilities of the operations centre for real-time vessel tracking, which was opened at the Sovcomflot headquarters in St. Petersburg a year earlier, were expanded during 2019. In particular, SCF specialists developed and launched Ice Observer, a mobile application that simplified and systematised data collection from ships regarding ice conditions, and also digitised the database of ice observations carried out on SCF ships while serving the Prirazlomnoye, Varandey and Novy Port projects. The database is used to teach artificial intelligence systems used for mapping ice conditions, plotting the safest and most optimal route in ice, looking for dangerous ice formations and identifying areas with complex ice conditions.

The centre's equipment allows for the following tasks to be performed using artificial intelligence:

- Controlling and analysing navigation safety data;
- Optimising ship routes taking into account ice conditions, weather conditions, and business objectives;
- Monitoring the ship's operation in real time (collecting and processing the ship's navigation and technical performance parameters, video feeds from surveillance cameras);
- Special Arctic navigation control capabilities: analysis of ice conditions and movements of ships, identification of dangerous ice formations and areas with complex ice conditions, development of recommendations for masters and determination of the safest route in ice conditions;
- Control and analysis of the performance of the ship's systems in terms of energy efficiency, bunker consumption, etc.;
- Remote access to the ship's systems, log of faults, etc. for onshore specialists to analyse the technical condition of the ship in case of malfunctions in ship systems and help crews to fix faults.

» The operational centre for real-time vessel tracking was opened at the Sovcomflot headquarters in St. Petersburg at the end of 2018.



Industry recognition for innovation achievements in 2019:



SCF named 'Company of the Year' by Lloyd's List, commended for its pioneering steps towards decarbonisation and the introduction of advanced technology.



Gagarin Prospect named 'Ship of the Year' at 2019 Marine Propulsion Awards and received the Nor-Shipping Next Generation Ship Award



Yevgeny Primakov named 'Support Vessel of the Year' by Offshore Support Journal

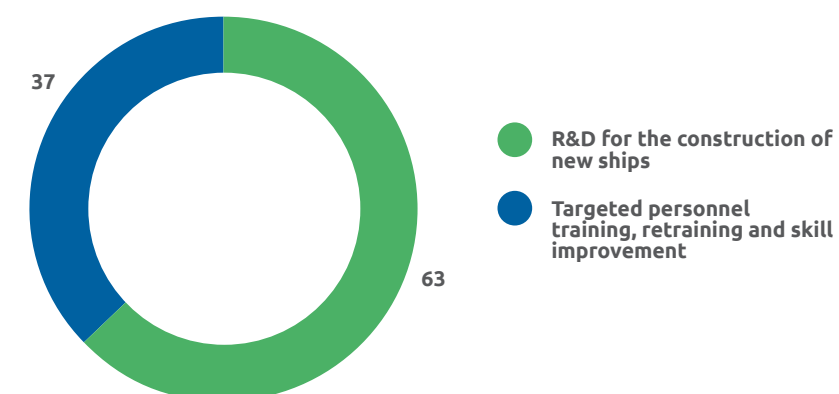
Key achievements in innovation and R&D

- Sovcomflot Group won the award for 'Company of the Year' at the 2019 Lloyd's List Europe Awards. In particular, the jury noted the successful implementation of technologies for using cleaner LNG fuel for large-capacity tankers, inauguration of a state-of-the-art operations centre and industry-leading safety record, which comes despite operating in some of the worlds' harshest conditions.
- The Gagarin Prospect tanker was named 'Ship of the Year' at the Marine Propulsion Awards 2019. Also, the vessel won the Next Generation Ship Award 2019. Gagarin Prospect is the lead ship in the 'Green Funnel' series of Aframax crude oil tankers using LNG as the primary fuel. As at 31 December 2019 the SCF Group fleet included six tankers running on LNG. The results of the first year of operation of the series showed that the use of LNG allows for a 30% reduction in carbon dioxide emissions compared to similar vessels that run on conventional heavy fuel.
- Gagarin Prospect and Lomonosov Prospect received Green Award certificates, a quality mark for vessels that significantly surpass convention requirements related to navigation safety and environmental protection.
- Yevgeny Primakov, a multifunctional icebreaking platform supply vessel, was named Support Vessel of the Year by Offshore Support Journal, an international trade publication. The vessel was accepted for operation in 2018 and is employed to support offshore oil and gas platforms of the Sakhalin-2 project on the continental shelf of the Sea of Okhotsk and Sakhalin Island under a long-term agreement with Sakhalin Energy.
- A new edition of a unique training manual, Practical Recommendations by SCF Captains for Steering Vessels in Ice Conditions, was published in January 2019. The author team is comprised of ice captains of Sovcomflot ships that participated in the implementation of Arctic industrial projects. The manual is based on the consolidated and systematised experience gained on the Sakhalin-1, Varandey, Prirazlomnoye and Novy Port projects. In the new edition, practical recommendations on the use of Azipod propulsion units to manoeuvre Arctic shuttle tankers were complemented by experience in using them in heavy ice conditions in the Kara Sea and the Gulf of Ob.
- During the reporting period, work was also undertaken to prepare a new training manual, Practical Recommendations for Steering a Vessel with three Azipod Propulsion Units in Ice Conditions in Relation to the Yamal LNG Project, which summarizes the experience in steering icebreaking vessels with a powerful power plant accumulated in the Yamal LNG project. Special attention was paid to navigation in the most difficult area - the outlet of the Ob River to the Kara Sea, where large-capacity vessels have to sail along the long and narrow Sea Channel in conditions of constant ice drift. The new manual is expected to be published in 2020.
- During the reporting period Sovcomflot continued to consistently introduce cargo transportation by large-capacity tankers using LNG fuel in Arctic navigation. During the 2019 summer navigation period the company's three LNG-fuelled tankers completed eastbound voyages along the high-latitude Northern Sea Route and one tanker from the 'Green Funnel' series sailed through this route in the western direction.

Financing of innovative activities

The financing of R&D, engineering activities, professional training, retraining and skill improvement of PAO Sovcomflot personnel in 2019 amounted to US\$4.7 million.

Structure of R&D expenses in 2019, %



The Company regularly monitors and analyses the integral key performance indicator of innovative development.

105.57 %

the value of the integral performance indicator of innovative development of PAO Sovcomflot in 2019

3.3.2. ASSESSMENT OF THE INNOVATIVE DEVELOPMENT PERFORMANCE

The integral key performance indicator of innovative development includes four elements:

- The level of R&D financing expenditure at PAO Sovcomflot. The target is no less than 0.4 % of the annual net revenue;
- The level of navigation safety and the Company’s compliance with customer requirements - the average number of observations from inspections by OCIMF member companies for all SCF vessels during the reporting period. The target is no higher than the industry average, which is calculated annually based on ship inspection results according to OCIMF and IN-TERTANKO data;
- The level of operating expenses per vessel, determined as a percentage of industry average (based on data from independent analytical sources). The target is less than 100 %;
- The level of vessel crew costs, determined as a percentage of industry average (based on data from independent analytical sources). The target is less than 100 %.

3.4. Financial results

3.4.1. BALANCE SHEET INDICATORS

The financial statements of Sovcomflot Group were prepared according to IFRS and disclosed online. Below is a brief overview and analysis of the key financial indicators of the Group.

The book value of non-current assets increased by 0.5 % from US\$6,601.6 million at the end of 2018 to US\$6,636.3 million at the end of the reporting period. Total assets of the Group amounted to US\$7,335.9 million as at 31 December 2019, up 2.7 % year-on-year. Shareholders’ equity increased by 4.6 % to US\$3,504.6 million.

The Group maintains a stable programme of capital investments during all phases of the shipping cycle. Investments in fleet construction and capital expenditure on fleet modernisation and repairs¹ in 2019 totalled US\$423.8 million (2018: US\$418.1 million), with the amount payable under current shipbuilding contracts in 2020-2022 at the end of 2019 being US\$508.3 million.

The investment programme and operating activities were financed through secured bank loans (as at 31 December 2019, total debt to banks amounted to US\$2,538.8 million), placement of unse-cured Eurobonds amounting to US\$900 million, and operating cash flow. The company also en-tered into lease agreements providing for the delivery of vessels in 2022-2023 for a total amount of US\$1,140.6 million.

Despite the continued volatility in financial markets amid the unstable geopolitical and economic situation in the world, the Group retained access to both foreign and Russian debt capital mar-kets.

The Group concluded two new credit facility agreements for a total amount of US\$473 million. Proceeds under these agreements were used to finance the construction of new vessels and re-finance existing credit liabilities. The Company also drew down funds under previously conclud-ed credit facility agreements to finance the delivery of new vessels in the reporting year. In the reporting year, the Group’s borrowers and guarantors fully complied with all requirements and terms (“covenants”) of corresponding credit facility agreements.

SCF Group carefully monitors capital structure and works on its optimisation. Sovcomflot Group’s leverage (net debt to equity ratio) at the end of 2019 was 47 %, net debt to EBITDA ratio was 3.7².

In 2019 the tanker market saw an increase in rates, which reached its peak in the fourth quarter of the reporting period, with the average annual freight rates exceeding average levels for the past 25 years for the first time since 2015. Against this background, the Group’s balanced freight policy enabled the Group to optimise revenues from the conventional fleet in the reporting period. At the same time, measures taken to diversify the fleet with a focus on the development of industrial business continued to help maintain high long-term premium income and a stable financial position of the company.

7,335.9
US\$ MILLION

the amount of the SCF Group’s assets at the end of 2019

^{1.} Investments are as reported in the cash flow statement in the consolidated financial statements of PAO Sovcomflot prepared under IFRS, which includes expenditure on fleet and expenditure on vessels under construction.
^{2.} The figure indicated here and hereafter refers to adjusted EBITDA – see the definition in the glossary (Appendix to this Annual Report).

Capital structure dynamics, USD million

Name	2019	2018	Difference, %
Secured loans and finance lease liabilities	2,599.1	2,575.5	0.9
Eurobonds and other loans	900.4	902.7	−0.3
Less: cash and bank deposits, including restricted cash	(417.2)	(307.4)	35.7
Net debt	3,082.3	3,170.8	−2.8
Equity	3,504.6	3,350.1	4.6
Total capital ¹	6,586.9	6,520.8	1.0
Net debt/equity ratio, %	46.8	48.6	−1.8 p.p.
Net debt/EBITDA ratio	3.7	5.5	−31.3

The Group’s current leverage is more favourable compared to the industry average, which is traditionally impacted by high capital intensity of investments and volatility of the freight market.

Financial statements are available online:

[Consolidated Financial Statements in Roubles and Auditor’s Report](#)

[Consolidated Financial Statements in U.S. Dollars and Auditor’s Report](#)

[Accounting \(Financial\) Statements and Auditor’s Report](#)

3.4.2. INCOME STATEMENT INDICATORS

The revenue amounted to US\$1,665.2 million, up 9.6 % on the previous period, with a 17.8 % increase in TCE revenue, which reached US\$1,265.5 million.

In 2019 Sovcomflot significantly improved its operating profitability and posted a net profit of US\$225.4 million versus a loss of US\$41.6 million in 2018. In accordance with IFRS, in 2019 the Company recognised impairment expenses of US\$23.6 million in relation to the fleet and other assets.

Key income statement indicators (USD million)

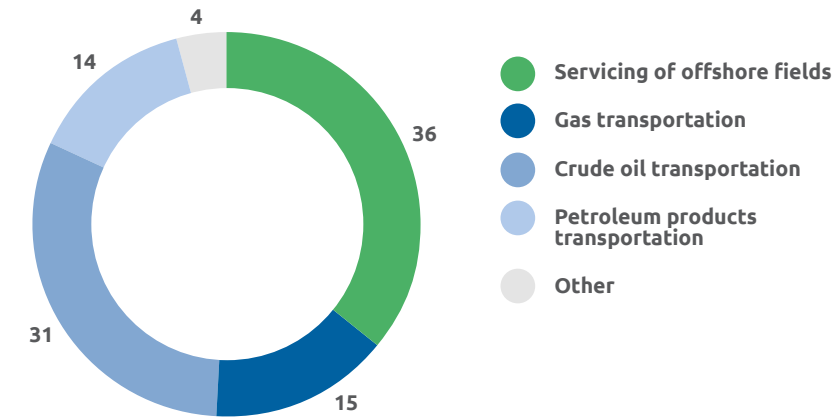
Name	2019	2018	Difference, %
Revenue	1,665.2	1,519.9	9.6
TCE revenue	1,265.5	1,074.7	17.8
EBITDA	823.0	580.7	41.7
Net profit / (loss)	225.4	(45.6)	-

In the reporting year the Group continued to implement consistently its industrial development strategy aimed at expanding the offshore and gas business segments, whose share of time charter revenue reached 50.5 %, with revenues from the conventional fleet operations (transportation of crude oil and petroleum products) accounting for 45 %.

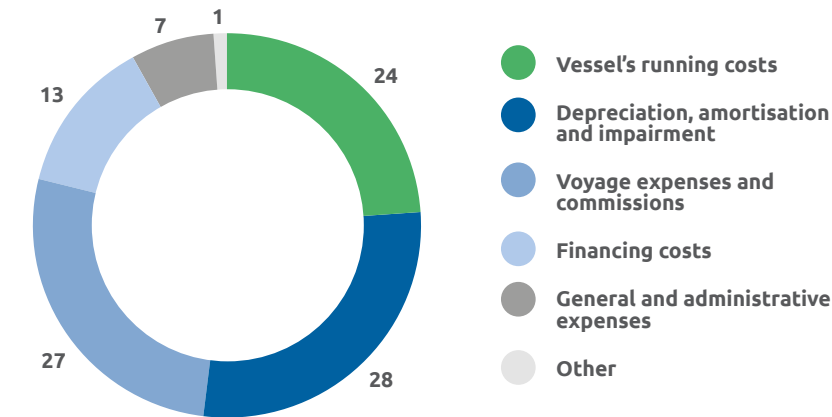
823.0
US\$ MILLION

the EBITDA for 2019
(41.7 % higher than
in 2018)

Structure of TCE revenue by operating segments (%)



Structure of the main expense items (%)



The positive situation in the tanker market and the consistently high share of industrial portfolio had a positive impact on the Group’s operating results in 2019.

1,665.2
US\$ MILLION

the revenue generated
in 2019 (up 9.6 %
from 2018)

¹. Total capital = net debt plus total equity.

In 2019, 4.1 % savings were achieved in the vessel’s running costs budget through the cost optimisation programme. Vessel’s running costs for the reporting period amounted to US\$356.3 mil-lion. The 10 % reduction in voyage costs and commissions (to US\$399.7 million) was due to a decline in bunker prices and a decrease in the number of vessels operating in the spot market. General and administrative expenses decreased by 3 % to US\$108.0 million. Financial debt servicing costs excluding interest on leasing obligations decreased by 1 % compared to 2018 and amounted to US\$198.4 million.

3.4.3. LIQUIDITY INDICATORS

The Group has a strong liquidity cushion, which represents a significant positive factor for maintaining the company’s creditworthiness and financial stability. Cash balances in bank accounts and their equivalents totalled US\$374.8 million at the end of 2019, which is in line with the company’s cash management policy. The Group also had unused revolving credit facilities of US\$84.9 million and available special-purpose credit facilities for new builds of US\$349.5 million. Thus, the company’s current liquidity as at 31 December 2019 totalled US\$809.2 million. The company’s liquidity at the end of 2019 fully covers the current investment commitments un-der the existing shipbuilding programme for 2020 amounting to US\$365 million.

3.4.4. CREDIT RATING OF THE GROUP

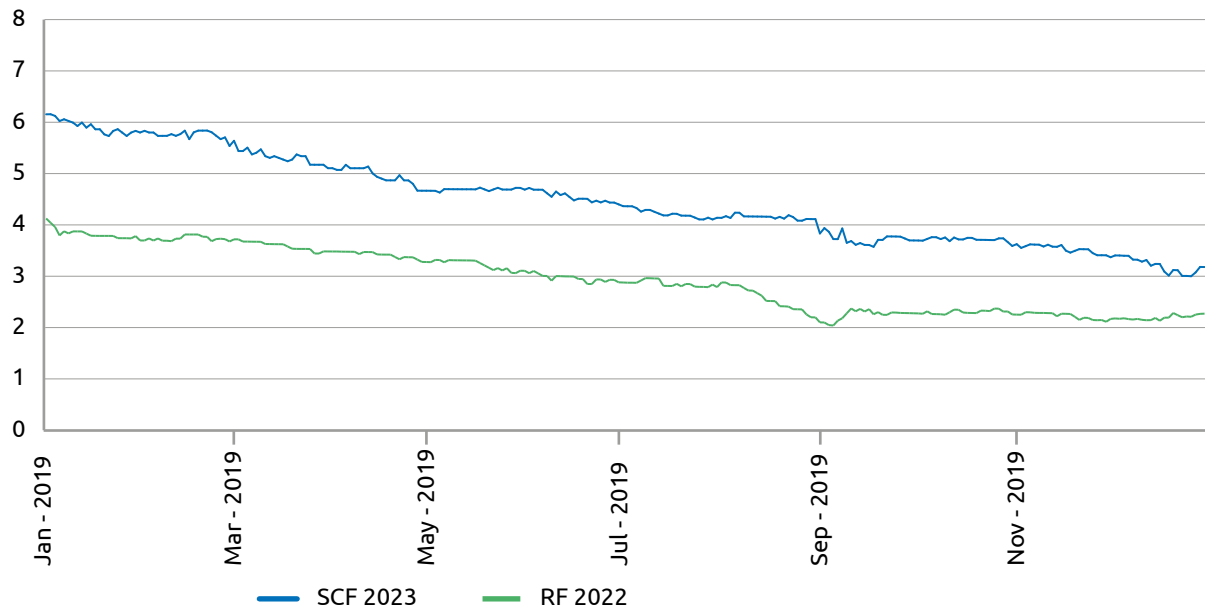
Moody’s Investors Service affirmed the Group’s credit rating at Ba1 with a stable outlook. S&P Global Ratings affirmed the existing credit rating for the Group at BB+ with a stable outlook. Fitch Ratings upgraded the Group’s rating to BB+ with a stable outlook.

Credit ratings of Sovcomflot Group as of 31 December 2019

	S&P GLOBAL RAT-INGS	Fitch Raitings	Moody's Investors Service
Credit rating	BB+	BB+	Ba1
Outlook	Stable	Stable	Stable

Amid the positive debt capital market dynamics for issuers at the end of the reporting period the company’s Eurobonds traded at a premium to par value and had a yield to maturity in 2023 of 3.2% with an average yield for the year of 4.5%.

Yield to maturity of bonds of Sovcomflot Group and Russian Federation (%)



Source: Citibank

During 2019 Sovcomflot Group continued to work with international rating agencies.

4. CORPORATE GOVERNANCE

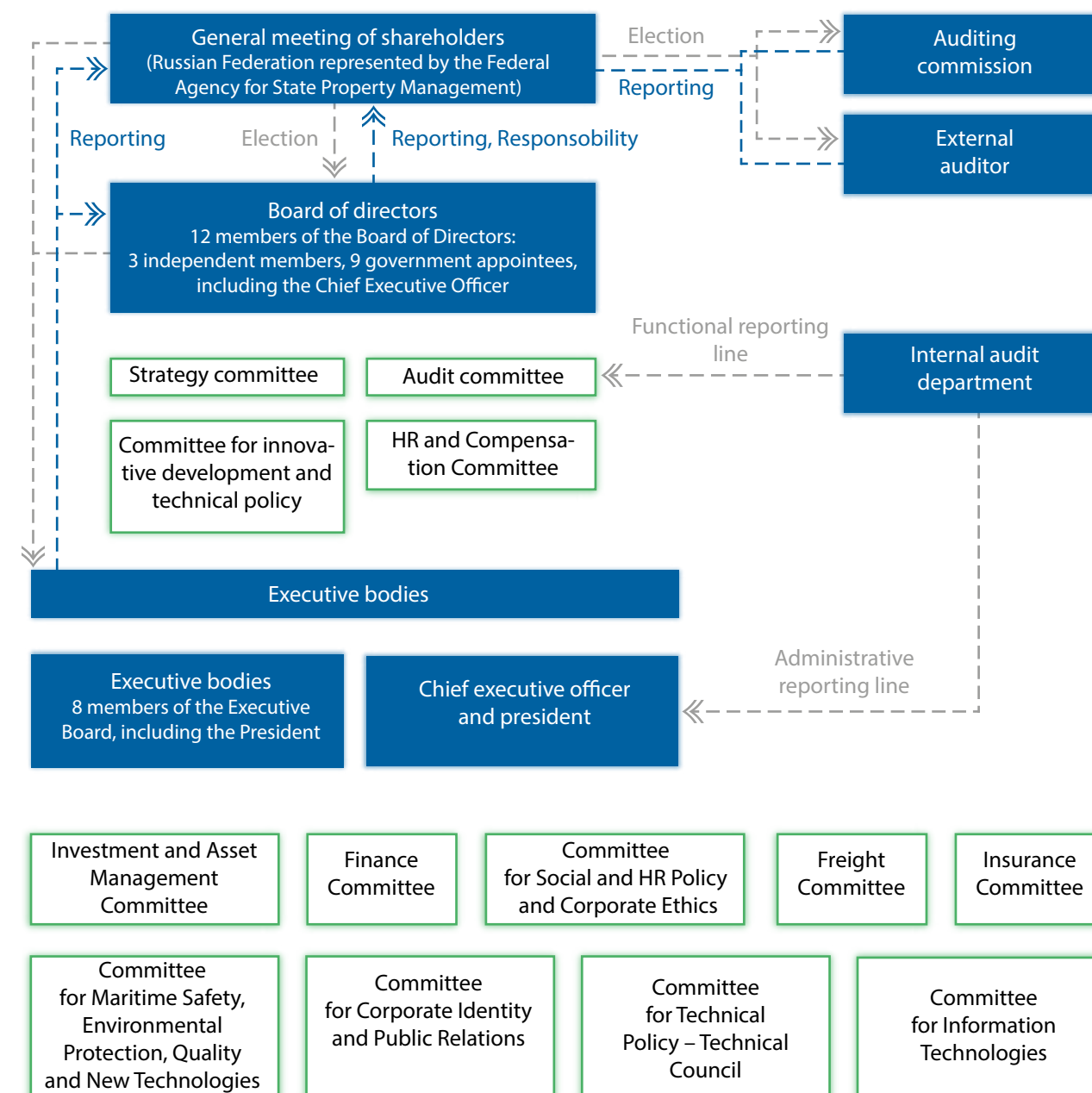


« The high development level of the corporate governance system at PAO Sovcomflot facilitates improvements in investment attractiveness and an increase in operational efficiency. PAO Sovcomflot's plans to access public capital markets make the development of corporate governance practices a priority task.

4.1. Corporate governance system

PAO Sovcomflot seeks to ensure that its corporate governance system complies with international standards – this requires complete adherence to both legislative requirements and ethical standards in the spirit of best corporate governance practices. To this end, PAO Sovcomflot works actively to improve its corporate governance system taking into account the specifics of its operations.

Corporate governance system of PAO Sovcomflot



LIST OF LOCAL REGULATIONS IN THE FIELD OF CORPORATE GOVERNANCE

1. The Charter of PAO Sovcomflot (the new version was approved by Instructions No. 271-r of the Federal Agency for State Property Management dated 31 May 2017);
2. Amendments to the Charter of PAO Sovcomflot (approved by Instructions No. 70-r of the Federal Agency for State Property Management dated 13 February 2020);
3. Amendments to the Charter of PAO Sovcomflot (approved by Instructions No. 373-r of the Federal Agency for State Property Management dated 26 June 2019);
4. Amendments to the Charter of PAO Sovcomflot (approved by Instructions No. 449-r of the Federal Agency for State Property Management dated 29 June 2018);
5. Corporate Governance Code (the new version was approved by the PAO Sovcomflot Board of Directors decision dated 10 November 2015, Minutes No. 149);
6. Regulations on the General Meeting of Shareholders of PAO Sovcomflot approved by Instructions No. 310-r of the Federal Agency for State Property Management dated 16 June 2017;
7. Regulations on the Board of Directors (the new version was approved by Instructions No. 449-r of the Federal Agency for State Property Management dated 29 June 2018);
8. Regulations on the Strategy Committee of the Board of Directors (approved by the Board of Directors decision dated 5 February 2009, Minutes No. 95);
9. Regulations on the Audit Committee of the Board of Directors (the new version was approved by the Board of Directors decision dated 26 May 2017, Minutes No. 163);
10. Regulations on the HR and Compensation Committee of the Board of Directors (the new version was approved by the Board of Directors decision dated 26 May 2017, Minutes No. 163);
11. Regulations on the Committee for Innovative Development and Technical Policy (approved by the Board of Directors decision dated 25 February 2011, Minutes No. 109);
12. Regulations on the Executive Board (approved by Instructions No. 838-r of the Federal Agency for State Property Management dated 30 June 2009);
13. Regulations on the Chief Executive Officer (approved by Instructions No. 696-r of the Federal Agency for State Property Management dated 30 June 2014);
14. Regulations on the Auditing Commission (the new version was approved by Instructions No. 519-r of the Federal Agency for State Property Management dated 30 June 2016);
15. Regulations on the Internal Audit Department of PAO Sovcomflot (approved by the Board of Directors decision dated 26 May 2017, Minutes No. 163), with the amendments and additions approved by the PAO Sovcomflot Board of Directors on 26 February 2019, Minutes No. 179);
16. Regulations on the Corporate Secretary of PAO Sovcomflot (approved by the Board of Directors decision dated 11 April 2017, Minutes No. 162).
17. Dividend Policy (approved by the Board of Directors decision dated 14 December 2012, Minutes No. 125).

IMPROVEMENT OF THE CORPORATE GOVERNANCE SYSTEM

The Company recognises the importance of a high level of corporate governance. The Company’s corporate governance system is based on Russian statutory requirements and applicable international best practices of corporate governance. The basic document that sets forth the key principles and elements underlying the Company’s corporate governance system is the PAO Sovcomflot Corporate Governance Code.

The initial version of the PAO Sovcomflot Corporate Governance Code (the Code of Corporate Conduct) was approved by the Board of Directors on 22 February 2007 (Minutes No. 80). The current version of the PAO Sovcomflot Corporate Governance Code was developed on the basis of the Federal Law on Joint-Stock Companies, the Charter and other internal documents of the Company, recommendations of the Corporate Governance Code approved by the Bank of Russia (Bank of Russia Letter No. 06-52/2463 dated 10 April 2014), recommendations of the Principles of Corporate Governance of the Organization for Economic Cooperation and Development (OECD) and the listing requirements of Russian and foreign stock exchanges, and was approved by the PAO Sovcomflot Board of Directors decision dated 10 November 2015 (Minutes No. 149).

The Corporate Governance Code is a set of rules, standards, and internal regulations, which are used by PAO Sovcomflot in the course of its activities, and which are based on a balanced consideration of the interests of the Company’s shareholders, management bodies and other stakeholders. The goal of the Corporate Governance Code is to ensure a high level of corporate governance and professional and business ethics necessary to achieve the strategic goals and objectives determined by the Charter and other internal documents of the Company.

The basic principles of corporate governance in the Russian Federation are defined in the Corporate Governance Code (the «CG Code») approved by the Bank of Russia and recommended for use by joint-stock companies. Based on the results of the assessment performed by the Company to evaluate compliance with the CG Code recommendations, it was determined that PAO Sovcomflot complied with most recommendations.

The Company has had a Corporate Governance Code since 2007, and a Corporate Governance Code fully aligned with the CG Code recommended by the Bank of Russia since 2015.

At least three independent directors have been elected to the Company’s Board of Directors since 2008.

Since 2006 PAO Sovcomflot has taken out liability insurance for members of the Board of Directors and management.

The Board of Directors has established a strategy committee, an audit committee and an HR and compensation committee operating since 2008 and an innovative development and technical policy committee operating since 2011.

Since 2006 the Company has been publicly disclosing its audited IFRS consolidated financial statements in accordance with the requirements of rating agencies and stock market regulators (the Company has been preparing and disclosing its audited IFRS financial statements to the shareholders and creditors since 1988).

Since 2012 the Company has been publicly disclosing information in accordance with the statutory disclosure requirements.

From 2010 one of the Sovcomflot Group companies has been an issuer of securities (bonds) listed on the London and Irish stock exchanges and meeting the requirements established by the U.S. Securities and Exchange Commission for offering to U.S. investors under Rule 144A.

PAO Sovcomflot is continuously improving its corporate governance system, taking into account the most CG Code recommendations and the relevant best global practices of corporate governance.

In the reporting year the Company continued work to improve the corporate governance model and practices. In accordance with the road map for implementing the CG Code at PAO Sovcomflot, approved by the Board of Directors in 2015, the following key internal documents that set forth the principles of corporate governance were updated (or re-approved): Amendments to the Charter of PAO Sovcomflot and Regulations on the Audit Department. These documents were updated to reflect recommendations of the CG Code, as well as the specifics of the Company’s operations.

Statistics of compliance with the CG Code provisions based on the report on compliance with the principles and recommendations of the Bank of Russia Corporate Governance Code (Appendix 1 to this report)

CG Code section	Principles recommended by the Code	Observed	Partially observed	Not observed ¹
Shareholder rights	13	5	-	8
Board of Directors	36	25	9	2
Corporate Secretary	2	1	1	-
Compensation system	10	8	-	2
Risk management system	6	6	-	-
Disclosure of information	7	6	1	-
Material corporate actions	5	4	1	-
Total	79	55	12	12

¹ Not observed as non-applicable.

MECHANISMS FOR MANAGING SUSTAINABLE DEVELOPMENT AND SOCIAL RESPONSIBILITY

Mechanisms related to managing sustainable development and social responsibility are embedded in the PAO Sovcomflot corporate governance system. In the course of their activities, governing bodies consider a number of issues, including those related to occupational health and safety, HR management, charity work, environmental protection, etc.

THE COMPANY'S ANTI-CORRUPTION POLICY

PAO Sovcomflot, through its governing bodies and employees, ensures compliance with the re-quirements of current legislation of the Russian Federation on countering corruption, including measures to prevent and combat corruption offences. The Company has an Anti-Corruption Policy and a hot line operating since 2015. A new version of the Anti-Corruption Policy was approved by the PAO Sovcomflot Executive Board (Minutes No. 30(975) dated 29 August 2019). The document sets for the rules of standards of doing business and applies to all Sovcomflot Group companies. The Company's Executive Board, at the same meeting, approved the PAO Sovcomflot Code of Corporate Ethics, which contains the basic ethical principles and priorities of the Company and recommendations on how the Sovcomflot Group employees should behave when making decisions in the course of their professional activities.

In 2017 the PAO Sovcomflot Executive Board made a decision on the Company's accession to the Anti-Corruption Charter of Russian Business to implement measures aimed at preventing and combating corruption and create conditions for public condemnation and rejection of corruption in dealings with government authorities and in corporate relations. The Company was included in the consolidated register of parties to the Anti-Corruption Charter of Russian Business by the order of the President of the Russian Union of Industrialists and Entrepreneurs dated 14 November 2017.

RESOLUTION OF CONFLICTS OF INTEREST IN THE COMPANY

The general policy for regulating conflicts of interest involving PAO Sovcomflot is determined by its Board of Directors. The mechanism for notifying the management bodies of PAO Sovcomflot of any conflicts of interest is determined by the Regulations on the Board of Directors, as well as the current Corporate Governance Code. The Company has an approved policy governing interested party transactions in Sovcomflot Group that has been in effect since 2015, which also provides for a mechanism for resolving conflicts of interest in the Group.

4.2. General Meeting of Shareholders

In accordance with Clause 5 of the Regulations on the Management of the Federally Owned Shares of Open Joint-Stock Companies and Exercising the Special Right for the Participation of the Russian Federation in the Management of Open Joint-Stock Companies (the "Golden Share") approved by Russian Government Resolution No. 738 dated 3 December 2004, the rights of the shareholder – the Russian Federation – are exercised by the Federal Agency for State Property Management, as agreed with the Russian Ministry of Transport.

On 26 June 2019 the PAO Sovcomflot Annual General Meeting of Shareholders was held (Instructions No. 373-r of the Federal Agency for State Property Management dated 26 June 2019), which adopted the following resolutions:

- Approve the 2018 Annual Report of PAO Sovcomflot;
- Approve the annual accounting (financial) statements of PAO Sovcomflot for 2018;
- Approve the following distribution of the net profit of PAO Sovcomflot for 2018 amounting to RUB 2,869,589 thousand:
 - for payment of dividends on the shares of PAO Sovcomflot for 2018: RUB 1,434,795 thousand;
 - earnings to be retained by PAO Sovcomflot: RUB 1,434,794 thousand;

Pay the dividends on the ordinary shares of PAO Sovcomflot based on 2018 performance in the amount of RUB 1,434,795 thousand and set the 10th day following the date of the decision to pay dividends as the dividend record date, with the dividend payment dead-line set at 25 days after the dividend record date;

- Amend the PAO Sovcomflot Charter as regards the number of the Board of Directors members;
- Elect members of the PAO Sovcomflot Board of Directors and Auditing Commission;
- Pay compensation to the members of the PAO Sovcomflot Board of Directors who are non-government officials in the amount determined in accordance with the Company's internal documents;
- Approve Ernst & Young LLC as the auditor of PAO Sovcomflot for 2019.

At the extraordinary general meeting of shareholders of PAO Sovcomflot held on 23 September 2019 ((Instructions No. 592-r of the Federal Agency for State Property Management dated 23 September 2020) it was decided to early terminate the powers of the sole executive body (Chief Executive Officer), appoint a new Chief Executive Officer, terminate the powers of the members of the PAO Sovcomflot Board of Directors and elect a new Board of Directors, numbering twelve.

An important role in the organisation of an effective corporate governance system is played by the PAO Sovcomflot Board of Directors, which is responsible for the strategic leadership of the Group's activities and determines the vision, mission, and strategic development of the Group



4.3. Board of Directors of PAO Sovcomflot

4.3.1. COMPOSITION OF THE BOARD OF DIRECTORS

There were three different compositions of the PAO Sovcomflot Board of Directors during the reporting period:

- The Board of Directors elected by the Annual General Meeting of Shareholders dated 29 June 2018 (Instructions No. 449-r of the Federal Agency for State Property Management dated 29 June 2018) as follows:
 - Ivan Glumov (independent director)
 - Ilya Klebanov (government appointee)
 - Alexey Klyavin (independent director)
 - David Moorhouse (government appointee)
 - Viktor Olersky (government appointee)
 - Oksana Tarasenko (government appointee)
 - Sergey Frank (government appointee)
 - Walid Chammah (independent director)
 - Andrey Sharonov (independent director)
- The Board of Directors elected by the Annual General Meeting of Shareholders dated 26 June 2019 (Instructions No. 474-r of the Federal Agency for State Property Management dated 26 June 2019) as follows:
 - Alexander Abramov (government appointee)
 - Ilya Klebanov (government appointee)
 - David Moorhouse (government appointee)
 - Lyubov Nisenboym (government appointee)
 - Pavel Sorokin (government appointee)
 - Sergey Frank (government appointee)
 - Yury Tsvetkov (government appointee)
 - Alexey Klyavin (independent director)
 - Walid Chammah (independent director)
 - Andrey Sharonov (independent director)
- The Board of Directors elected by the Extraordinary General Meeting of Shareholders dated 23 September 2019 (Instructions No. 592-r of the Federal Agency for State Property Management dated 23 September 2019) as follows:
 - Alexander Abramov (government appointee)
 - Ilya Klebanov (government appointee)
 - David Moorhouse (government appointee)
 - Lyubov Nisenboym (government appointee)
 - Pavel Sorokin (government appointee)
 - Oksana Tarasenko (government appointee)
 - Igor Tonkovidov (government appointee)
 - Sergey Frank (government appointee)
 - Yury Tsvetkov (government appointee)
 - Alexey Klyavin (independent director)
 - Walid Chammah (independent director)
 - Andrey Sharonov (independent director)

According to the Company's Charter, at least 9 persons are elected to the Board of Directors, which meets the statutory requirements as well as the Company's needs. The personal composition of the Board is determined by the General Meeting of Shareholders (a decision of the sole shareholder). Independent members of the Company's Board of Directors are elected following a review of the candidates by the commission for selecting candidates to the governing bodies of companies with state participation, formed annually by the shareholder's representative (Federal Agency for State Property Management) with the participation of the Russian Ministry of Transport, which enables the shareholder to receive information about the candidates necessary to get an idea of their personal and professional qualities.

Ilya Klebanov was elected Chairman of the Board of Directors in accordance with the PAO Sovcomflot Board of Directors decision (Minutes No. 173). At the Board of Directors meeting on 24 September 2019, the Board elected Sergey Frank as its Chairman.

Independent directors have been elected to the Board of Directors of PAO Sovcomflot annually since 2008, in accordance with the criteria established in the current Corporate Governance Code and in Russian Government Resolution No. 738. Three independent directors were elected to the Board of Directors (as at 31 December 2019): Alexey Klyavin, Walid Chammah, and Andrey Sharonov.

Information on members of the PAO Sovcomflot Board of Directors (as at 31 December 2019)

During 1984-1989 he was Deputy Principal of Admiral Nevelskoy Far Eastern Higher Marine Engineering College and was engaged in teaching. From 1989, he was Head of Foreign Economic Relations and then Deputy General Director for Economics at the Far Eastern Shipping Company. In 1995 he was appointed Deputy Director of the Department of Maritime Transport at the Russian Ministry of Transport. Between 1998 and 2004 he served as Minister of Transport of the Russian Federation. During these years he headed the Aeroflot - RIA Board of Directors.

In October 2004 Sergey Frank was elected Chief Executive Officer of OAO Sovcomflot and joined its Board of Directors. He held this position until September 2019, when he was elected Chairman of the Company's Board of Directors. At present he is a member of the Boards of Directors of OAO RZD and PAO Novoship, Vice President and Board Member of the Russian Union of Industrialists and Entrepreneurs, President of the Russian Chamber of Shipping, and Chairman of the Supervisory Council and Honorary President of Admiral Nevelskoy Maritime State University.



Sergey Frank
Chairman of the Board of Directors of PAO Sovcomflot
Born in 1960.
Education: Admiral Nevelskoy Far Eastern Higher Marine Engineering College, specialising in Maritime Navigation; Far Eastern State University, specialising in Jurisprudence. Academic degree: Candidate of Technical Sciences.



Alexander Abramov
Member of the PAO Sovcomflot Board of Directors
Born in 1957.
Education: Moscow Institute of Railway Engineers; Institute of Retraining and Advanced Training under the Government of the Russian Federation.

He began his career path in 1979, worked as a foreman and master at the wagon depot of Moscow Railways. Beginning in 1981, he was engaged in Komsomol work. In 1991 he became the Chairman of the Moscow Coordinating Council of the regional chapter of the Russian Union of Youth. From 1997, he was engaged in banking business. In 1997 he was appointed as Head of Government Relations - First Vice President of Alfa-Bank CIB and Deputy Chairman of the Executive Board of OAO Alfa-Bank. In 1999 he became Deputy Head of the Russian Presidential Administration and a year later Secretary of the State Council of the Russian Federation. He was Assistant to the President of the Russian Federation from 2004 to 2012 and Adviser to the President of the Russian Federation in 2012-2013. Since 2016, he has been Chief Adviser to the Chairman of the Council of the Central Union of Consumer Societies of the Russian Federation (Centrosoyuz of Russia)

Alexander Abramov was elected to the Board of Directors of PAO Sovcomflot in 2019.



Ilya Klebanov
Member of the PAO Sovcomflot Board of Directors
Born in 1951.
Education: M.I. Kalinin Leningrad Polytechnic Institute, specialising as Engineer-Electrophysicist; Matsushita School of Business, Japan.

During 1974-1977 he was employed at the Electron Production Association as Engineer. From 1977 to 1997 he worked in the Leningrad Optics and Mechanics Association, where he went all the way from a design engineer to Chief Executive Officer. In December 1997 he was appointed First Vice-Governor of Saint Petersburg - Chairman of the Committee for Economics and Industrial Policy. From 1998 he was Deputy Chairman of the Government of the Russian Federation, from 2001 Deputy Chairman of the Government of the Russian Federation - Minister of Industry, Science and Technologies of the Russian Federation and from 2022 Minister of Industry, Science and Technologies of the Russian Federation. During 2003-2011 he served as Plenipotentiary Representative of the Russian President for the North-West Federal District.

Between 2011 and 2019 Ilya Klebanov was Chairman of the PAO Sovcomflot Board of Directors; at present he is a member of the Company's Board of Directors. He also serves on the Board of Directors of PAO Transneft and heads the Boards of Directors of OOO Neftegazindustriya-Invest and AO SHVABE (GK Rostekh).

After graduating from the Maritime School, he served as third, second, then first officer on ships operated by the Transport and Reefer Fleet Directorate (Mortransflot) in Kaliningrad. In 1990 he was appointed as Senior Economist at VVO Sovfracht of the USSR Ministry of Merchant Marine. In 1992 he headed the Maritime Agency Sovfracht. Afterwards he was the representative of Sovfracht and Rosmorflot in Portugal. In 1997 he became Deputy Head of the Shipping Policy Department of the Ministry of Transport of the Russian Federation. During 1998-2002 he was representative of the Russian Ministry of Transport in Denmark. Between 2003 and 2011 he held various positions in the Russian Ministry of Transport: Assistant to the Minister, Head of the Shipping Policy Department, Deputy Director, Acting Director and then Director of the Department of State Policy for Maritime and River Transport. From 2013 he is President of the Russian Chamber of Shipping.

Alexey Klyavin has been a member of the PAO Sovcomflot Board of Directors since 2012. At present he is also a member of the Supervisory Board of FAU «Russian River Register» and a member of the Board of Directors of the Maritime Joint-Stock Bank.



Alexey Klyavin
Member of the PAO Sovcomflot Board of Directors (independent director)
Born in 1954.
Education: Kaliningrad Higher Engineering Maritime School, specialising as Engineer-Navigator.

Between 1995 and 1999 Mr Moorhouse was Executive V.P. of the Kvaerner Group and from 1999 to 2007 he was Executive Chairman of Lloyd's Register Group, the world's largest classification society: he was Chairman of the Lloyd's General Committee and Chairman of Lloyds Register, from 2006-2019 he served as Chairman of the Board of Directors and Chairman of the Nominations Committee at Braemar Shipping Services plc. From 2013 to 2019 he was Senior Non-Executive of the Board of Directors at James Fisher and Sons Shipping Services plc. At present he serves as a Trustee Director of Trafalgar House Trustees Limited and Vice Chairman of the Mission to Seafarers.

David Moorhouse has been a member of the PAO Sovcomflot Board of Directors since 2010.



David Moorhouse
Member of the PAO Sovcomflot Board of Directors
Born in 1947.
Education: University of London, London City University, Southampton University.
Academic degree: Doctor of Science. Life member of the UK Foundation for Science and Technology. Fellow of the UK Nautical Institute.



Lyubov Nisenboym
Member of the PAO Sovcomflot Board of Directors
Born in 1975.
Education: Russian State Humanitarian University; Kellogg School of Business at Northwestern University (U.S.), Master of Business Administration.

From 1998 to 2010 she worked as Senior Manager and then Director of the Audit and Risk Management Department at Deloitte and Touche CIS. In 2010 she was appointed as Director of Governance, Risk Management and Compliance at PricewaterhouseCoopers Russia. Between 2016 and 2018 she served as Director of Business Consulting at Pricewaterhouse-Coopers Tax and Advisory (Kazakhstan). Since 2018 she has been heading the Business Consulting Department of ANO «Analytical Center under the Government of the Russian Federation».

Lyubov Nisenboym was elected to the PAO Sovcomflot Board of Directors in 2019. At present she also serves of the Boards of Directors of AO MASH, AO FGK, PAO GTLK and AO TransTeleCom Company.

Between 2004 and 2011 she worked in commercial sector organisations and from 2009 to 2011 was engaged in teaching at the Lomonosov Moscow State University. In 2011 she started work as Assistant to the Head of the Federal Agency for State Property Management, later becoming the Head of its Department of Social and Cultural Sphere Organizations and Foreign Property and later the Head of Sectoral Organizations and Foreign Property. In January 2015she was appointed Adviser to the Minister of Economic Development of the Russian Federation.In April 2015 she was appointed Director of the Corporate Governance Department of the Ministry of Economic Development. In July 2018 she became Assistant to, and in December 2018, Deputy of the Minister of Economic Development.

Oksana Tarasenko was first elected to the PAO Sovcomflot Board of Directors in 2018¹. At present she also serves on the Supervisory Councils of Russian Agricultural Bank, VTB Bank, National Technology Initiative (NTI). She is a Member of the Boards of Directors of RUSNANOand the Management Company RUSNANO, the Management Company of Innovative scientific and technological centre of Lomonosov Moscow State University 'Vorobyovy Hills', AO RVK, AO Russian Hippodromes, Council Member of the Skolkovo Foundation, and of the Charity Foundation for the Reconstruction of the New Jerusalem Monastery.



Oksana Tarasenko
Member of the PAO Sovcomflot Board of Directors
Born in 1983.
Education: Lomonosov Moscow State University, specialising in Jurisprudence; Lomonosov Moscow State University, field of studies: Management. Academic degree: Candidate of Juridical Sciences.



Pavel Sorokin
Member of the PAO Sovcomflot Board of Directors
Born in 1985.
Education: Plekhanov Russian Academy of Economics, specialising in World Economy; University of London, degree in Finance and Financial Law.

In 2005 he held the position of Senior Auditor in Oil and Gas Sector at Ernst & Young. From 2007 to 2012 he worked in management positions in analytical departments within corporate investment units of Alfa-Bank and Unicredit. During 2012-2015 he headed the Russian and East European oil and gas sector analysis division at OOO Morgan Stanley Bank as its Vice President, Company and Market Research. From September 2015 to March 2018 he headed the Fuel and Energy Analytical Centre at the Russian Energy Agency of the Russian Ministry of Energy, which conducts analysis, prepares materials and provides information support for the key areas of the Ministry's activities. In March 2018 he was appointed Deputy Minister of Energy of the Russian Federation.

Pavel Sorokin has been a member of the PAO Sovcomflot Board of Directors since 2019.

At the beginning of his career he worked as Engineering Officer on vessels of the Amur River Shipping Company and then Sakhalin Shipping Company. From1994 to 2003 he was responsible for technical operation of the fleet in Sovcomflot Group divisions. In 2003 he became Technical Director of OAO Volga Shipping Company. In 2006 he headed OAO Volga-Baltic Company. In 2008 he was appointed Vice President of Fleet Operations at the Novorossiysk Shipping Company (OAO Novoship, SCF Group), and in a year he became President of the Company and a member of its Board of Directors. In 2012, he took the position of Executive Vice President and Chief Technical Officer of PAO Sovcomflot.

In 2019 Igor Tonkovidov joined the PAO Sovcomflot Board of Directors, becoming Chief Executive Officer and President of the Company. He is also a member of the Board of Directors of AO United Shipbuilding Company and a member of the Supervisory Board of the Russian Register of Shipping.



Igor Tonkovidov
Member of the PAO Sovcomflot Board of Directors
Born in 1964.
Education: Odessa Institute of Marine Engineers, specialising as Mechanical Engineer; University of London (U.K.), Master's degree in Financial Management; INSEAD Business School (France), AVIRA programme for top managers.

¹. On 26 June 2019, Oksana Tarasenko left the Board of Directors and was elected Member of the Board of Directors again at the Extraordinary General Meeting of Shareholders on 23 September 2019.



Yury Tsvetkov
Member of the PAO Sovcomflot Board of Directors
Born in 1965.
Education: Admiral Makarov Leningrad Higher Maritime Engineering School, specialising in Maritime Navigation; Academy of National Economy under the Government of the Russian Federation, professional retraining programmes «Enterprise Economics and Management» leading to Master of Management and “Economics and Public Finance”; Maastricht School of Management (the Netherlands); Columbia Business School (USA).

After receiving higher maritime education he served as fourth, third, then second officer on ships operated by the Baltic Shipping Company. In 1993 he moved to onshore work, becoming Lead Consulting Engineer and then Head of the Commercial Center at Kvant Production Association. Between 1996 and 2006 he held various positions in the Department of Expenditure Control in the National Economy at the Accounts Chamber of the Russian Federation. During 2008-2009 he was Senior Vice-President of OAO United Shipbuilding Corporation. In 2009 he was appointed as Vice-President – Head of Internal Audit Department at OAO Sovcomflot. From 2012 to 2018 he was a member of the Company’s Executive Board. In 2012 he headed the Novorossiysk Shipping Company (OAO Novoship, SCF Group) and was elected to its Board of Directors.

In August 2018 Yury Tsvetkov was appointed Deputy Minister of Transport of the Russian Federation - Head of the Federal Agency for Maritime and River Transport. Since 2019 he has been Deputy Minister of Transport of the Russian Federation. He joined the Board of Directors of PAO Sovcomflot in 2019. At present he is also a member of the Boards of Directors of the International Chamber of Shipping and PAO Novorossiysk Commercial Sea Port.



Walid Chammah
Member of the PAO Sovcomflot Board of Directors (independent director)
Born in 1954.
Education: American University in Beirut, Bachelor of Business Administration; American Graduate School of International Management, Master of International Management.

Mr Chammah held various management positions with Morgan Stanley Investment Bank from 1993. In 2010 he was appointed as Chairman and Chief Executive Officer of Morgan Stanley International. He retired as Company Chairman in 2012. At present he is Partner at Chammah & Partners.

Walid Chammah has been an independent member of the PAO Sovcomflot Board of Directors since 2015. At present he is also a board member of the American University in Beirut, a member of the British-American Business Council, an advisory board member at HEC Montreal, Advisor to Signa Holding GmbH, and Director of Augmenta Capital.

During 1989-1991 he was a People’s Deputy of the USSR and headed the Russian Federation Committee for Youth Affairs until 1996. Between 1996 and 2007 he worked in the Ministry of Economic Development and Trade of the Russian Federation as Department Head, Deputy Minister, State Secretary. From 2007 to 2010 he was Managing Director and Chairman of the Board of Directors of ZAO Troika-Dialogue Investment Company, where he headed the investment banking operations. In December 2010 he was appointed Deputy Mayor of Moscow in the Moscow Government for Economic Policy, responsible for overseeing budget preparation, government procurement, industrial policy and support for entrepreneurship, was involved in trade and service market regulation. In 2013 he became Rector of SKOLKOVO Business School; since 2016 he has been President of Moscow Management school SKOLKOVO.

Andrey Sharonov joined the Board of Directors of PAO Sovcomflot in 2014 as an independent director. At present he is also Chairman of the Board of Directors of OOO Managing Company NefteTransService and serves on the Boards of Directors of PAO PhosAgro, AO Medicine and EN+ GROUP PLC.



Andrey Sharonov
Member of the PAO Sovcomflot Board of Directors (independent director)
Born in 1964.
Education: Ufa Aviation Institute, specialising in Aviation Instrument Making; Russian Academy of Civil Service under the President of the Russian Federation, specialising in Jurisprudence. Academic degree: Candidate of Sociological Sciences.

The Chairman and members of the Board of Directors did not own shares in PAO Sovcom-flot during the reporting period. No transactions for the acquisition or disposal of Company shares were made by the Board of Directors members listed above.

Since 2006 PAO Sovcomflot has taken out liability insurance for members of the Board of Directors.

4.3.2 ACTIVITIES OF THE BOARD OF DIRECTORS IN 2019

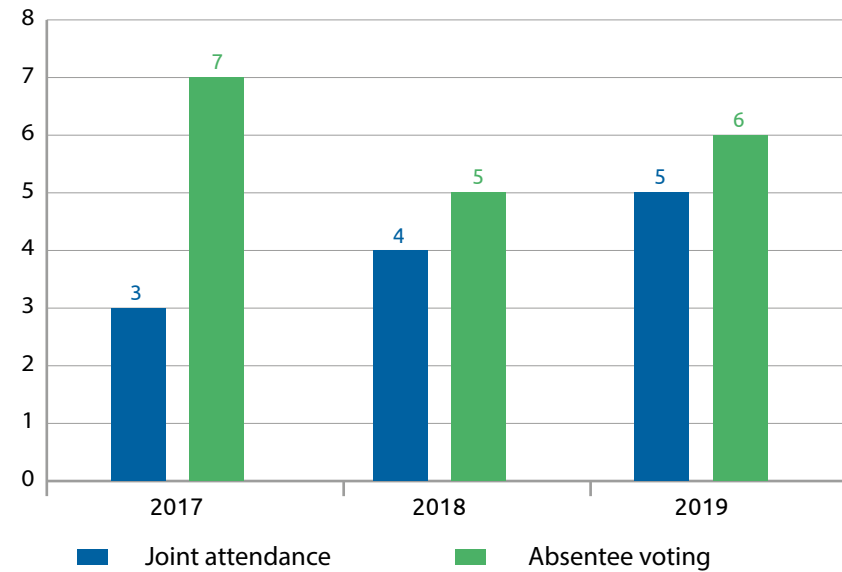
Given the strategic nature of the Board of Directors’ activities, meetings of the Board of Directors are held on a scheduled basis. An annual schedule of meetings is adopted at the first meeting following the election of the Board of Directors. The schedule includes matters that require regular consideration according to statutory and shareholder’s requirements. The Board of Directors also considers other matters at its meetings according to the requirements of the Company’s Charter and/or the law.

In 2019 the PAO Sovcomflot Board of Directors convened 11 times (including five meetings through joint attendance and six through absentee voting)¹.

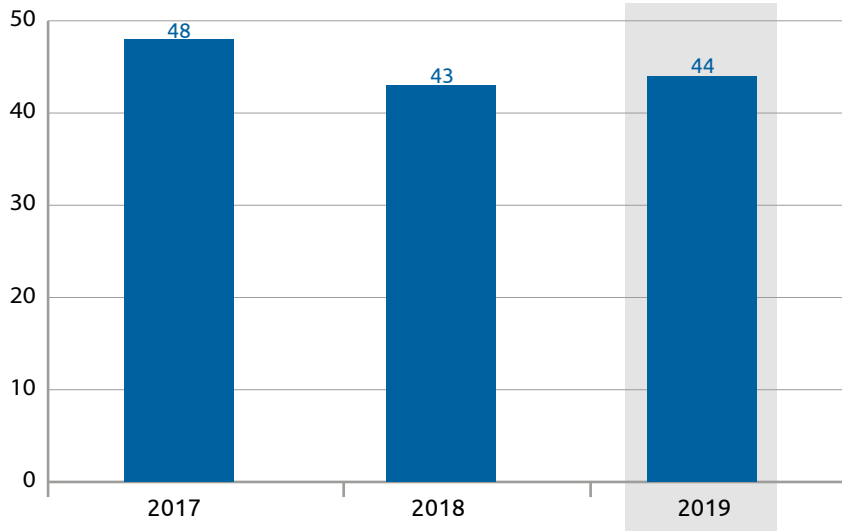
» The procedure for convening and holding meetings of the Board of Directors is determined by the Regulations on the Board of Directors. The work of the Board of Directors is performed in accordance with its competence, as determined under the Federal Law on Joint-Stock Companies and the PAO Sovcomflot Charter.

¹. Date of the meeting and number of the minutes: 29 January 2019, No. 178 (absentee voting); 26 February 2019, No. 179; 11 April 2019, No. 180; 29 April 2019, No. 181 (absentee voting); 23 May 2019, No. 182; 23 July 2019, No. 183 (absentee voting); 24 September 2019, No. 184; 31 October 2019, No. 185 (absentee voting); 12 November 2019, No. 186 (absentee voting); 10 December 2019, No. 187; 30 December 2019, No. 188 (absentee voting).

Number of Board of Directors meetings, 2017-2019



Number of issues considered by the Board of Directors, 2017-2019



In 2019 the PAO Sovcomflot Board of Directors considered 44 issues in the following main areas:

- Strategic management of Sovcomflot Group, including results of implementation of the long-term development programme in 2019, approval of the updated PAO Sovcomflot strategy up to 2025, review of quarterly reports on the implementation of the long-term development programme, and issues related to the updating of the long-term development strategy up to 2025;
- Notification of significant issues in PAO Sovcomflot operations;
- Preparation of PAO Sovcomflot for entering public capital markets, including amendments to the decision on the additional issue of securities and the prospectus of ordinary registered uncertified shares of the Company and amendment of the PAO Sovcomflot Charter;
- Approval of the financial plan (budget) of PAO Sovcomflot and Sovcomflot Group, summarizing performance for the reporting period, preparations for holding the Annual General Meeting of Shareholders, preliminary consideration of issues before submitting them to the General Meeting of Shareholders (for a shareholder decision);

- Supervision over the activities of PAO Sovcomflot executive bodies, including approval of performance targets and the results of their attainment by the executive bodies for the reporting period and for 2018;
- Consideration of issues related to compliance with Instructions issued by the President of the Russian Federation and the Government of the Russian Federation;
- Review of internal audit reports and approval of internal audit plans on a semiannual basis, consideration of the results of an external assessment of the internal audit function;
- Approval of internal documents, including Regulations on the Compensation of Personnel, and updating of internal documents relating to non-core assets and procurement procedures according to statutory and shareholder’s requirements;
- Supporting the organisational activities of the Board of Directors and establishing Committees of the Board of Directors.

Information on the most significant issues was disclosed by PAO Sovcomflot as material facts.

The report on the work of the Board of Directors and its committees in 2019 is planned to be reviewed at the meeting of the PAO Sovcomflot Board of Directors to be held in April 2020 in person. The self-assessment conducted by the Board of Directors and its committees determined that the performance of the Company’s Board of Directors and its committees corresponded to the needs for the Company’s development.

Participation of PAO Sovcomflot directors in Board of Directors meetings in 2019

Director	Participation in meetings	Total number of meetings
Members of the Board of Directors throughout 2019		
Ilya Klebanov	11	11
Alexey Klyavin	11	11
David Moorhouse	11	11
Sergey Frank	11	11
Walid Chammah	10	11
Andrey Sharonov	11	11
Members of the Board of Directors until 26 June 2019		
Viktor Olersky	5	5
Ivan Glumov	5	5
Oksana Tarasenko	5	5
Members of the Board of Directors since 26 June 2019		
Alexander Abramov	6	6
Lyubov Nisenboym	6	6
Pavel Sorokin	6	6
Yury Tsvetkov	6	6
Members of the Board of Directors since 23 September 2019		
Oksana Tarasenko	5	5
Igor Tonkovidov	5	5

At the first meeting following its formation, the Board of Directors, as a rule, elects a Chairman, whose powers are defined in the Regulations on the PAO Sovcomflot Board of Directors, and forms its committees.

Corporate governance

The Regulations on the PAO Sovcomflot Board of Directors stipulate that Board of Directors meetings shall be held in joint presence of the Board members. By a decision of the Chairman of the Board of Directors, decisions of the Board of Directors, depending of the significance of agenda items, may be adopted by absentee voting.

Decisions on issues that require preliminary assessment by the relevant committee of the Board of Directors are adopted taking into account recommendations of such committee.

Information about members of the Board of Directors and its activities is disclosed by PAO Sovcomflot on its official website in the [Corporate governance](#) section according to statutory requirements, provisions of the Corporate Governance Code recommended by the Bank of Russia, and the Company’s Information Policy.

4.3.3 ACTIVITIES OF THE BOARD OF DIRECTORS COMMITTEES IN 2019

Composition and competencies of committees of the Board of Directors as at 31 December 2019

Name	Composition	Competencies
Strategy Committee	1. Yury Tsvetkov - Chairman 2. Alexander Abramov 3. Alexey Klyavin (independent director) 4. Lyubov Nissenboym 5. Pavel Sorokin 6. Oksana Tarasenko 7. Andrey Sharonov (independent director)	Analysis of proposals and development of recommendations for the Board of Directors on priority areas of activity of Sovcomflot Group, including long-term plans and development strategies and programmes. Preliminary consideration and preparation of recommendations on compiling and adjusting the Sovcomflot Group budget and on drafting PAO Sovcomflot plans for financial and economic activities over the long term and for the current period. Elaborating proposals and recommendations on key performance indicators and the governance system for Sovcomflot Group financial activities. Elaborating proposals and recommendations on investment policy, increasing the capitalisation of Sovcomflot Group, and working with Sovcomflot Group securities. Elaborating proposals and recommendations on the PAO Sovcomflot dividend policy.
Audit Committee	1. Andrey Sharonov (independent director) –Chairman 2. David Moorhouse 3. Walid Chammah (independent director)	Control over the completeness, accuracy and reliability of the Company’s financial statements. Evaluation of candidates for the Company’s Auditor with submission of results of such evaluation to the Board of Directors as well as preparation of recommendations for the Company’s Board of Directors regarding the candidate for further approval of the Auditor by the General Meeting of Shareholders. Evaluation of the Company’s financial and economic activities, including assessment of management and financial reporting. Evaluation of the report of the Company’s Auditor prior to its presentation at the General Meeting of Shareholders. Control over the reliability and effectiveness of the risk management and internal control system and the corporate governance system, including assessment of the effectiveness of the Company’s risk management and internal control procedures and corporate governance practices and preparation of recommendations for their improvement; analysis and evaluation of compliance with internal documents on risk management and internal control and management of conflicts of interest. Review of the regulations on internal audit and the work plan of the internal audit department. Review of issues relating to appointment (dismissal) of the head of the internal audit department and amount of his/her compensation. Assessment of the effectiveness of the internal audit function and preparation of recommendations for the Company’s Board of Directors on control over activities and functional management of the Company’s internal audit department. Ensuring the independence and objectivity of the internal and external audit functions. Ensuring effective interaction between the Company’s internal audit department and external auditors. Elaborating recommendations for selecting an independent appraiser and conducting a valuation of proper-ty in cases provided for by current legislation. Assessment of the effectiveness of the system for reporting potential misconduct by the Company’s employees (including illegal use of insider and confidential in-formation) and third persons and other violations within the Company’s activity, as well as control over implementation of measures adopted by the Company’s executive management as part of this system.

Name	Composition	Competencies
HR and Compensation Committee (also performs functions of a nominations committee)	1. Walid Chammah (independent director) Chairman 2. David Moor-house 3. Andrey Sharonov (independent director)	Developing and regularly reviewing the Company’s policy on compensation of members of the Board of Directors, members of the collegiate executive body, the person acting as the sole executive body of the Company, as well as other key employees of the Company, including development of parameters for short-term and long-term motivation of members of the executive bodies, and overseeing the introduction and implementation of the abovementioned policy. Determining and adjusting the PAO Sovcomflot em-ployment policy. Determining the amount of compensation for members of the Company’s Board of Directors and Auditing Commission. Determining the amount of compensation for members of the collegiate executive body and the person acting as the sole executive body of the Company. Determining the terms and conditions of agreements with members of the collegiate executive body and the person acting as the sole executive body of the Company. Electing executive bodies of the Company. Carrying out a preliminary assessment of the work of the Company’s collegiate executive body and the person acting as the sole executive body of the Company based on annual results in accordance with the compensation policy. Developing conditions for early termination of employment contracts with members of the collegiate executive body and the person acting as the sole executive body of the Company, including all material undertakings of the Company and the conditions upon which they are given. Elaborating recommendations to the Board of Directors for determining the amount of compensation and principles of awarding bonuses to the Company’s Corporate Secretary, carrying out a preliminary assessment of the work of the Company’s Corporate Secretary based on annual results. Conducting a detailed formalised self-assessment or external assessment of the performance of the Board of Directors and its members and of the committees of the Board of Directors on an annual basis, determining priority areas for improvement of the work of the Board of Directors, including with a view to reinforce the Board of Directors. Maintaining interaction with shareholders, which should not be limited to major shareholders, with a view to elaborating recommendations to shareholders on voting for election of candidates to the Company’s Board of Directors. Planning personnel appointments taking into account the need to ensure continuity for members of the collegiate executive body and the person acting as the sole executive body of the Company, preparing recommendations to the Board of Directors regarding candidates for the position of Corporate Secretary, members of the collegiate executive body, the person acting as the sole exec-utive body of the Company and other key managers of the Company. Elaborating and submitting recommendations (opinions) to the Board of Directors on other issues in accordance with instructions from the Board of Directors.
Committee for Innovative Development and Technical Policy	1. Ilya Klebanov - Chairman 2. Alexey Klyavin (independent director) 3. David Moorhouse 4. Igor Tonkovidov 5. Yury Tsvetkov	Considering and approving the innovative development policy and programmes of Sovcomflot Group. Considering and approving R&D projects. Assessing state-of-the-art innovative technologies to be implemented in Sovcomflot Group. Elaborating the SCF Group’s technical policy. Elaborating the SCF Group’s innovative development policy. Improving the safety and service quality management system in Sovcomflot Group. Technical expert appraisals of investment projects.

When considering issues within their competence, the committees arrange for a detailed analysis of drafts proposed by management and the preparation of recommendations for the Board of Directors, thereby improving the quality of the decision-making process. The committees operate on the basis of respective regulations approved by the Board of Directors.

Report on the work of the Strategy Committee

During the reporting period two compositions of the Committee were in operation (elected by the PAO Sovcomflot Board of Directors decision dated 20 July 2018 (Minutes No. 173) and elected by the PAO Sovcomflot Board of Directors decision dated 24 September 2019 (Minutes No. 184)).

In 2109 the Committee considered and prepared recommendations for the Board of Directors based on the results of implementation of the long-term development programme of PAO Sovcomflot, preliminarily considered issues related to updating of the PAO Sovcomflot strategy up to 2025, and also reviewed the financial plan (budget) for 2020 and forecast for 2021-2022 on a preliminary basis¹.

¹. Date of the meeting and number of the minutes: 11 April 2019, minutes unnumbered; 9 December 2019, minutes unnumbered.

². Date of the meeting and number of the minutes: 28 January 2019, minutes unnumbered; 26 February 2019, minutes unnumbered; 13 March 2019, minutes unnumbered; 23 May 2019, minutes unnumbered; 14 November 2019, minutes unnumbered; 20 November 2019, minutes unnumbered; 10 December 2019, minutes unnumbered.

During the reporting period Strategy Committee members held working meetings with PAO Sovcomflot’s management on matters related to updating the long-term development programme of PAO Sovcomflot up to 2025.

Report on the work of the Audit Committee

During the reporting period two compositions of the Committee were in operation (elected by the PAO Sovcomflot Board of Directors decision dated 20 July 2018 (Minutes No. 173) and elected by the PAO Sovcomflot Board of Directors decision dated 24 September 2019 (Minutes No. 184)).

In 2109 the Committee considered and prepared recommendations for the Board of Directors for selecting an auditor and determining the amount of the fee to be paid to the auditor by PAO Sovcomflot, reviewed internal audit activity reports and work plans on a semi-annual basis, and also reviewed the results of an external assessment of internal audit and external audit report for 2018¹, the audit plan for 2018 and interim 2019 audit results.

During the reporting period Audit Committee members held regular working meetings with the auditors and the financial and accounting departments of PAO Sovcomflot.

Report on the work of the HR and Compensation Committee

During the reporting period two compositions of the Committee were in operation (elected by the PAO Sovcomflot Board of Directors decision dated 20 July 2018 (Minutes No. 173) and elected by the PAO Sovcomflot Board of Directors decision dated 24 September 2019 (Minutes No. 184)).

In 2019 the Committee prepared recommendations for the Board of Directors² regarding approval of performance indicators and the results of their attainment by the executive bodies in implementing the long-term development programme of PAO Sovcomflot, and also considered amending the Company’s internal documents related to employee compensation.

During the reporting period members of the HR and Compensation Committee held regular meetings on the above issues with members of the PAO Sovcomflot collegiate executive body.

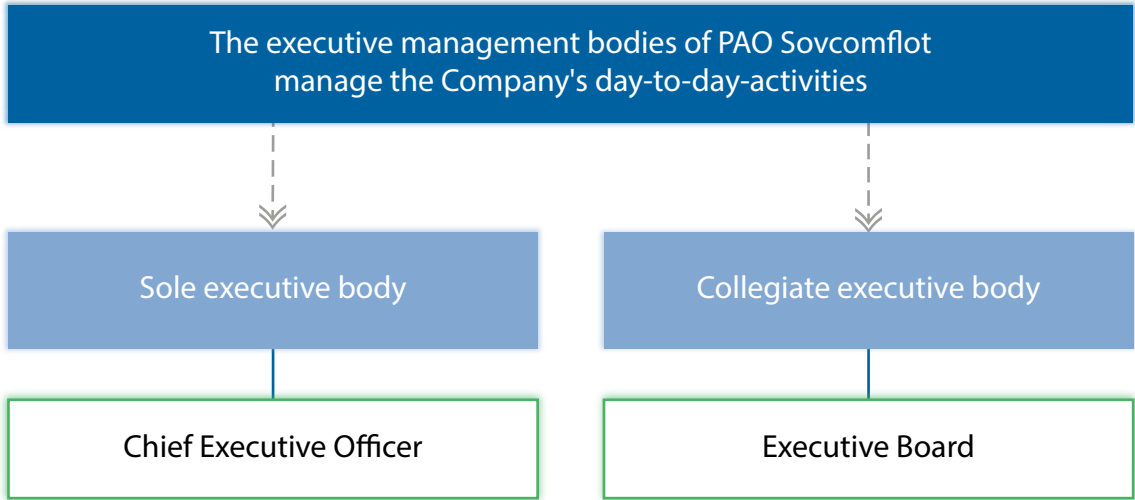
Report on the work of the Committee for Innovative Development and Technical Policy

During the reporting period two compositions of the Committee were in operation (elected by the PAO Sovcomflot Board of Directors decision dated 20 July 2018 (Minutes No. 173) and elected by the PAO Sovcomflot Board of Directors decision dated 24 September 2019 (Minutes No. 184)).

In 2019 the Committee reviewed the Sovcomflot Group’s activities to reduce carbon dioxide emissions³.

During the reporting period members of the Committee for Innovative Development and Technical Policy held regular working meetings with corresponding PAO Sovcomflot structural divisions on issues relating to the implementation of the innovative development programme.

4.4. Chief Executive Officer and Executive Board of PAO Sovcomflot



Sergey Frank was elected Chief Executive Officer on 4 October 2004 by an Extraordinary General Meeting of Shareholders of PAO Sovcomflot. The powers of Sergey Frank as PAO Sovcom-flot Chief Executive Officer were extended for five years by a resolution of an Extraordinary General Meeting of Shareholders (Instructions No. 432-r of the Federal Agency for State Property Management dated 19 June 2015). By a resolution of an Extraordinary General Meeting of Shareholders (Instructions No. 592-r of the Federal Agency for State Property Management dated 23 September 2019) the powers of Sergey Frank as PAO Sovcomflot Chief Executive Officer were terminated earlier and Igor Tonkovidov was appointed Chief Executive Officer of PAO Sovcomflot for a term of three years.

The rights and obligations of the Chief Executive Officer and members of the Executive Board on managing the current activities of PAO Sovcomflot are determined by Federal Law No. 208-FZ “On Joint-Stock Companies” dated 26 December 1995, other legal acts of the Russian Federation, the Charter, Regulations on the Management Bodies and internal regulations of PAO Sovcomflot, as well as contracts determining the rights and obligations of the Chief Executive Officer and members of the Executive Board concluded by each of them with PAO Sovcomflot.

The Chief Executive Officer exercises the functions of Chairman of the Executive Board, acts without a power of attorney on behalf of PAO Sovcomflot, and approves internal regulations governing production, technological, financial, accounting, business, HR, and occupational health and safety issues.

The Executive Board operates within the limits of its competence determined by the Charter and ensures the implementation of resolutions of General Meetings of Shareholders and Board of Directors of PAO Sovcomflot.

^{1.} Date of the meeting and number of the minutes: 28 January 2019, minutes unnumbered; 26 February 2019, minutes unnumbered; 13 March 2019, minutes unnumbered; 23 May 2019, minutes unnumbered; 14 November 2019, minutes unnumbered; 20 November 2019, minutes unnumbered; 10 December 2019, minutes unnumbered.

^{2.} Date of the meeting and number of the minutes: 26 February 2019, minutes unnumbered; 10 April 2019, minutes unnumbered; 23 May 2019, minutes unnumbered; 22 October 2019, minutes unnumbered; 10 December 2019, minutes unnumbered.

^{3.} Date of the meeting and number of the minutes: 10 December 2019, minutes unnumbered.

Information on members of the PAO Sovcomflot Executive Board

Chairman of the Executive Board



Igor Tonkovidov
Chief Executive Officer of PAO Sovcomflot
Born in 1964
Education: Odessa Institute of Marine Engineers, specialising as Mechanical Engineer; University of London (U.K.), Master’s degree in Financial Management; INSEAD Business School (France), AVIRA programme for top managers.
33 years of experience in the industry, 20 years in SCF Group

Executive Board Members



Evgeny Ambrosov
Senior Executive Vice-President of PAO Sovcomflot
Born in 1957
Education: Admiral Nevelskoy Far Eastern Higher Marine Engineering College, specialising in Maritime Navigation.
40 years of experience in the industry, 13 years in SCF Group



Vladimir Emelyanov
Vice President and Head of Strategic Planning and Development of PAO Sovcomflot
Born in 1969
Education: Moscow Finance Institute, specialising in International Economic Relations; Joint programme of the Madrid School of Business (Spain) and the Bauer College of Business of the University of Houston (USA), MBA.
8 years of experience in the industry and in SCF Group



Nikolay Kolesnikov
Executive Vice President and Chief Financial Officer of PAO Sovcomflot
Born in 1963
Education: Moscow Finance Institute, specialising in International Economic Relations; Instituto de Empresa (Madrid, Spain), International Executive MBA.
22 years of experience in the industry, 14 years in SCF Group



Callum Ludgate
Managing Director, Member of the Board of Directors of Sovcomflot (UK) Ltd.
Born in 1969
Education: Southampton University.
26 years of experience in the industry and in SCF Group

Marios Christou Orphanos
Managing Director of Sovcomflot (Cyprus) Limited
Born in 1972
Education: University of Manchester, degree in Accounting and Finance; Institute of Chartered Accountants in England and Wales.
24 years of experience in the industry, 19 years in SCF Group



Alexey Ostapenko
Vice President and Administrative Director of PAO Sovcomflot
Born in 1972
Education: Moscow State Institute of International Relations of the Russian Ministry of Foreign Affairs, specialising in Jurisprudence; Russian Government Finance Academy, specialising in Finance and Credit; London Metropolitan University, degree in Maritime Law.
22 years of experience in the industry, 17 years in SCF Group



Sergey Popravko
Executive Vice President and Chief Operating Officer of PAO Sovcomflot
Born in 1961
Education: Admiral Nevelskoy Far Eastern Higher Marine Engineering College, specialising in Maritime Navigation; World Maritime University (Sweden), degree in Shipping Company Management; Academy of the National Economy, DBA (Doctor of Business Administration); Swiss Business School (Zurich), DBA.
35 years of experience in the industry, 14 years in SCF Group

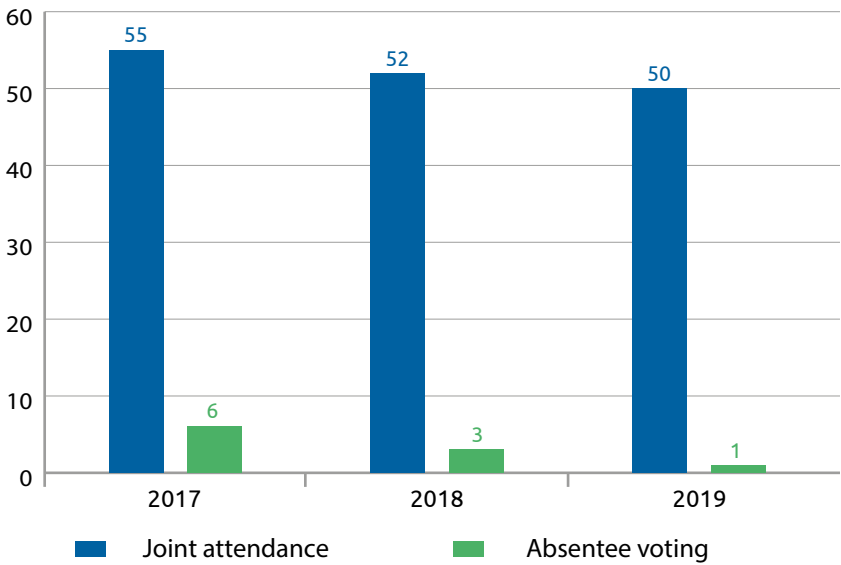


The Chief Executive Officer and members of the Executive Board of PAO Sovcomflot did not own shares in the Company during the reporting period, nor made any transactions for the acquisition or disposal of Company shares.

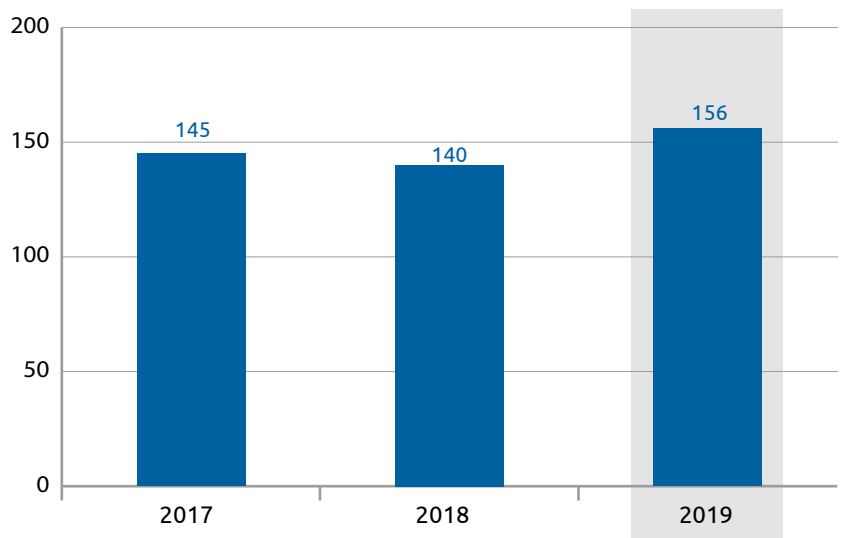
Based on a decision of the Executive Board, the following committees have been established and operate at Sovcomflot to preliminarily consider issues and prepare recommendations for the Executive Board and Chief Executive Officer:

- Committee for Maritime Safety, Environmental Protection, Quality and New Technologies;
- Finance Committee;
- Investment and Asset Management Committee;
- Freight Committee;
- Committee for Corporate Identity and Public Relations;
- Committee for Social and HR Policy and Corporate Ethics;
- Committee for Information Technologies;
- Insurance Committee;
- Committee for Technical Policy – Technical Council.

Number of Executive Board meetings, 2017-2019



Number of issues considered by the Executive Board, 2017-2019



The Executive Board adopted decisions on the following main areas of activity of PAO Sovcom-flot at its meetings in 2019:

- Implementing the development strategy of Sovcomflot Group;
- Renewing the Sovcomflot Group fleet and expanding the Group's participation in industrial projects;
- Improving the corporate and organisational structure of the Group;
- Expanding the social guarantees and benefit packages for fleet and onshore personnel;
- Charitable and sponsorship programmes of PAO Sovcomflot and Sovcomflot Group;
- Approval of internal documents falling within the competence of the Executive Board.

A total of

156

ISSUES

were considered at the Executive Board meetings in 2019.

One out of the 51 meetings of the Executive Board was held by absentee voting.

4.5. Auditing Commission

The competence and operating procedures of the Auditing Commission are determined by the Regulations on the Auditing Commission¹ approved by the PAO Sovcomflot General Meeting of Shareholders (Instructions No. 519-r of the Federal Agency for State Property Management dated 30 June 2016).

During the reporting period, the Auditing Commission operated in the composition elected by the Annual General Meeting of Shareholders on 29 June 2018 (Instructions No. 449-r of the Federal Agency for State Property Management dated 29 June 2018). At the Annual General Meeting of Shareholders held on 26 June 2019 (Instructions No. 373-r of the Federal Agency for State Property Management dated 26 June 2019) the Auditing Commission was elected in the same composition.

Composition of the Auditing Commission of PAO Sovcomflot as at 31 December 2019

Chairman of the Auditing Commission

Mikhail Kuznetsov
Born in 1979
Education: higher
OOO Topcompetence, Chief Executive Officer; OOO Corporate Development Centre, Chief Executive Officer

Members of the Auditing Commission:

Ivan Bezmenov
Born in 1980
Education: higher
Russian Ministry of Economic Development, Director of the Corporate Governance Department

Dmitry Vladimirov
Born in 1989
Education: higher
Federal Agency for State Property Management, Deputy Head of the Department of Property Relations and Privatisation of Major Organisations

Zakhary Dzhioev
Born in 1977
Education: higher
Deputy Head of the Federal Agency for Maritime and River Transport

» The Auditing Commission exercises control over the financial and business activities of PAO Sovcomflot, as well as its divisions and services.

¹ More detailed information about these regulations can be found on the Company's website in the [Corporate governance](#) section.

During the reporting period members of the Auditing Commission did not own shares in PAO Sovcomflot.

In 2019, compensation was paid to members of the Auditing Commission other than state officials in accordance with the Regulations on the Payment of Compensation and the Reimbursement of Expenses to Members of the PAO Sovcomflot Auditing Commission approved by Instructions No. 519-r of the Federal Agency for State Property Management dated 30 June 2016 and on the basis of Instructions No. 373-r of the Federal Agency for State Property Management dated 26 June 2019.

Compensation paid to the Auditing Commission members in 2019

Indicator	Amount, RUB thousand
Compensation for participation in the body exercising control over the issuer’s financial and economic activity	536
Salary	-
Bonuses	-
Commissions	-
Benefits	-
Reimbursement for expenses	-
Other types of compensation	-
TOTAL	536

All recommendations of the PAO Sovcomflot Auditing Commission based on the audit of financial and economic activities were implemented during the reporting period.

4.6. Compensation system for members of management bodies

4.6.1 COMPENSATION OF THE BOARD OF DIRECTORS MEMBERS IN 2019

In accordance with the Regulations on the Payment of Compensation and the Reimbursement of Expenses to Members of the PAO Sovcomflot Board of Directors (approved by Instructions No. 1158-r of the Federal Agency for State Property Management dated 30 June 2012, as amended by Instructions No. 478-r of the Federal Agency for State Property Management dated 29 June 2015 and Instructions No. 519-r of the Federal Agency for State Property Management dated 30 June 2016), and also according to Instructions No. 373-r of the Federal Agency for State Property Management dated 26 June 2019 and Instructions No. 592-r of the Federal Agency for State Property Management dated 23 September 2019, PAO Sovcomflot reimburses Board of Directors members for actual documented expenses incurred whilst exercising their duties as Board of Directors members.

In accordance with recommendations of the Russian Ministry of Economic Development and the Regulations on the Payment of Compensation and the Reimbursement of Expenses to Members of the PAO Sovcomflot Board of Directors, the directors of PAO Sovcomflot are paid compensation during their term of office for exercising their duties as Board of Directors members, with basic compensation set at RUB 3,200,000 a year. Compensation in the following amounts is paid each year in addition to basic compensation for the directors serving as Chairman of the Board of Directors, Chairman of a Committee of the Board of Directors, and Member of a Committee of the PAO Sovcomflot Board of Directors:

- For exercising the duties of the Chairman of the Board of Directors, in the amount of the basic compensation multiplied by a coefficient of 2.3.
- For exercising the duties of the Chairman of a Committee of the Board of Directors, in the amount of the basic compensation multiplied by a coefficient of 0.8.
- For exercising the duties of a Member of a Committee of the Board of Directors, in the amount of the basic compensation multiplied by a coefficient of 0.6.

Compensation amounts paid on top of the basic compensation are paid regardless of the number of PAO Sovcomflot Board of Directors Committees on which the member of the Board of Directors works.

Compensation is not paid to Board of Directors members who are employees of PAO Sovcom-flot or state officials and to other individuals who are not entitled under Russian law to compensation.

In accordance with the above Regulations on the Payment of Compensation and the Reimbursement of Expenses to Members of the PAO Sovcomflot Board of Directors as well as Instructions No. 373-r of the Federal Agency for State Property Management dated 26 June 2019 and Instructions No. 592-r of the Federal Agency for State Property Management dated 23 September 2019, PAO Sovcomflot Board of Directors members were paid compensation and reimbursement for expenses in the amount set forth in internal documents of PAO Sovcomflot.

Compensation of the Board of Directors members in 2019

Indicator	Amount, RUB thousand
Compensation for participation in a management body	43,601
Salary	-
Bonuses	-
Commissions	-
Benefits	-
Reimbursement for expenses	5,342
Other types of compensation	-
TOTAL	48,943

**4.6.2 COMPENSATION OF EXECUTIVE BOARD MEMBERS
AND THE CHIEF EXECUTIVE OFFICER IN 2019**

The Personnel Compensation Policy, as an integral part of the Company's HR management system, is aimed at preserving, enhancing, developing and unlocking the Company's staff potential, increasing labour productivity and loyalty of employees, and ultimately achieving the objectives defined by the Company's business strategy.

The compensation of the PAO Sovcomflot Executive Board members consists of:

- A fixed component (monthly salary);
- A variable component (compensation based on the Company's annual performance).

The size of a monthly salary is established by the employment contracts concluded at the time of employment.

Compensation based on the Company's annual performance is directly linked to the attainment of a number of key performance indicators defined according to the Long-Term Development Programme. The payment of annual bonuses acts as an incentive to attain the strategic goals of PAO Sovcomflot, and also serves to attract and retain the best industry specialists.

Starting from 1 January 2015, members of the Executive Board and some of seagoing and on-shore personnel are participating in the Long-Term Motivation Programme (LTMP) approved by the Board of Directors.

The Company's LTMP was developed in accordance with best industry practices in incentive compensation and enables the Company to attract and retain high-profile fleet management professionals, including masters and chief engineering officers who have unique competencies in ensuring a safe, reliable and quality transportation of energy resources and servicing of offshore oil & gas projects as well as an extensive experience of work on high-tech vessels in difficult climate and weather conditions.

The total duration of the LTMP is five years with remunerations to be paid in 2018, 2019 and 2020.

In accordance with the LTMP, employees are entitled to receive remuneration upon the attainment of target key performance indicators (LTMP KPIs) defined in the Company's Long-Term Development Programme. If LTMP KPI targets are not attained, entitlements accrued in accordance with the LTMP terms and conditions may be cancelled.

Target KPIs determining the contribution of Executive Board members to implementing the PAO Sovcomflot LDP for the 2019 financial year were approved by the Board of Directors decision dated 11 December 2018 (Minutes No. 177).

Compensation of Executive Board members and the Chief Executive Officer in 2019¹

Indicator	Amount, RUB thousand
Salary	207,917
Bonuses	310,238
Commissions	-
Benefits	-
Reimbursement for expenses	-
Other types of compensation	-
TOTAL	518,155

Target KPIs determining the contribution of Executive Board members to implementing the PAO Sovcomflot LDP for the 2020 financial year were approved by the Board of Directors decision dated 10 December 2019 (Minutes No. 187).

^{1.} According to the accounting (financial) statements of PAO Sovcomflot prepared under RAS.

« The stakeholders of Sovcomflot Group are institutions, organisations, or individuals whose interests are related to the activities of the Group, and which in turn have an impact on its performance.

4.7. Stakeholder communications

The main principles and priorities for stakeholder communications are enshrined in the Code of Corporate Governance¹.

In 2019 Sovcomflot Group actively communicated with its stakeholders, performing work in parallel aimed at expanding and developing existing platforms and mechanisms for joint dialogue. The key stakeholder groups of the Company as well as channels and formats of communication with them are set out in the table below.

Mechanisms for stakeholder communications

Stakeholder	Mechanisms for communications	
Shareholder and investors	<ul style="list-style-type: none">ShareholderInvestorsBanks and creditors	General meetings of shareholders Presentations, conference calls, meetings between management and the investment community, analyst and investor days Publication of press releases and other materials as part of the disclosure of information on Sovcomflot Group activities Disclosure of information and reporting
Business partners	<ul style="list-style-type: none">Group customersSuppliers and contractors	Meetings with clients, including industry conferences and seminars Conducting research among consumers Development of tender procedures for the procurement of goods and services Audit of suppliers in order to confirm their good faith and solvency Implementation of anti-corruption procedures Publication of market overviews
Employees	<ul style="list-style-type: none">Group employees	Meetings with employees held by management of all levels and HR department representatives Notifying employees through an intra-corporate communications system Material and non-material incentive programmes Development of the training and skill improvement system for seagoing and onshore personnel Use of feedback tools, employee surveys Consideration of submissions and complaints
State	<ul style="list-style-type: none">Russian legislative and executive state authorities	Participating in the activities of working groups and expert councils established under Russian state authorities
Society	<ul style="list-style-type: none">Academic institutionsHealth care institutionsIndustry veteransLocal population in the regions where the Company has a footprint	Charitable assistance to educational and health care institutions and veteran organisations Targeted training programmes for cadets of maritime universities Organising internships for cadets on the Company's vessels Organising internships for teachers of maritime universities Sponsoring sports events and competitions aimed at raising the prestige of the maritime profession
Russian and international professional organisations and NGOs	<ul style="list-style-type: none">Industry non-governmental organisationsBusiness associationsNGOs	Participation in the activities of working groups and boards of professional non-governmental organisations Implementing joint projects with the maritime community Supporting local projects and discussing individual issues related to the Company's activities
The media	<ul style="list-style-type: none">Print publicationsElectronic media (including television, the internet, and radio)	Regular publications in the media of materials dedicated to important events in the Group's activities Organising interviews with management Press conferences and other events for media representatives Participation of Group representatives as experts during the preparation of topical subjects on navigation issues in the Arctic region, development trends in various freight market segments, and shipbuilding

PAO Sovcomflot did not receive government support, including subsidies.

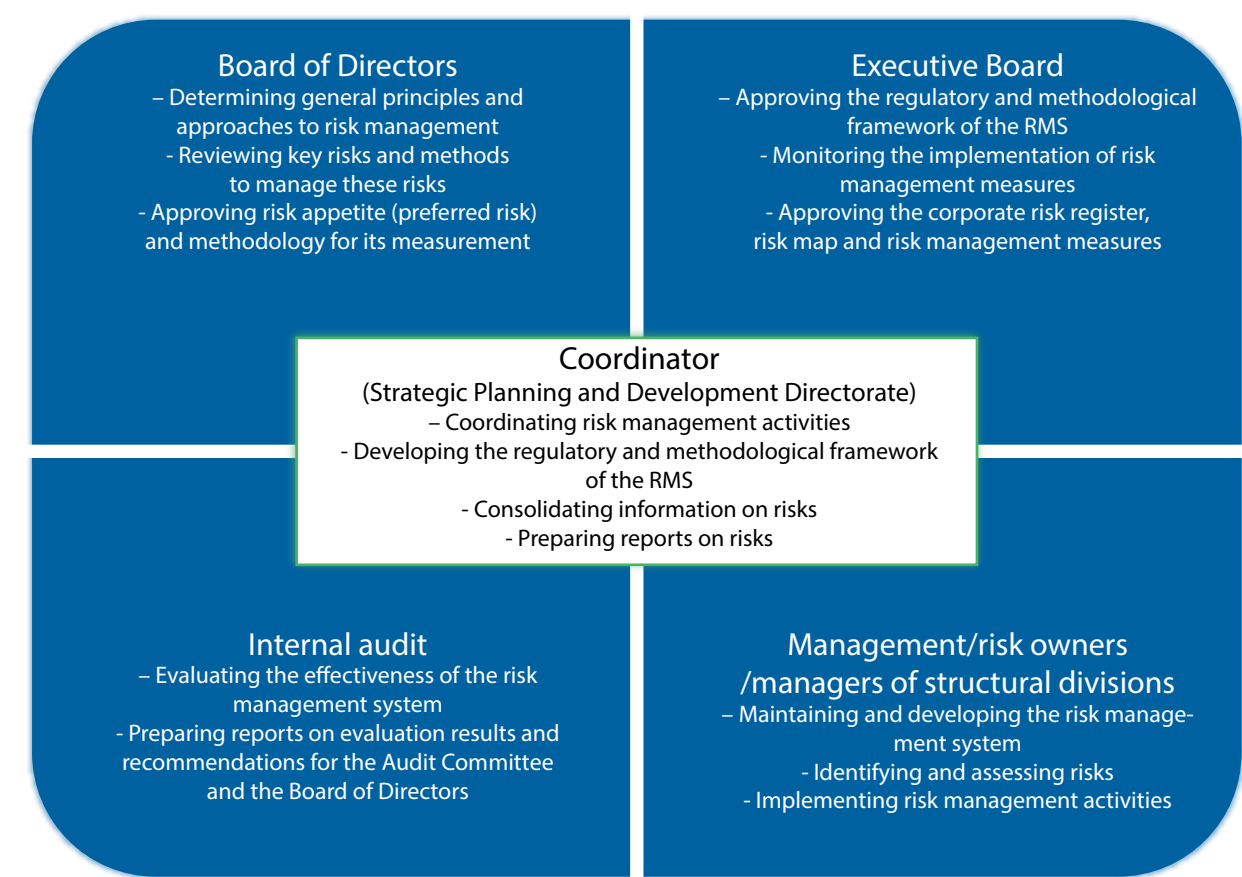
¹. The new version was approved by the PAO Sovcomflot Board of Directors decision dated 10 November 2015, Minutes No. 149.

4.8. Risk management system and internal control

4.8.1. RISK MANAGEMENT SYSTEM

Sovcomflot Group pays particular attention to risk management issues. Sovcomflot Group management and employees are responsible for establishing and operating the risk management system at all management levels.

Main functions and tasks of key participants in the risk management system



The committees set up by the Executive Board of the Company (Freight Committee, Investment Committee, Finance Committee, Technical Policy Committee – Technical Council, etc.) also carry out risk management within their respective competence.

The Audit Committee of the Company’s Board of Directors exercises control over the reliability and effectiveness of the risk management system, including assessment of the effectiveness of risk management procedures.

Risk management is carried out in accordance with the Regulations on the PAO Sovcomflot Risk Management System (the «RMS Regulations»). The document was developed in accordance with the Corporate Governance Code of the Russian Federation¹ and Guidelines for the Preparation of Regulations on the Risk Management System². The RMS Regulations were approved by the PAO Sovcomflot Board of Directors in November 2015³.

The RMS Regulations constitute a fundamental framework defining the tasks and objectives of the risk management system, the main principles of its operation, the structure of the risk management system, the allocation of responsibility between the parties involved and nature of their interaction, and the general approach to the organisation of the risk management system.

Pursuant to the RMS Regulations, the main purpose of the RMS is to create conditions for achieving the Company’s strategic and operating objectives and goals through regular identification, analysis and assessment of risks, development and implementation of measures to manage risks and maintain the risk level within limits acceptable for management and shareholders.

The report on the PAO Sovcomflot risk management system for 2019 was submitted for consideration to the management and supervisory bodies of PAO Sovcomflot⁴.

In accordance with the RMS Regulations, the Strategic Planning and Development Directorate is in charge of coordinating risk management activities. A description of key participants in the risk management system and their main responsibilities is provided in the table above.

Further development and improvement of the risk management system is based on the provisions set out in the COSO Enterprise Management - Integrated Framework, ISO 31000:2018 Risk management - Principles and guidelines, and ISO 31010:2011 Risk management - Risk assessment techniques.

KEY RISKS

The Group has created and regularly updates a register of risks that can have a significant impact on its operations. Risks are ranked by priority.

A list of key risks in provided in [Appendix 2](#) to this Annual Report.

In addition, the Company is implementing regular and one-time activities designed to prevent or minimise the likelihood of risks materialising. Such activities include maintaining high navigation safety standards, monitoring global freight markets, building and deploying state-of-the-art vessels and renewing the fleet in a timely manner, planning and implementing required environmental measures, monitoring amendments to shipping industry regulations, and improving HR policies.

The implemented risk management measures together with a proactive response to emerging threats enabled the Group to minimise their impact on operations during the reporting period.

4.8.2. INTERNAL CONTROL

The internal control system is managed by the Company’s governing bodies (the Board of Directors, executive bodies - the Company’s Executive Board and Chief Executive Officer), committees under the Board of Directors, committees under the Executive Board (Freight Committee, Investment Committee, Finance Committee, Committee for Technical Policy - Technical Council, etc.), Vice-Presidents, divisions in charge and the Company’s employees within their competence in accordance with the law and internal documents of the Company.¹

The efficiency of the internal control system is also bolstered by having independent directors on the Board of Directors and its committees. The current Board of Directors has three independent directors.

Effectiveness of the internal control system is assessed by the Auditing Commission and the Internal Audit Department².

» Sovcomflot Group has in place an internal control system, which ensures the effective implementation of the Group’s internal business processes and is directly linked with the risk management system.

^{1.} Approved by Bank of Russia Letter No. 06-52/2463 dated 10 April 2014.

^{2.} Approved by Russian Government Order No. ISh-P13-4148 dated 24 June 2015.

^{3.} Minutes of the Board of Directors No. 149 dated 13 November 2015.

^{4.} Minutes of the Executive Board No. 33(978) dated 12 September 2019, No. 36(981) dated 26 September 2019 and No. 45(990) dated 28 November 2019. The report on the risk management system for 2018 and 9M 2019 was reviewed at a meeting of the Board of Directors (Minutes No. 189 dated 31 January 2020).

^{1.} For more details see the relevant sections of this Annual Report.

^{2.} For more details see the relevant sections of this Annual Report.

4.9. Internal and external audit

4.9.1. INTERNAL AUDIT

The PAO Sovcomflot Internal Audit Department (before February 2009: Internal Control Department) created in April 2006 is a standalone structural division of PAO Sovcomflot and operates in accordance with the regulations on the department. Regulations on the Internal Audit Department of PAO Sovcomflot (approved by the Board of Directors decision dated 26 May 2017, Minutes No. 163), with the amendments and additions approved by the PAO Sovcomflot Board of Directors on 26 February 2019, Minutes No. 179);

The Internal Audit Department reports functionally to the PAO Sovcomflot Board of Directors and administratively reports to the PAO Sovcomflot Chief Executive Officer (Clause 2.1 of the Regulations on the Internal Audit Department). The Internal Audit Department is led by its head, who is appointed and dismissed by order of the PAO Sovcomflot Chief Executive Officer based on a decision of the Board of Directors (Clause 1.4 of the Regulations on the Internal Au-dit Department). The Internal Audit Department has four employees.

The Internal Audit Department operates on the principles of legality, independence and objectivity, is governed by the legislation of the Russian Federation, International Standards for the Professional Practice of Internal Auditing, and internal regulations of Sovcomflot Group, and interacts in its work with the Audit Committee under the Board of Directors, the Auditing Commission and external auditors of PAO Sovcomflot as well as its subsidiaries and affiliates (Clause 5.5. of the Regulations on the Internal Audit Department).

The main tasks and functions of the Internal Audit Department include:

- Assessing the efficiency and monitoring the adequacy of the internal control, risk management and corporate governance systems;
- Checking the financial, management and other reports for completeness and accuracy;
- Checking the effectiveness of control measures and other risk management activities;
- Controlling compliance by PAO Sovcomflot with internal documents, procedures and regulations, and their conformity to the current legislation of the Russian Federation;
- Putting forward proposals on ways to improve the efficiency of the existing internal control and risk management system, including the correction of identified violations and deficiencies (Sub-clauses 3.2 and 3.3 of the Regulations on the Internal Audit Department).

To increase the quality of the internal audit function, it is subjected to an external assessment on a regular basis, based on a Group management’s decision. An external assessment of the quality of the internal audit function in PAO Sovcomflot was conducted in December 2018 (the results of the external assessment were reviewed by the Board of Directors on 26 February 2019).

4.9.2. EXTERNAL AUDIT

In accordance with legislative requirements, PAO Sovcomflot holds an annual open tender for selecting an auditor to conduct an independent audit of the financial statements of PAO Sovcomflot prepared in accordance with Russian accounting laws and the consolidated financial statements of PAO Sovcomflot prepared under Federal Law No. 208-FZ “On Consolidated Fi-nancial Statements” of 27 July 2010. For this purpose a tender commission is created and open tender procedures are carried out.

The tender is open, and the notice of tender and related tender documentation are published ac-cording to the procedure prescribed by law. Interested participants meeting Russian statutory requirements for auditors are invited to participate. The winner will be the audit firm that receives the most points based on an assessment of the bids. If there is a tie, the audit firm that was the first to submit a bid will be deemed to be the winner.

INFORMATION ABOUT THE AUDITOR

Full business name: Ernst & Young Limited Liability Company.

Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.

Address: 77 Sadovnicheskaya Embankment, bldg. 1, Moscow 115035, Russian Federation.

Ernst & Young LLC is a member of Selfregulatory Organization of Auditors Association “Sodruzhestvo» (SRO AAS) located at 21 Michurinsky Prospect, bldg. 4, Moscow 119192. Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

» The accounting (financial) statements of PAO Sovcomflot for 2019 prepared in accordance with Russian accounting laws and the consolidated financial statements prepared in accordance with IFRS were audited by Ernst & Young LLC.

« Internal audit helps enhance the Company’s management efficiency and improve its financial and economic activities through a systematic and consistent approach to the analysis and evaluation of the risk management system and internal control as well as corporate governance as tools providing reasonable assurance that the Company’s objectives will be achieved.

5. SHARE CAPITAL AND PROFIT DISTRIBUTION



The dividend policy is based on maintaining an optimal balance of interests between PAO Sovcomflot and its shareholder when distributing net profit, and on the need to increase the investment appeal of PAO Sovcomflot and its capitalisation



100%

of the PAO Sovcomflot shares are federally owned. The Russian Federation, represented by the Federal Agency for State Property Management, is the sole shareholder of PAO Sovcomflot.

5.1. Structure of the share capital

The authorised share capital of PAO Sovcomflot as at 31 December 2019 amounted to RUB 1,966,697,210 and consisted of 1,966,697,210 ordinary registered shares with a nominal value of one rouble each.

In pursuance of the resolution of the extraordinary general meeting of shareholders dated 1 March 2018 (Instructions No. 95-r of the Federal Agency for State Property Management dated 1 March 2018) to increase the authorised capital by placing 280,956,743 additional ordinary registered shares, on 28 August 2018 the PAO Sovcomflot Board of Directors (Minutes No. 174) approved the decision on the additional issue of ordinary registered uncertified shares of PAO Sovcomflot and the securities prospectus for these shares. The said documents were registered by the Bank of Russia on 22 November 2018 (state registration number of the additional issue: 1-01-10613-A).

The decision on the additional issue of ordinary registered shares of PAO Sovcomflot and the securities prospectus for these shares were amended according to the decision made by the PAO Sovcomflot Board of Directors on 12 November 2019 (Minutes No. 186 dated 13 November 2019). The securities placement period was extended by one year. The amendments were registered by the Bank of Russia on 30 December 2019.

By a resolution of an extraordinary general meeting of shareholders (Instructions No. 70-r of the Federal Agency for State Property Management dated 13 February 2010) the Charter of PAO Sovcomflot was amended to increase the number of authorised shares to 655,565,735 as part of implementing the forecast plan of federal property privatization for 2020-2022 approved by Russian Government Order No. 3260-r dated 31 December 2019. The amendments to the Company’s Charter were registered on 26 February 2020.

5.2. Distribution of profit

In relation to the distribution of net profit and the payment of dividends, PAO Sovcomflot is governed by Instructions No. 774-r of the Russian Government dated 29 May 2006 “On Establishing the Position of the Shareholder – the Russian Federation in Joint-Stock Companies” as well as the Regulations on the Dividend Policy of PAO Sovcomflot.

Main areas of expenditure of the 2018 net profit

Area	Amount	Comment
Amount of dividends transferred to the federal budget	RUB 1,435 million	Paid from the 2018 profit
Amount allocated to the reserve fund	0	The reserve fund is fully formed
Amount allocated to other funds and their names	0	There are no other funds
Amount allocated to implement investment projects	RUB 1,435 million	Recapitalisation of subsidiaries to finance the vessels under construction (hulls S923 and S924)

A resolution regarding the allocation of the financial result for the reporting year¹, including the dividend payment for 2019, will be adopted at the Annual General Meeting of Shareholders in 2020.

¹ For more information on the income statement see section [3.4, Financial results](#).

1,435

US\$ MILLION

the amount of dividends
for 2018 paid by PAO
Sovcomflot in 2019

5.3. Dividend policy

The dividend policy is based on maintaining an optimal balance of interests between PAO Sovcomflot and its shareholder when distributing net profit, and on the need to increase the investment appeal of the Company and its capitalisation.

On 14 December 2012 the OAO Sovcomflot Board of Directors approved the Dividend Policy, which sets dividends at a level no lower than 25 % of the net profit attributable to the PAO Sovcomflot shareholder, in accordance with the audited consolidated financial statements prepared under IFRS, and converted into roubles at the CBR exchange rate at the end of the reporting period.

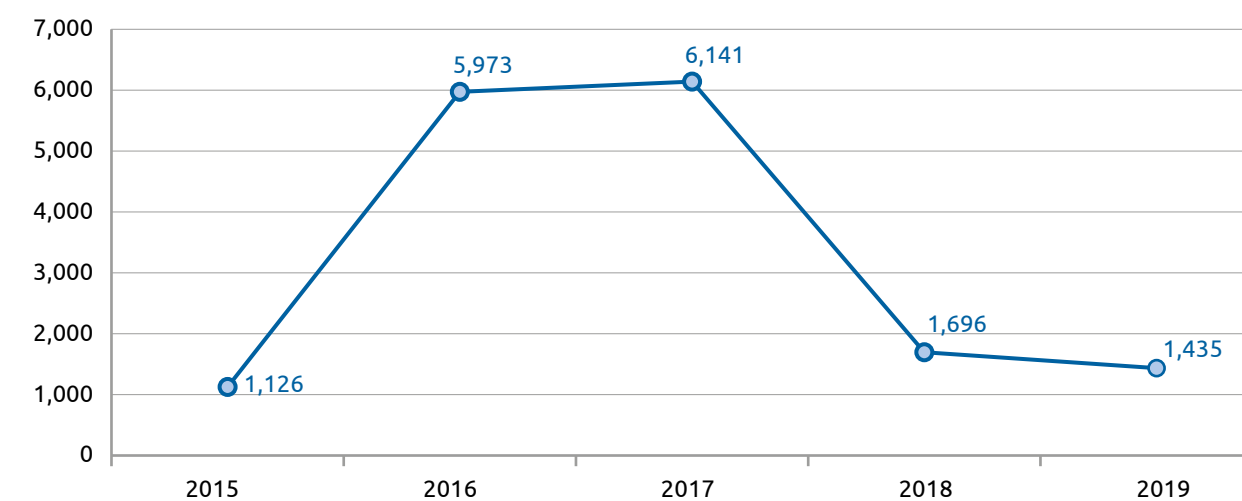
On 23 May 2019 the Board of Directors recommended that the General Meeting of Shareholders allocate RUB 1,435 million in dividend payments, based on the 2018 results¹. This amount of dividends accounted for 50 % of the RAS net profit of PAO Sovcomflot.

On 26 June 2019 the Annual General Meeting of Shareholders of PAO Sovcomflot adopted a resolution on the payment of dividends in accordance with recommendations from the Board of Directors². The amount of dividends was transferred in full by PAO Sovcomflot on 8 July 2019. Dividends based on the operating results for 2018 were paid in 2019 in full and by the deadlines set by Russian legislation. As at 31 December 2019 PAO Sovcomflot had no outstanding dividend payments.

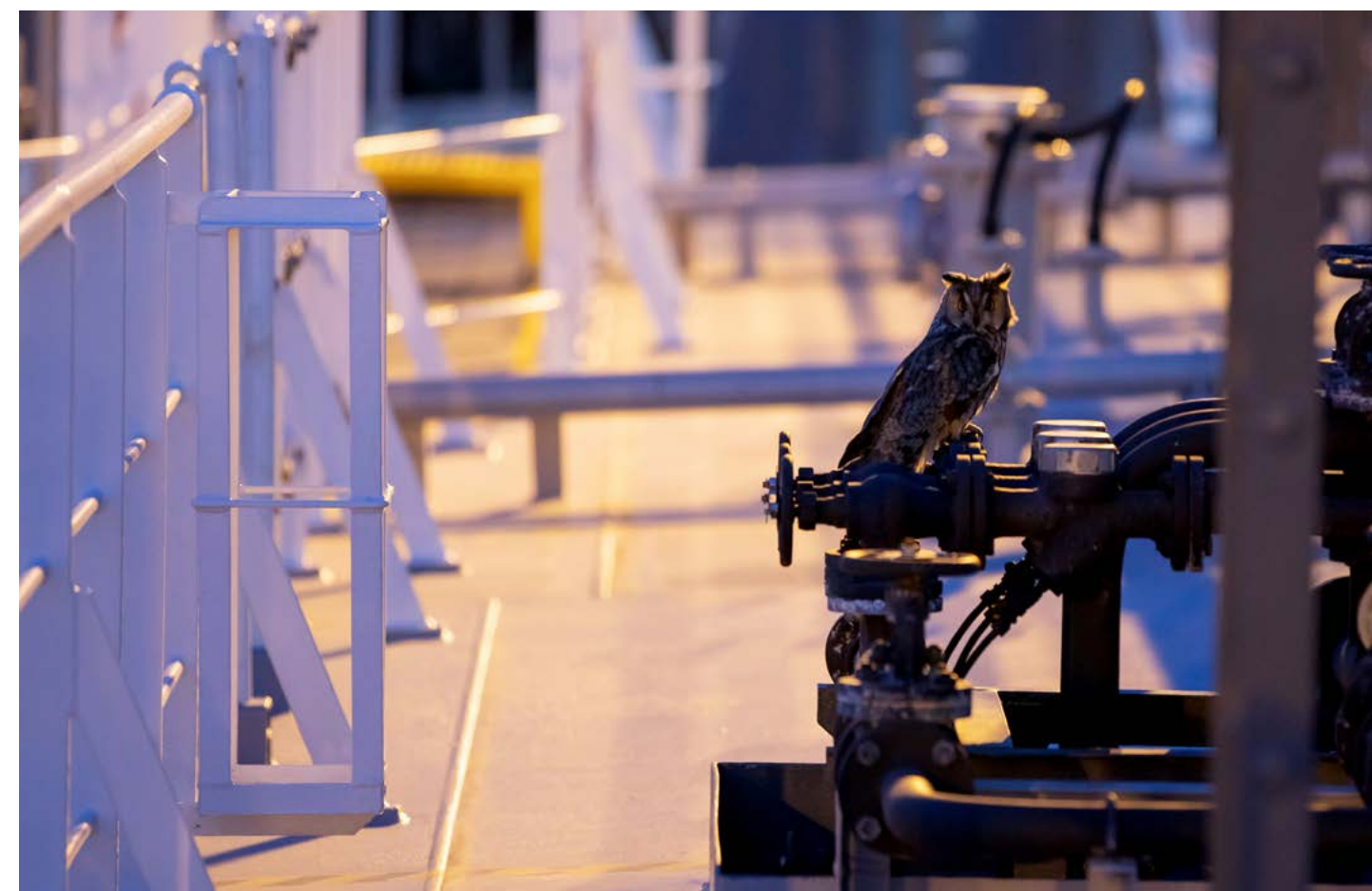
¹. Minutes No. 182 dated 27 May 2019.

². Instructions No. 373-r of the Federal Agency for State Property Management dated 26 June 2019.

Dynamics of dividend payments to the Russian Federation, 2015–2019 (RUB million)



On 7 April 2020, considering the financial results according to the consolidated financial statements of PAO Sovcomflot and its subsidiaries as at 31 December 2019 prepared under IFRS, the Board of Directors made a preliminary recommendation that the Annual General Meeting of Shareholders of PAO Sovcomflot allocate to dividend payment RUB 7,181 million, representing 50 % of the consolidated profit attributable to the owners of PAO Sovcomflot according to the IFRS financial statements prepared in accordance with the requirements of Federal Law No. 208-FZ «On Consolidated Financial Statements» dated 27 July 2010.



6. SUSTAINABLE DEVELOPMENT



As an industry leader, Sovcomflot adheres to the principles of sustainable development, giving priority to the safety of navigation, environmental protection, and maintaining a high quality service. Recognising its responsibility to the global community, Sovcomflot declares: Safety Comes First

6.1. Occupational health and safety

6.1.1. SAFETY MANAGEMENT SYSTEM AND SERVICE QUALITY

The system is based on advanced methods for ensuring the effective and safe technical operation of vessels and vessel equipment as well as personnel management, approved in accordance with requirements of the International Safety Management Code (ISM Code), the ISO 9001:2015 (Quality Management System) and ISO 14000:2015 (Environmental Management System) standards, the Ship Safety Management System based on the ISM Code, as well as the requirements of the Flag Administration, and best industry practices.

Sovcomflot Group works with top-class charterers, leading oil & gas companies and traders who care about their reputation and are demanding in the selection of their carriers. To meet customer expectations, the company strives to exceed standard requirements, as evidenced by the results of external inspections. The best proof of Sovcomflot Group's high level of reliability and qualification as a carrier is the willingness of key customers to sign long-term contracts with it. Today, SCF's ships operate under time charter contracts with most of the major global oil & gas companies.

Sovcomflot devotes much attention to raising the safety culture, which directly influences the number of incidents attributed to human factor. The company continuously monitors safety culture dynamics in the fleet, conducts specialised training sessions for seagoing personnel based on modern sociology science research to develop adequate skills in responding to emergencies with ship equipment.

The safety culture in the SCF fleet is based on augmenting Russian maritime traditions. Respect for knowledge and the experience accumulated over decades provides an undisputed competitive advantage. SCF Group's training centres in St. Petersburg and Novorossiysk, where SCF crews receive regular training and refresher courses, have become an important element in the system of professional development of marine personnel (for more details see section 6.2.2. [Professional development](#)).

Sovcomflot Group's specialists conduct research on the features of Arctic shipping, provide support for innovative projects, and participate in discussions of industry regulations as part of working groups. To improve the safety and efficiency of ice escort operations in the Arctic, Sovcomflot employees regularly conduct joint seminars with Atomflot for seagoing and onshore personnel. In addition, company specialists participate in meetings of the Maritime Safety Committee of the Russian Chamber of Shipping as well as meetings with representatives of the International Maritime Organization (IMO) and develop manuals on ISM Code implementation in collaboration with the International Chamber of Shipping (ICS).

SCF Management Services (Dubai) responsible for the technical management of the SCF Group fleet is certified by Green Award - an international environmental organisation that was the first in the world to introduce an environmental assessment system for ships based not only on the ship's technical characteristics, but also on the professional competence of the crew and management level. Sovcomflot Group has been participating in the Green Award scheme since 1996. Green Award auditors visit SCF's ships and offices annually. Obtaining approval requires that international conventional requirements governing navigation safety, quality and environmental protection are not just met, but substantially exceeded. At the end of 2019, 17 SCF Group's ships had Green Award certificates (which is dictated by the specifics of the region of operation).

Navigational safety and occupational health and safety issues are considered at various levels of Sovcomflot Group management. The Committee for Innovative Development and Technical Policy of the PAO Sovcomflot Board of Directors conducts a preliminary review, analysis, and elaboration of recommendations for improving the safety and service quality management system. The PAO Sovcomflot Executive Board has set up the Committee for the Safety of Navigation, Environmental Protection, Quality and New Technologies, which is responsible for establishing the areas, goals and objectives of the Group's policy related to occupational health and safety.

6.1.2. KEY OCCUPATIONAL SAFETY INDICATORS

Sovcomflot Group has been steadily retaining midpositions in rankings compiled by the International Association of Independent Tanker Owners (INTERTANKO) and Q88 in terms of occupational health and safety indicators, which is a good result and confirms quality of management and compliance with high safety standards.

Thee Lost Time Injury Frequency (LTIF) for the Group's fleet in 2019 was 0.45, 15% down on 2018 (the LTIF for the global tanker fleet, according to INTERTANKO data for 2019, averages 0.50).

The Total Recordable Case Frequency (TRCF) was 0.91, which is also lower by 11.7% compared to 2018 (the TRCF for the global tanker fleet, according to INTERTANKO data for 2019, aver-ages 1.13).



« The fleet is operated as part of an integrated safety management system (ISMS).

« In 2019 the average number of observations related to navigational safety and quality, made during inspections of SCF vessels by oil majors, was 2.44 per inspection. This, according to Q88 data, is significantly better than the industry average (2.91).

» 0.45
the LTIF value
(vs. 0.53 in 2018)

» 0.91
the TRCF value
(vs. 1.03 in 2018)

The professionalism of masters and crew members, as well as employees of onshore units, plays an important role in achieving goals set by the SCF Group’s development strategy.

6.2. Human resources and social programmes

6.2.1. EMPLOYMENT POLICY

In accordance with the Group’s employment policy, all crews in the SCF fleet are manned with maritime professionals whose training meets the world’s best standards.

The Employment Policy is reflected in a system of internal regulations geared to attract and select qualified personnel, provide professional development (training, career growth, talent pool), motivation and incentives for employees, and assess their performance.

The key areas of HR activities carried out by SCF Group are as follows:

- Enhancing the attractiveness of work on the Group’s vessels, combined with improving the system for selecting, training and manning of ships with competent crews;
- Optimising costs through benchmarking and aligning with industry averages;
- Further improving the personnel motivation system, implementing the Long-Term Motivation Programme designed for five years. At the start of the programme, in 2015, the best masters and chief engineers employed on Sovcomflot Group vessels became its participants.

The Sovcomflot Group’s total staff number is over 7,700. Due to the nature of the Group’s operations, fleet personnel (6,806 people as at 31 December 2019¹) make up the bulk (about 90 %) of the total Group headcount. Also, as at the end of the reporting period 109 cadets of maritime educational institutions were receiving practical training at sea in the SCF fleet.

Total number of fleet personnel by category

Category	As at 31 December 2019
Officers	3,059
Ratings	3,712
Seismic exploration group	35
Total	6,806

Sovcomflot Group is a reliable and stable employer, which complies with the legal requirements and strictly fulfils its financial obligations to employees. This is appreciated by our personnel, as evidenced by a consistently high retention rate in the fleet: in 2019 it was about 95.6% for officers and 94.3% for ratings. The retention rate for senior officers in 2019 was 98.2%. This shows that Sovcomflot Group is viewed as an attractive employer, and is able to retain skilled staff.

Sovcomflot Group pays special attention to the career growth and development of its employees. A performance appraisal of the Group’s employees based on key performance indicators is regularly conducted. Based on the results of this appraisal, 631 employees were promoted to a higher rank, including 126 senior officers, 273 junior officers and 231 ratings.

The Group has developed a programme to promote the most talented first officers and second engineers to the positions of master and chief engineer respectively.

6.2.2. PROFESSIONAL DEVELOPMENT

A shipping company’s performance largely depends on the skills of the seafarers entrusted with the navigation of high-tech vessels. Therefore, Sovcomflot actively participates in professional development of its employees.

The Group regularly organises seminars for fleet officers to exchange professional experience. In the reporting year 655 fleet officers participated in these seminars.

In 2019, 2,054 people completed 5,948 refresher courses at the company expense in accordance with the STCW convention and SCF’s requirements.

The SCF Group’s operating specifics create the need for subject matter specialists. As part of staff training and retraining, training is organised both through cooperation with state maritime educational institutions and at in-house training centres.

Cooperation with maritime educational institutions

In order to attract young skilled specialists, Sovcomflot Group fosters cooperation with Russian maritime educational institutions.

The cooperation agreements previously concluded with the country’s three main maritime universities: Admiral Ushakov Maritime State University (Novorossiysk), Admiral Makarov State University of Maritime and Inland Shipping (Saint Petersburg), Admiral Nevelskoy Maritime State University (Vladivostok) and Captain Varukhin Maritime Centre (Velikiy Novgorod) continued to be in effect in 2019.

Sovcomflot Group participates in the preparation and training of future specialists, provides support for teaching staff, helps organise navigation practice for cadets and internships for teachers on an annual basis, and takes part in renewing and modernising the material and technical base of universities.

As part of agreements on mutually beneficial collaboration with universities, Sovcomflot continues allocating funds to educational institutions, primarily for equipping classrooms and purchasing additional teaching aids, and supporting post-graduate students and young teachers.

»

425

PEOPLE

were hired
by Sovcomflot Group
in 2019

¹ Including the crews of the ships of third-party owners managed by SCF Group.

Main types of cooperation with maritime educational institutions

Type of cooperation	Nature of cooperation	Results of practical training
Navigation practice for cadets	Cadets and trainees from maritime universities receive hands-on training at sea on board the Group's vessels. HR Department specialists recruit the most promising graduates based on the results of pre-graduation practical training, the average degree score, and the characteristics of the academic institution.	In 2019, 175 cadets of maritime universities and 8 trainees from secondary vocational education institutions received practical training on board the SCF ships.
Targeted training of fleet specialists	SCF Group implements targeted training programmes for young fleet officers in collaboration with leading Russian maritime universities. The dedicated group of cadets at Admiral Makarov State University of Maritime and Inland Shipping in 2019 consisted of 18 people: 10 navigators, 5 ships engineers and 3 electrical officers. A similar dedicated group of 20 people was formed from third-year cadets at Admiral Nevelskoy Maritime State University.	In 2019 all cadets from dedicated groups received practical training on SCF Group vessels. 59 graduates of higher and secondary educational institutions were employed by SCF Group.
	As part of a joint project between SCF Group and Admiral Ushakov Maritime State University, a targeted enrolment programme for cadets within the quota for training funded from the federal budget has been operating at the University since 2014.	In 2019, 56 cadets from the targeted enrolment groups received practical training on board the SCF Group vessels.

5,755
SEAFARERS

received training in the SCF in-house training centres in all areas of training in 2019

In February 2019 the Sovcomflot Training Centre in St. Petersburg became the first in Russia to provide training for crews of ships subject to the IGF Code (International Code of Safety for Ship Using Gases or Other Low-flashpoint Fuels) under a program developed by this centre by taking into account the experience in operating Aframax tankers of the 'Green Funnel' series.

Sovcomflot personnel training system

Sovcomflot Group has created an in-house training system for fleet personnel meeting the highest international standards.

This system includes two in-house training centres:

- The Sovcomflot Training Centre in St. Petersburg, which provides training covering the whole range of maritime operations in the Arctic, including training on the skills needed for servicing oil platforms, navigation in northern latitudes, navigation in ice – both independently and accompanied by icebreakers, etc. The centre has been certified by classification society Russian Maritime Register of Shipping (RS) to ISO 9001:201 («Quality Management»).
- The Novoship Training Centre in Novorossiysk, which has been operational for more than 15 years and today is one of Russia's leading maritime educational institutions. The centre has been certified by RS to ISO 9001:2015 («Quality Management») and under the STCW 78 Convention, as amended («Quality Standards System»). According to the latest estimate by the auditors of the Centre, the Novoship Training Centre occupies 6 % of the domestic market for specialised training.

Sovcomflot Group stimulates professional development among its staff and encourages employees to pursue additional education in order to gain in-depth knowledge of modern technologies used in fleet operations. SCF's engineering staff have very high scientific capabilities: currently, 33 seafarers, who completed post-graduate studies and received the title of Candidate of Technical Sciences or are preparing to defend their theses, work in the Company's fleet.

6.2.3. PERSONNEL MOTIVATION

Incentive and motivation programmes broken down by personnel categories

Incentive and motivation programmes	
For fleet personnel	For onshore personnel
1. Long-term contracts for officers on gas carrier crews 2. Corporate pension programme 3. Bonus for successful results of inspections and other control measures 4. Incentives in the form of state, institutional, regional, and corporate awards 5. The Long-Term Motivation Programme for best masters and chief engineers of the SCF Group's vessels	1. Non-material and material incentives for the performance of particularly important assignments 2. Corporate pension programme 3. Incentives in the form of state, institutional, regional, and corporate awards 4. System of annual bonuses based on KPI performance 5. The Long-Term Motivation Programme for top and middle management

Social support for personnel

The social policy of the Group is implemented in accordance with the approved local regulations. The main goal of SCF Group's social programmes is to attract and retain personnel, and enhance the reputation of Sovcomflot as a socially responsible employer.

The management companies belonging to Sovcomflot Group regularly conclude collective bargaining agreements with the Seafarers' Union of Russia (SUR). A collective bargaining agreement is one of the basic tools of the personnel management system guaranteeing employees a decent wage and safe working conditions meeting state and international standards

Sovcomflot Group cooperates with the trade union in the following areas:

- Increasing wage levels;
- Preserving jobs;
- Ensuring safe working conditions;
- Insuring the fleet personnel of Sovcomflot Group against accidents during periods between voyages;
- Support programme for pensioners (one-time financial assistance, vouchers for health resort treatment, certificates of merit, and memorable gifts).

Non-government pension programme

The Pension Programme designed for Sovcomflot seafarers has been functioning since 2007, and is being implemented jointly with Ingosstrakh Life. Sovcomflot Group companies make monthly contributions from their own funds for seafarers in proportion to the length of service on a ship.

Upon reaching retirement age, the programme participants may receive the accumulated funds at any time, either in full or in monthly payments.

At present, rank and file staff are covered by another pension programme implemented by the Company in cooperation with the Seafarers' Union of Russia.

» About

97 %

of the Group's employees are covered by collective bargaining agreements (including 100 % of seafarers).

»

5,199
SHIPBOARD

employees of SCF Group were Pension Programme participants at the end of 2019

»

Since the beginning of the Programme,

517
SEAFARERS

have received pension payments totalling more than

127
RUB MILLION

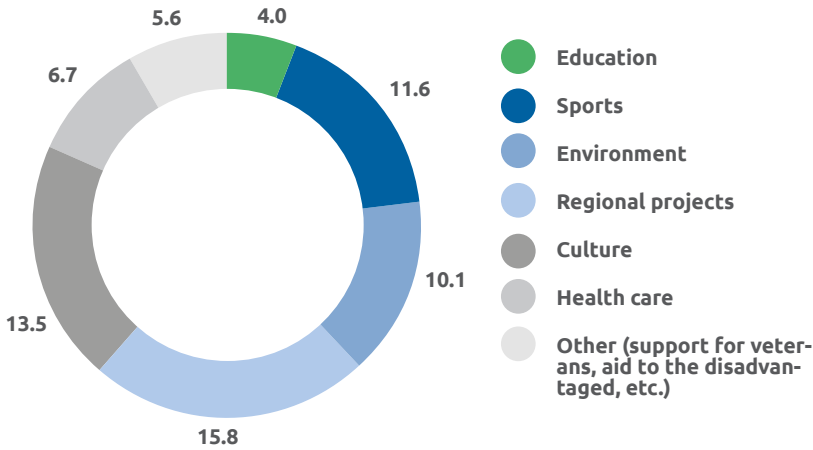
Sovcomflot Group adheres to the principles of socially responsible business practices. The Company's charity and sponsorship activities are aimed at supporting educational and social institutions, enhancing the prestige of the maritime profession, preserving the cultural and historical heritage and natural diversity of our country, and taking care of industry veterans.

6.3. CHARITY AND SPONSORSHIP

PAO Sovcomflot provides sponsorship and charity assistance in accordance with the relevant regulations approved by the PAO Sovcomflot Board of Directors on 17 December 2008 (Minutes No. 94) with the amendments and additions approved by the PAO Sovcomflot Board of Directors on 12 May 2010 (Minutes No. 104), 7 April 2015 (Minutes No. 143) and 31 July 2017 (Minutes No. 164).

In accordance with these regulations, the Company annually allocates for these purposes 1 % of the budgeted annual net profit calculated according to international financial reporting standards in US Dollars. In 2019 the Group's sponsorship and charity expenses amounted to RUB 67.3 million (US\$1.09 million¹).

Distribution of the Group's sponsorship and charity expenses in 2019 (RUB million)



Key areas of sponsorship and charity

Charitable assistance to St. Olga's Children's Hospital (Saint Petersburg)

Sovcomflot Group has been providing support to St. Olga's Hospital and allocating funds to equip the anaesthesiology and intensive care ward of the hospital with modern high-tech equipment for more than 10 years. In the past year, thanks to the support of Sovcomflot, the ward became the first in St. Petersburg to receive a craniocerebral hypothermia apparatus and non-invasive lung ventilation devices as well as other unique equipment, which allows seeing more patients, saving the lives of newborn babies and reducing the number of lethal outcomes, maintaining it steadily at about 1 %.

Charitable assistance to the Safonovo Orphanage Boarding School (Smolensk Region)

Sovcomflot has been providing support to the boarding school for 10 years, helping its team to prepare children for independent lives and create for them conditions similar to those found in a family. In 2019 the boarding school had 75 children under its care.

In addition to providing material support to equip the classrooms and living quarters with necessary equipment, in 2019 Sovcomflot continued to assist in children's socialisation, helping organise trips and excursions for educational, cultural, entertainment, spiritual and ethical purposes to Smolensk, Moscow, St. Petersburg, Outpost Museum, the Trinity St. Gerasim-Bolidno Monastery, and the 4th All-Russian Chess Tournament «Voskhozhdenie» in Sochi.

Active cooperation between Sovcomflot and the Youth Maritime League enables the school residents to regularly take part in the gatherings of young sailors in Children's Centre «Artek» on the Black Sea coast.

Charitable assistance to the St. Tikhon Orthodox Humanitarian University (Moscow)

Sovcomflot started cooperation with the university in 2016. With the Company's participation, in 2019 the university continued to implement the pilot project «Social and pedagogical assistance and adaptation of orphans and children deprived of parental care» at the Safonovo Orphanage Boarding School. Master classes, trainings and sightseeing and pilgrimage trips were organised for orphanage residents.

The university expects to use this experience in the future work with other social institutions, in particular, in the Arkhangelsk, Murmansk and Volgograd Regions.

67.3
RUB MILLION
the total amount of the Group's sponsorship and charity expenses in 2019

¹. At the official exchange rate set by the Central Bank of the Russian Federation as of 31 December 2019.

Support for professional maritime education

Sovcomflot attaches great importance to supporting maritime educational institutions. To this end, Sovcomflot for many years has been actively cooperating with the country’s key maritime universities: Admiral Makarov State University of Maritime and Inland Shipping (St. Petersburg), Admiral Ushakov Maritime State University (Novorossiysk) and Admiral Nevelskoy Mari-time State University (Vladivostok). For more information please see section 6.2.2. [Professional development](#).

Since 2016 Sovcomflot has been actively supporting the development of children’s sailing in Primorskry Krai through the Sailing School at the Admiral Nevelskoy Maritime State University. Experienced teachers instil in schoolchildren a love of the sea, help them learn the ABCs of the maritime profession on Optimist and Cadet class dinghies. Currently the school has about 50 students.

Charitable assistance to Captain Varukhin Maritime Centre (Velikiy Novgorod)

Sovcomflot is a member of the Centre’s Supervisory Council and annually provides active support for the development of this unique educational institution, allocates funds to outfit class-rooms and ships with multimedia and nautical navigation equipment.

In addition to material support, Sovcomflot helps the Maritime Centre organise meetings with Company’s representatives and deep-sea captains to provide professional orientation for pupils, gives them an opportunity to visit SCF Group’s training centres and museum in St. Petersburg and training grounds at the Admiral Makarov State University of Maritime and Inland Shipping. Sovcomflot’s annual support makes it possible not only to preserve the existing traditions of the children’s fleet, but also to form a basis for the development of innovative competencies required for work in a modern fleet.

Charitable assistance to the Youth Maritime League

Sovcomflot has been cooperating with the public organisation Youth Maritime League since 2016, continuing to develop one of the key areas of its sponsorship and charity activities - raising the prestige of the maritime profession and maritime sports. With the participation of Sovcomflot, over two thousand children and teenagers from 49 Russian regions have taken part in the gatherings of young sailors in children’s centres Artek (on the Black Sea coast) and Ocean (in Primorie) over the past 5 years.

During gatherings young sailors learn fleet skills, study the history and traditions of the Russian marine fleet, visit places of military glory. Thus, participants in the Far Eastern gathering visited combat ships of the Pacific Fleet, Admiral Makarov Pacific Higher Naval School and Admiral Nevelskoy Maritime State University. Participants in the gathering in the Artek visited memorable places in the Hero City of Sevastopol, the Military History Museum of the Black Sea Fleet, the Moskva cruiser. Besides, rowing and sailing regattas were organised in the follow-up of the gatherings. In November 2019, the best young sailors took part in the round-the-world voyage dedicated to the 200th anniversary of the discovery of Antarctica by Russian seafarers Faddey Bellingshausen and Mikhail Lazarev and the 75th anniversary of the Victory in the Great Patriotic War.

Charitable assistance to the Eurasian Centre for the Preservation of Far Eastern Leopards (Primorsky Krai)

Sovcomflot has been providing assistance to the Land of Leopard National Park and supporting the programme aiming to preserve and restore the population of the rarest leopard subspecies, the Far Eastern Leopard, for six years. With the Company’s assistance, a set of environmental and biotechnical measures is being taken in the National Park, material and technical support is provided to the ranger inspection service.

In 2019, through the support from Sovcomflot, the Far Eastern leopard photo-monitoring pro-gramme, which confirmed a steady growth in the subspecies’ population, was implemented in full. Currently, 126 animals live in the National Park. The centre’s specialists expect that the leopard’s conservation status can be changed from the «critically endangered» to «vulnerable» in 5-7 years. This actually means that the leopard will be saved.

Charitable assistance to the Centre for the Study and Preservation of the Amur Tiger Population (Primorsky Krai)

Sovcomflot has been financing the project for the study and preservation of the Amur tiger population in the Far East since 2016. The Amur tiger is the northernmost subspecies of tiger and is listed in the Red Book.

With Sovcomflot support, the centre continues to develop successfully its research programme, monitor the tiger population, increase the effectiveness of the tiger’s protection outside the specially protected natural reserves, carries out awarenessraising and educational activities and is improving the regulatory framework.

Charitable assistance to the Russian America Project (Fort Ross, US)

Since 2012, Sovcomflot, in collaboration with Transneft and Chevron, has been assisting in preserving Fort Ross, a monument of Russian history and culture in the U.S. This former Russian mercantile settlement in California was founded in 1812. Fort Ross is listed on the U.S. National Register of Historic Places and is a Historical Park of the state of California.

Fort Ross Dialogue, an international forum focusing on economic and cultural interaction between Russia and the U.S., is a continuation of this initiative. Forum events are held twice a year, in Russia and in the U.S. In 2019 the conference was hosted by the ancient town of Totma (Vologda Region), where Ivan Kuskov, the founder and first commander of Fort Ross, was born in 1765.

Sponsorship support for Vladimir Salnikov Cup (St. Petersburg)

Since 2009, Sovcomflot has been providing support for Vladimir Salnikov Cup, an international swimming tournament featuring the strongest athletes from Russia and around the world. These competitions have been included in the European Swimming League (LEN) calendar as a top-level international tournament for many years.

The 2019 tournament attracted over 300 athletes from different counties, who competed for 32 sets of awards. The triumphant at the Cup were Russian swimmers Maria Kameneva and Mark Nikolaev, who won the tournament Grand Prix and set new records.

Sponsorship support for the All-Russian Federation of Sailing

Sovcomflot Group has been providing sponsorship support to the Federation for 10 years. In doing so, it is paying particular attention to the development of children’s and youth sailing: new schools and sections have been organised in Russian regions, athletes are provided with support to participate in major competitions, such as the Russian Championship and national championship in the Optimist class. In addition, support from Sovcomflot helps the Federation train Russian Paralympic athletes.

Charitable assistance for the Victory Day-London project

For many years, Sovcomflot has been supporting the Victory Day-London project, organised in memory of the veterans of the Northern convoys, who during the Second World War helped ensure the delivery of military cargoes from the U.K. and the U.S. to the USSR northern ports of Arkhangelsk and Murmansk. As part of the project, Russian and British veterans meet annually aboard the Belfast cruiser, a museum ship and the last surviving ship in the U.K. that escorted Northern convoys.

October 2019 marked the 10th anniversary of Belfast’s restoration - a joint Russian-British project involving PAO Sovcomflot.

6.4. Environmental protection

6.4.1. ENVIRONMENTAL PROTECTION POLICY

All the new tankers of Sovcomflot Group have an additional class notation confirming their high environmental compatibility. This is another proof of the responsible attitude of PAO Sovcomflot to environmental issues.

In 2019 no major spills of chemicals, oil or fuel from the fleet were registered.

However, Sovcomflot Group’s operating specifics are associated with certain man-made environmental impacts, which include emissions from different types of fuel burned by ship engines and discharge of wastewater generated by ships.

The Sovcomflot Group environmental protection policy is an integral component of the overall management system for safe operation of ships and pollution prevention established in accordance with the International Safety Management Code, which lays down the principles, goals, objectives and key areas of the company’s environmental safety activities.

The main goals of the SCF environmental protection policy are to increase environmental sustainability of the fleet and to raise the capitalisation of the Group by ensuring the reliability and environmental safety of the services rendered.

The Environmental Protection Policy provides for the following activities:

- Environmental monitoring and audit;
- Programmes aimed at increasing the competencies and awareness of personnel in relation to environmental protection;
- Investment programmes to increase the energy efficiency and environmental safety of core operations;
- Environmental risk management programmes, which include risk identification and assessment, implementation of environmental protection measures, and monitoring and assessing their adequacy.

Sovcomflot Group has in place an environmental management system, which was established in accordance with the principles, goals and objectives of the Environmental Protection Policy, and encompasses the activity of all employees of the Group, from ships’ crews to top management.

The Sovcomflot Group’s Green Charter - a declaration of commitments on sustainable development - was approved in March 2019. The document pays special attention to measures to fight climate change by using innovative technologies and raising personnel awareness on environmental protection.

The Green Charter lays down the company’s commitment to develop an integrated management system based on compliance with industry-specific international regulations and standards so as not only to meet expectations of its stakeholders, but also to exceed them in some cases.

» The Sovcomflot Group fleet meets the highest environmental standards taking into consideration both current and planned norms and requirements.

Air emissions from marine vessels account for 5 to 10 % of global emissions from the transport sector.



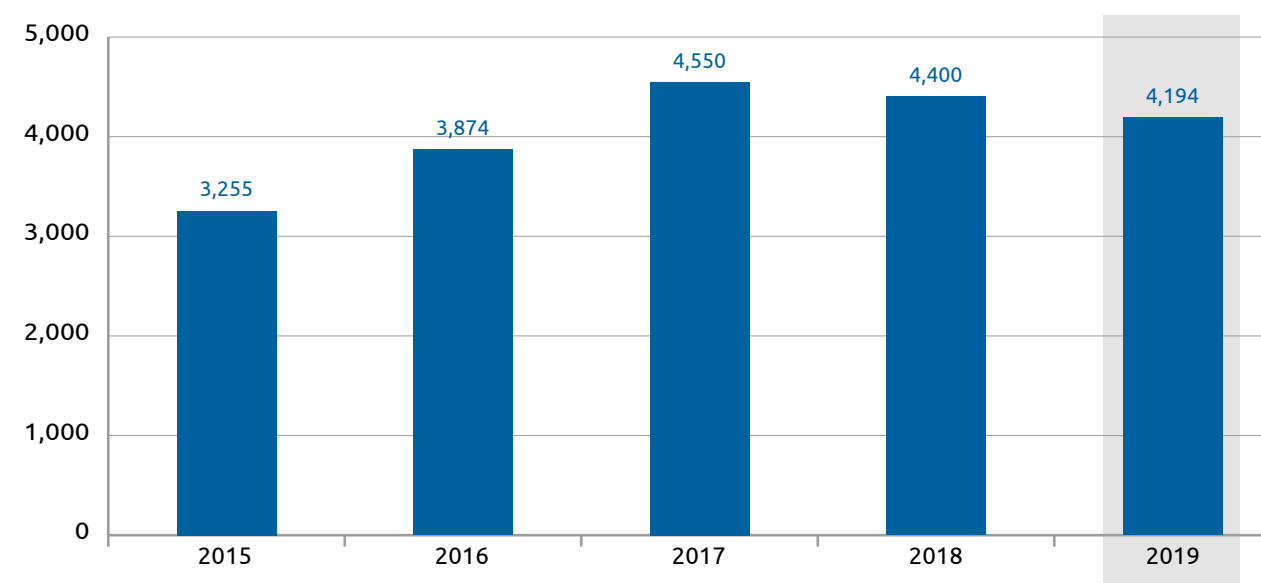
The company also declares its intention to continue implementing 'green' technologies, including energy saving ones, as well transparent energy consumption calculation methods. Reducing carbon footprint from the fleet while maintaining high economic indicators is one of the key directions for development specified in the document.

In the HR management area, the company confirms its commitment to create favourable working conditions and provide opportunities for enhancing professional skills to existing employees and trainees, ensure gender equality and access to qualified medical aid, and pursue a «zero tolerance» policy towards corruption in any form.

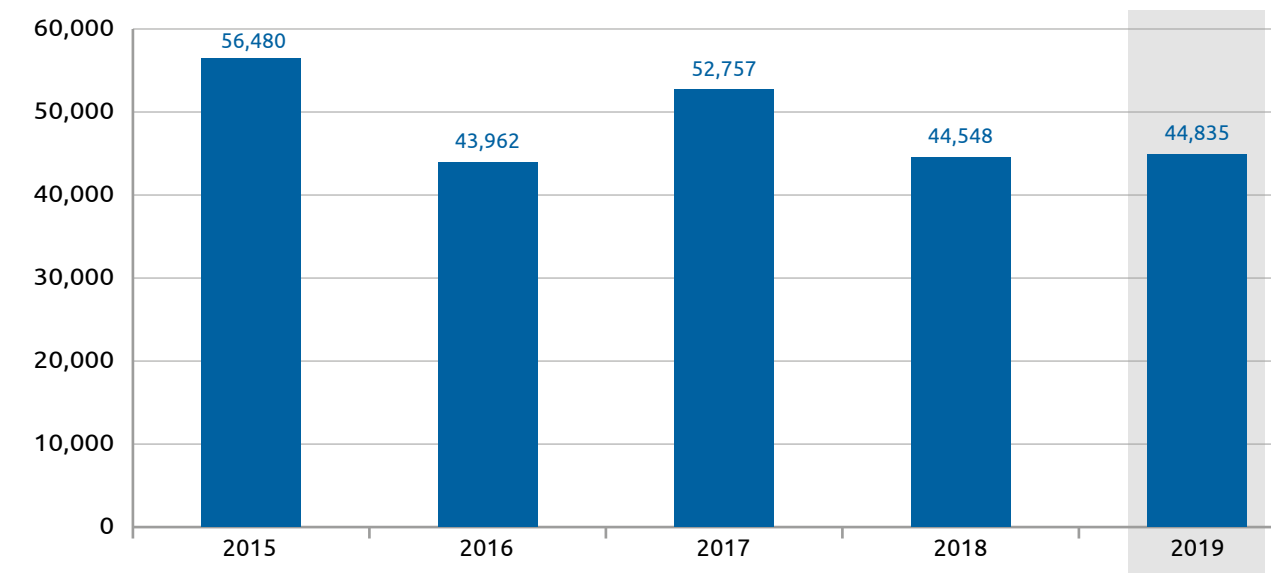
6.4.2. ATMOSPHERIC EMISSIONS

The basic components of atmospheric emissions are carbon, sulphur and nitrogen oxides formed during the combustion of fuel in ship engines.

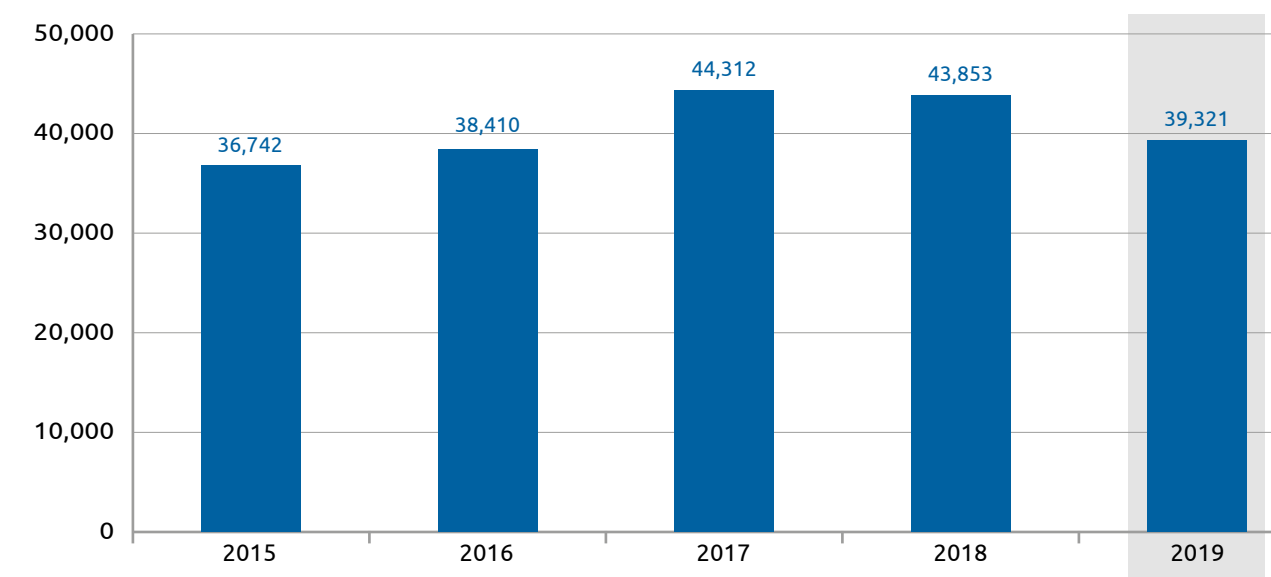
Dynamics of carbon dioxide (CO₂) emissions, 000'tonnes



Dynamics of nitrogen oxides (NO_x) emissions, tonnes



Dynamics of sulphur oxides (SO_x) emissions, tonnes



Energy Efficiency Operational Index (EEOI) is calculated as the total CO₂ emissions (in grammes) produced on a voyage per total tonne-miles generated (tonnes carried multiplied by distance travelled).

The table below shows the EEOI calculation for different types of Sovcomflot Group's vessels operating on voyage (spot) contracts. In this case, fuel for the vessels is procured by the ship owner or fleet operator. A decrease in the EEOI index means a decrease in carbon oxides emissions and, accordingly, in fuel consumption per tonne-mile, which characterises an improvement in the operational performance of the company's fleet.



The decrease in CO₂ emissions is due to the increase in the use of LNG fuel in 2019 to 17 % of the total fuel consumption of the fleet, which generally boosts the energy efficiency of ships.

EEOI index of Sovcomflot Group's ships in 2019, grammes/tonne-mile

Type of vessel	Standard	Actual
Suezmax tankers	≤ 12	8.346
Aframax tankers	≤ 15	10.118
LR2 product carriers	≤ 15	11.053
LR1 product carriers	≤ 16	13.294
MR product carriers	≤ 25	19.617
Handy product carriers	≤ 25	24.809
Panamax bulkers	≤ 12	7.580

The Group is constantly supplementing the fleet with energy efficient and environmentally sustainable, new generation vessels which incorporate innovative technologies, developing a Ship Energy Efficiency Management Plan (SEEMP) for each ship in order to control emissions of hazardous substances from exhaust fumes, and fulfilling EU Council Directive 2012/33/EU on the sulphur content of certain marine fuels, using ship fuel with a reduced sulphur content.

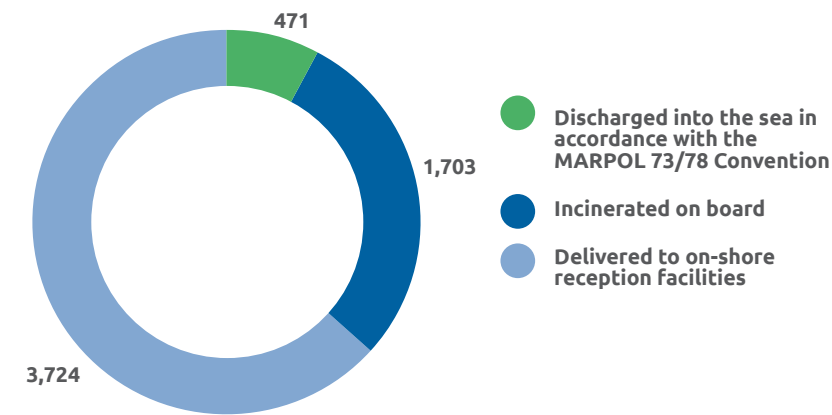
The commissioning of a series of SCF's new generation vessels, the world's first Aframax tankers specially designed to run on LNG, has significantly contributed to environmental protection. The tankers of this series have dual-fuel main and auxiliary engines and boilers. These vessels are fitted with Selective Catalytic Reduction technology, which enables compliance with Tier III regulations governing NOx emissions (Annex VI to the International Convention for the Prevention of Pollution from Ships) even when running on diesel fuel¹.

Advantages of LNG operation are most evident in figures: the reduction of sulphur oxides and soot emissions reaches 100 %, nitrogen oxides emissions decrease by at least 76 %, and carbon dioxide emissions - by up to 30 %¹ as compared with power plants running on conventional heavy fuel.

6.4.3. WASTEWATER AND WASTE MANAGEMENT

A key focus of the Sovcomflot Group's environmental protection activities is reducing the amount of wastewater and waste that gets into the World ocean during ship operations. These activities are carried out pursuant to the internal procedures of the Group, which encompass the requirements of both international and domestic legislation.

Amount of different types of garbage disposed of in 2019, cubic metres

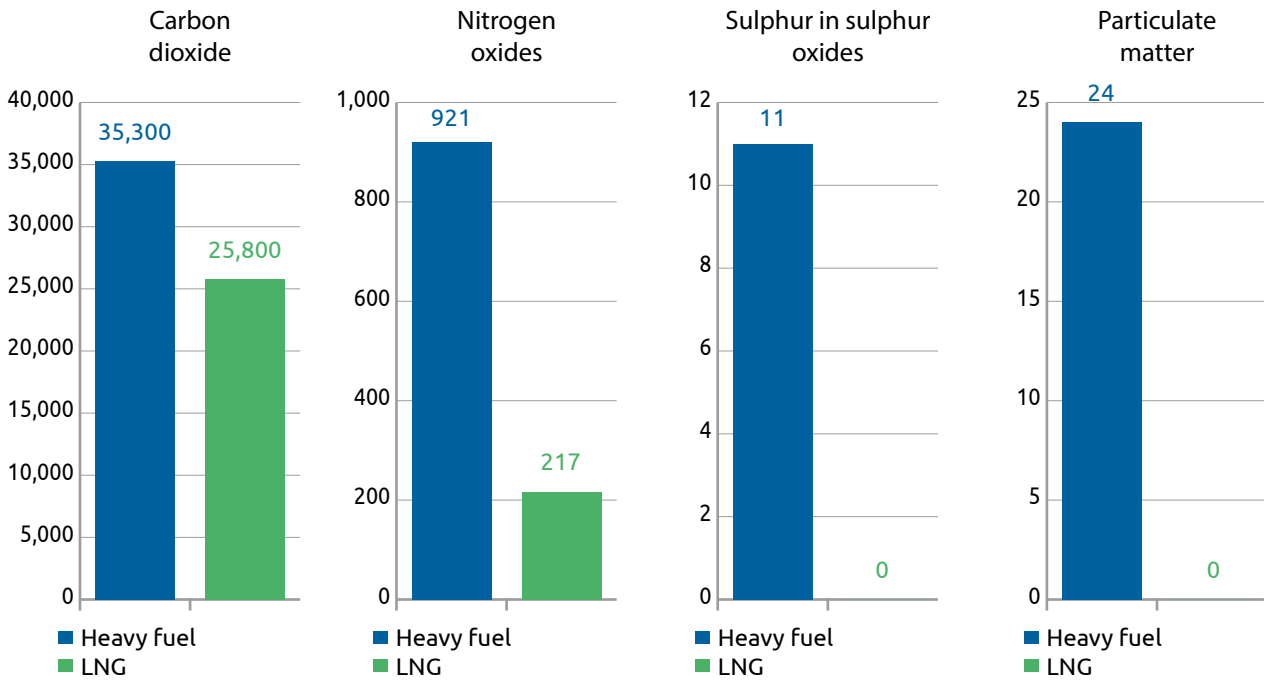


At present the Group's ships are equipped with wastewater treatment systems that combine me-chanical, chemical, physical-chemical (including electrolysis) and biological methods. All wastewater treatment plants on board ships have the approval of classification societies confirming compliance with the requirements of Annex IV of the MARPOL 73/78 Convention. The quality of discharged water is confirmed by a wastewater plant certificate (type approval certificate).

Management of garbage produced on ships during operations is also organised in strict compliance with Annex V of the MARPOL 73/78 Convention, which governs the prevention of pollu-tion by garbage from ships.

¹ The data were confirmed by the results obtained from the first year of operation of the 'Green Funnel' series of Aframax tankers. The reduction in nitrogen oxides emissions was 76-96 % depending on the navigation area.

Atmospheric emissions from an LNG-fuelled power plant, tonnes per year



¹ More detailed information about this series in presented in section 3.2 of this Annual Report, Investment activities.

6.4.4. ENERGY CONSUMPTION AND EFFICIENCY

Different types of ship fuel are the main types of energy resources consumed in production ac-tivities of the Group.

Dynamics of fuel consumption in 2017-2019

Type of fuel	2019		2018		2017	
Fuel oil, tonnes	958,550	70 %	1,025,791	72 %	943,112	75.6 %
Diesel fuel, tonnes	203,754	15 %	231,860	16 %	208,690	16.7 %
Gas engine fuel, tonnes	200,475	15 %	166,741	12 %	96,442	7.7 %
Total	1,362,779	100 %	1,424,393	100 %	1,248,244	100 %

Sovcomflot Group is actively engaged in work to implement a state programme for introducing gas engine fuel in the transport sector. In 2019, the share of gas engine fuel amounted to 15% of the total ship fuel consumption against 12% a year earlier. The increase in this indicator is due to an increase in the intensity of liquefied gas transportation and the addition of new-generation LNG fuelled vessels to the Group’s fleet. The SCF fleet includes five LNG tankers equipped with LNG powered internal combustion engines and four LNG tankers that also use gas fuel for the ship power plant (steam turbine). In addition, six dualfuel Aframax tankers using liquefied natural gas as the primary fuel were put into service in 2018-2019.

The consumption of energy resources such as heat, electricity, motor gasoline is associated with the operation of the Group’s onshore units. Their consumption volume is insignificant compared to consumption volumes of different types of ship fuel. The Group does not consume any types of energy resources other than those listed above.

6.4.5. ENERGY EFFICIENCY INITIATIVES

Energy consumption reduction is conducive to minimising negative impact on the environment. Sovcomflot Group has developed and implemented an Energy Conservation and Energy Efficiency Programme, aimed at promoting the efficient use of fuel and energy resources and improving the environmental sustainability of the fleet.

Energy audits are conducted regularly on the Group’s ships. These make it possible to obtain reli-able information on the consumption of fuel and oil and the energy efficiency of ship engines and boilers and to identify opportunities for saving energy and increasing the energy and envi-ronmental performance of ship power plants.

During 2019 Sovcomflot Group continued to implement a number of organisational and technical measures to promote efficient use of fuel and energy resources and improve the environmental sustainability of the fleet:

- Applying slow steaming on ships to reduce fuel consumption and emissions. The results show that operating vessels at low speeds (7-9 knots) with the main engine loads less than 40 % of MCR increases their energy efficiency and environmental compatibility.
- Determining and applying the optimal pitch angle for each vessel during ballast voyage to minimise fuel consumption on the main engine. The optimal trim was determined for each series of vessels by conducting thermal tests at various pitch angles. This measure has been used on the company’s ships since 2009.
- Monitoring and optimising energy consumption for heating and ventilation in the ship’s living quarters.
- Optimising the power output in navigation and harbour modes.
- Establishing an energy conservation culture on ships.
- Checking fuel and oil consumption meters on ships.
- Monitoring the state of the hull and its timely cleaning. The main engine propeller charac-teristics are monitored. The speed of the ship relative to land and water, weather conditions, and propeller slip are controlled on a daily basis. In some cases, underwater images are taken to evaluate hull fouling.
- Ensuring that the consumption of main engine cylinder oil does not exceed the recommended level.
- Determining readiness of the ship’s power plant depending on the harbour accommodation and requiring a minimum number of mechanisms working (instant readiness and readiness at a given time).
- Using innovative lowfriction hull coatings in order to increase the inter-docking period, reduce the hull fouling and eliminate the need for underwater hull cleaning between dockings.
- Replacing incandescent light bulbs with energysaving (fluorescent, including compact fluorescent, and LED) bulbs on a scheduled basis. Placing light sources (local lighting, spot lighting) in an optimal way. Increasing the light output of existing sources (replacing lamp shades, cleaning them, using more efficient reflectors). Using lighting control devices (motion sensors, light sensors, timers).

Sovcomflot Group realises its high responsibility for the quality of the environment and seeks to minimise its adverse impacts on the environment by introducing innovations, reducing energy con-sumption, and increasing staff qualifications.

15 %
the share of gas engine fuel in the total amount of ship fuel consumed (vs. 12 % in 2018)

ANNEXES

1. REPORT ON COMPLIANCE WITH THE PRINCIPLES AND RECOMMENDATIONS OF THE BANK OF RUSSIA CORPORATE GOVERNANCE CODE

This report on compliance with the principles and recommendations of the Corporate Governance Code of the Bank of Russia (the “CG Code”) was reviewed by the PAO Sovcomflot Board of Directors as part of its review of the 2019 Annual Report of PAO Sovcomflot at the meeting held on 7 April 2020.

The Company’s corporate governance system is based on the Russian statutory requirements and the application of international best practices of corporate governance.

The Company recognises that high standards of corporate governance are important not only for improving investment attractiveness, but also for enhancing the Company’s performance and reputation.

In the reporting year the Company continued work to improve the corporate governance model and practices. In accordance with the road map for implementing the CG Code at PAO Sovcomflot, approved by the Board of Directors in 2015, the following key internal documents that set forth the principles of corporate governance were updated (or re-approved): Amendments to the Charter of PAO Sovcomflot and Regulations on the Audit Department.

The form below contains the CG Code recommendations observed, partially observed or not observed by the Company, with justification of the reasons for non-observance and indication of alternative mechanisms used by the Company and its plans for improving the corporate governance system.

No.	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	Status of compliance with the principle of corporate governance	Explanations for deviations from criteria for assessing compliance with the principle of corporate governance
1.1	The company should ensure fair and equal treatment of all its shareholders in the course of exercise by them of their right to participate in management of the company.			
1.1.1	The company should afford its shareholders the best possible opportunities to participate in general meetings, create conditions for developing a well-grounded position on the items on the agenda of the general meeting and coordinating their actions, and also an opportunity to express their opinions on the issues discussed.	1. The internal document of the company approved by the general meeting of shareholders and governing procedures for holding a general meeting is available in the public domain. 2. The company provides convenient ways of communications with the public, such as the hotline, e-mail or online forum, which enable its shareholders to express their opinions on the agenda during preparations for holding the general meeting. The said actions were undertaken by the company before each general meeting held during the reporting period.	Not observed (non-applicable)	Considering the fact that the sole shareholder of PAO Sovcomflot is the Russian Federation, in accordance with Clause 3, Article 47 of the Federal Law «On Joint-Stock Companies», the provisions defining the procedure and time limit for preparing, convening and holding the general meeting are not applied, except for provisions regarding the time limit for holding an annual general meeting. In accordance with the Regulations on the Management of the Federally Owned Shares of Open Joint-Stock Companies and Exercising the Special Right for the Participation of the Russian Federation in the Management of Open Joint-Stock Companies (the “Golden Share”) approved by Russian Government Resolution No.738 dated 13 December 2004, the rights of the Russian Federation as a shareholder are exercised by the Federal Agency for State Property Management (Rosimushchestvo) as agreed with the Russian Ministry of Transport

No.	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	Status of compliance with the principle of corporate governance	Explanations for deviations from criteria for assessing compliance with the principle of corporate governance
1.1.2	Procedures for notification of the general meeting and provision of materials for it should enable the shareholders to get properly prepared for participation therein.	1. A notice of the general meeting was posted (published) on the website at least 30 days prior to the date of the meeting. 2. The notice of the meeting includes the venue of the meeting and documents required for access to the premises. 3. The shareholders were granted access to information on who proposed items for the agenda and nominated candidates for the board of directors and auditing commission of the company.		
1.1.3	During the preparation for and holding of the general meeting the shareholders should be able to freely and timely receive information about the meeting, to pose questions to members of the company's executive bodies and board or directors, and to communicate with each other.	1. In the reporting period the shareholders were given the opportunity to pose questions to members of the company's executive bodies and board of directors before and during the annual general meeting. 2. Positions of the board of directors (including special opinions recorded in the minutes) regarding each item on the agenda of the general meetings held during the reporting period were set out in the materials for the general meeting. 3. The company provided the eligible shareholders with access to the list of persons entitled to attend the general meeting from the date it was received by the company in all cases when general meetings were held in the reporting period.		
1.1.4	There should be no unjustified difficulties preventing shareholders from exercising their right to demand that a general meeting be convened, to nominate candidates to the company's governing bodies, and to place proposals on its agenda.	1. In the reporting period the shareholders were able to place proposals on the agenda of the annual general meeting at least during 60 days after the end of the corresponding calendar year. 2. In the reporting period the company did not refuse to include shareholder proposals on the agenda or candidates for the company's bodies due to typos and other insignificant flaws in such proposals.		
1.1.5	Each shareholder should be able to freely exercise his/her right to vote in a straightforward and most convenient way.	1. An internal document (internal policy) of the company contains provisions whereby each participant in the general meeting may, until the end of the general meeting, request that a copy of the voting ballot filled out thereby be certified by the counting commission.		

No.	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	Status of compliance with the principle of corporate governance	Explanations for deviations from criteria for assessing compliance with the principle of corporate governance
1.1.6	Procedures for holding a general meeting set by the company should provide equal opportunity to all persons present at the general meeting to express their opinions and ask questions that might be of interest to them.	1. At the general meetings of shareholders held in the form of joint presence during the reporting period a sufficient time for reports on the agenda was provided and there was sufficient time to discuss these issues. 2. Candidates to the company's management and control bodies were available to answer questions from shareholders at the meeting at which their candidatures were put to the vote. 3. When making decisions related to the preparation for and holding of general meetings, the board of directors considered using telecommunication systems to provide the shareholders with remote access to the general meetings during the reporting period.		
1.2	Shareholders should be given equal and fair opportunities to participate in the profits of the company by means of receiving dividends.			
1.2.1	The company should develop and put in place a transparent and clear mechanism for determining the amount of dividends and their payment.	1. The company has developed a dividend policy which has been approved by the board of directors and disclosed. 2. If the company's dividend policy uses indicators from financial statements to determine the dividend amount, the respective provisions of the dividend policy take into account indicators of consolidated financial statements.	Observed	
1.2.2	The company should not make a decision on the payment of dividends, if such decision, without formally violating limits set by law, is unjustified from the economic point of view and might lead to false assumptions about the company's activities.	1. The dividend policy of the company clearly indicates financial/economic circumstances in which the company should not pay dividends.	Observed	
1.2.3	The company should not allow the deterioration of the dividend rights of its existing shareholders.	1. In the reporting period the company did not take any action leading to the deterioration of dividend rights of its existing shareholders.	Observed	
1.2.4	The company should strive to rule out any ways through which its shareholders can obtain any profit (gain) at the expense of the company other than dividends and liquidation value.	1. In order to rule out any ways through which shareholders can obtain any profit (gain) at the expense of the company other than dividends and liquidation value, the company's internal documents establish control mechanisms ensuring that any persons affiliated (associated) with its major shareholders (individuals who have the right to dispose of the votes attached to voting shares) are identified in a timely manner as well as the procedure for approval of transactions therewith in instances where such transactions are not formally recognised under the law as interested party transactions.	Not observed (non-applicable)	In accordance with Article 81 of the Federal Law «On Joint-Stock Companies», the Russian Federation as the sole shareholder of PAO Sovcomflot is not deemed to be a controlling person and the affiliation criteria are not applied.

No.	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	Status of compliance with the principle of corporate governance	Explanations for deviations from criteria for assessing compliance with the principle of corporate governance
1.3	The corporate governance system and practices should ensure equal terms and conditions for all shareholders owning shares of the same class (category), including minority and foreign shareholders, as well their equal treatment by the company.			
1.3.1	The company should create conditions which would enable its governing bodies and controlling persons to treat each shareholder fairly, in particular, which would rule out the possibility of any abuse of minority shareholders by major shareholders.	1. During the reporting period, procedures for managing potential conflicts of interest of major shareholders were efficient and the board or directors paid due attention to the conflicts between shareholders, if any.	Not observed (non-applicable)	The sole shareholder of PAO Sovcomflot is the Russian Federation.
1.3.2	The company should not perform any acts which will or might result in artificial redistribution of corporate control.	1. There are no quasitresury shares or they were not voted during the reporting period.	Observed	
1.4	Shareholders should be provided with reliable and effective means of recording their rights in shares as well as with the opportunity to freely dispose of their shares in a non-onerous manner.			
1.4.1	Shareholders should be provided with reliable and effective means of recording their rights in shares as well as with the opportunity to freely dispose of their shares in a non-onerous manner.	1. The quality and reliability of the work carried out by the company's registrar in keeping the register of securities owners meet the needs of the company and its shareholders.	Observed	
2.1	The board of directors should be in charge of strategic management of the company, determine major principles of and approaches to creation of a risk management and internal control system, monitor the activity of the company's executive bodies, and carry out other key functions.			
2.1.1	The board of directors should be responsible for decisions to appoint and remove executive bodies, including in connection with their failure to properly perform their duties. The board of directors should also carry out supervision to ensure that the company's executive bodies act in accordance with the approved development strategy and main business goals of the company.	1. The board of directors has the powers set forth in the charter to appoint and remove members of executive bodies and determine the terms and conditions of contracts with them. 2. The board of directors reviewed the report(s) of the sole executive body and members of the collegiate executive body on the implementation of the company's strategy.	Partially observed	In accordance with the current Charter of PAO Sovcomflot, the authority to form the sole executive body and early terminate its powers is vested in the general meeting of shareholders - the Company's sole shareholder (Art. 12 of the Charter); the authority to form the collegiate executive body and early terminate its powers and to determine the remuneration and compensation for its members is vested in the Company's Board of Directors (Art. 12 of the Charter). The Board of Directors reviews reports from the Company's executive bodies concerning the implementation of the Company's strategy on a regular basis in accordance with the requirements of the Company's Charter.
2.1.2	The board of directors should establish basic long-term targets of the company's activity, evaluate and approve its key performance indicators and principal business goals, and evaluate and approve its strategy and business plans in respect of its principal areas of operations.	1. Items discussed at the board of directors meetings during the reporting period included the progress in implementation and updating of the strategy, approval of the company's financial and business plan (budget), as well as criteria and indicators (including intermediate indicators) of implementation of the strategy and business plans of the company.	Observed	

No.	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	Status of compliance with the principle of corporate governance	Explanations for deviations from criteria for assessing compliance with the principle of corporate governance
2.1.3	The board of directors should determine the principles of and approaches to creation of a risk management and internal control system in the company.	1. The board of directors determined the principles of and approaches to creation of a risk management and internal control system in the company. 2. The board of directors evaluated the company's risk management and internal control system during the reporting period.	Observed	
2.1.4	The board of directors should determine the company's policy on remuneration and/or reimbursement (compensation) of expenses for members of the board of directors and executive bodies and other key managers of the company.	1. The company has developed and implemented a policy (policies) on remuneration and/or reimbursement (compensation) of expenses for members of the board of directors and executive bodies and other key managers of the company, which was approved by the board of directors. 2. Matters related to the said policy(ies) were considered at meetings of the board of directors held during the reporting period.	Observed	
2.1.5	The board of directors should play a key role in prevention, detection and resolution of internal conflicts between the company's bodies, shareholders and employees.	1. The board of directors plays a key role in prevention, detection and resolution of internal conflicts. 2. The company has established a system designed to identify transactions involving a conflict of interest and a system of measures aimed at resolving such conflicts.	Observed	
2.1.6	The board of directors should play a key role in procuring that the company is transparent, discloses information in full and in due time, and provides its shareholders with unhindered access to its documents.	1. The board of directors has approved regulations on information policy. 2. The company has designated persons responsible for implementation of the information policy.	Observed	
2.1.7	The board of directors should monitor the company's corporate governance practices and play a key role in its material corporate events.	1. The board of directors reviewed the company's corporate governance practices during the reporting period.	Observed	
2.2	The board of directors should be accountable to the company's shareholders.			
2.2.1	Information about the board of directors' work should be disclosed and provided to the shareholders.	1. The company's annual report for the reporting period includes information on attendance of meetings of the board of directors and committees by individual directors. 2. The annual report contains information on principal results of evaluation of the work of the board of directors performed during the reporting period	Observed	
2.2.2	The chairman of the board of directors must be available to communicate with the company's shareholders.	1. The company has a transparent procedure, which enables its shareholders to pose questions to the chairman of the board of directors and express their positions on them.	Observed	

No.	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	Status of compliance with the principle of corporate governance	Explanations for deviations from criteria for assessing compliance with the principle of corporate governance
2.3	The board of directors should be an effective and professional governing body, which is able to exercise objective independent judgments and make decisions in the best interests of the company and its shareholders.			
2.3.1	Only persons with impeccable business and personal reputation as well as knowledge, skills and experience necessary to make decisions that fall within the competence of the board of directors and are required for the effective performance of its functions should be elected to the board of directors.	1. The procedure for evaluating the performance of the board of directors adopted in the company includes, but is not limited to, assessment of the professional qualifications of the board members. 2. In the reporting period the board of directors (or its nominating committee) evaluated candidates to the board of directors to determine whether they have the necessary experience, knowledge and business reputation, whether there was any conflict of interest, etc.	Observed	
2.3.2	Members of the company's board of directors should be elected through a transparent procedure enabling the shareholders to obtain information about candidates sufficient for them to get an idea of their personal and professional qualities.	1. In the case of each general shareholders meeting with an agenda including the election of the board of directors held during the reporting period, the company presented to the shareholders biographical details of all candidates to the board of directors, the results of evaluation of the candidates by the board of directors (or its nominating committee), information on whether the candidates meet the independence criteria in accordance with recommendations 102 - 107 of the Code, and the written consent of the candidates to be elected to the board of directors.	Not observed (non-applicable)	Members of the Company's Board of Directors are elected following a review of the candidates by the commission for selecting candidates to the governing bodies of companies with state participation, which enables the shareholder to receive information about the candidates necessary to get an idea of their personal and professional qualities.
2.3.3	The composition of the board of directors should be balanced, in particular, in terms of qualifications, experience, knowledge and business skills of its members. The board of directors should enjoy the confidence of the shareholders.	1. As part of the procedure of evaluating the work of the board of directors during the reporting period, the board of directors reviewed its own needs in terms of professional qualifications, experience and business skills.	Observed	
2.3.4	The membership of the board of directors should enable the board to organise its activities in a most efficient way, in particular, to form committees of the board of directors, as well to enable substantial minority shareholders of the company to elect a candidate to the board of directors for whom they would vote.	1. As part of the procedure of evaluating the work of the board of directors during the reporting period, the board of directors considered whether the number of members of the board of directors met the needs of the company and the interests of its shareholders.	Not observed (non-applicable)	The sole shareholder of PAO Sovcomflot is the Russian Federation.

No.	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	Status of compliance with the principle of corporate governance	Explanations for deviations from criteria for assessing compliance with the principle of corporate governance
2.4	The board of directors should include a sufficient number of independent directors.			
2.4.1	An independent director should be a person who has sufficient professional skills, experience and independence to have his/her own position, is able to make objective and bona fide judgments, free from the influence of the executive bodies, any individual group of shareholders or other stakeholders. It should be noted that, under normal circumstances, a candidate (or an elected member of the board of directors) may not be deemed to be independent, if he/she is associated with the company, its substantial shareholder, material counterparty, competitor, or the government.	1. During the reporting period all independent members of the board of directors met all the criteria of independence set out in recommendations 102-107 of the Code or were determined to be independent by decision of the board of directors.	Partially observed	During the reporting period the independent members of the Board of Directors were determined to be independent by the commission for selecting candidates to the governing bodies of companies with state participation and, subsequently, by the decision made by the sole shareholder at their election.
2.4.2	Candidates to the board of directors should be evaluated to determine whether they meet the criteria of independence, with a review to determine whether or not independent board members meet the independence criteria conducted on a regular basis. When carrying out such evaluation, substance shall take precedence over form.	1. During the reporting period the board of directors (or its nominating committee) formed an opinion on the independence of each candidate to the board of directors and submitted the relevant report to the shareholders. 2. The board of directors (or its nominating committee) reviewed the independence of the current board members identified as independent directors in the company's annual report at least once during the reporting period. 3. The company has developed procedures determining which actions a board member is required to undertake in the event that he/she ceases to be independent, including an obligation to notify the board of directors to this effect in a timely manner.	Partially observed	Independent members of the Company's Board of Directors are elected following a review of the candidates by the commission for selecting candidates to the governing bodies of companies with state participation, which enables the shareholder to receive information about the candidates necessary to get an idea of their personal and professional qualities. The criteria of independence are defined in the Regulations on the Company's Board of Directors and are similar to those defined in the CG Code.
2.4.3	Independent directors should account for at least one-third of all directors elected to the board of directors.	1. Independent directors account for at least one-third of the total number of board members.	Partially observed	Prior to the decision by the sole shareholder of PAO Sovcomflot to increase the number of Board of Directors members, the ratio between their total number and the number of independent directors was observed.
2.4.4	Independent directors should play a key role in preventing internal conflicts in the company and its performance of material corporate actions.	1. Independent directors (who have no conflict of interest) carry out a preliminary evaluation of the company's material corporate actions that could involve conflicts of interest and the results of this evaluation are presented to the board of directors.	Observed	

No.	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	Status of compliance with the principle of corporate governance	Explanations for deviations from criteria for assessing compliance with the principle of corporate governance
2.5	The chairman of the board of directors should help it carry out the functions assigned to the board in a most efficient manner.			
2.5.1	The chairman of the board of directors should be an independent director or the senior independent director among the company's independent directors should be identified, who would coordinate work of the independent directors and liaise with the chairman of the board of directors.	1. The chairman of the board of directors is an independent director or the senior independent director among the independent directors is identified. 2. The role, rights and duties of the chairman of the board of directors (and, if applicable, the senior independent director) are properly defined in the company's internal documents.	Partially observed	Considering the fact that, in accordance with Russian Government Resolution No. 738, the Chairman of the Board of Directors of the Company (in which 100% of the shares are held by the Russian Federation) is charged with certain duties, including deciding on the need to obtain voting directives for the Board of Directors members who are government appointees on the agenda items of the Board not expressly specified in Russian Government Resolution No. 738, a government appointee who has sufficient knowledge and experience, taking into account the specifics of the Company's activities, is elected as Chairman of the Company's Board of Directors. The role, rights and duties of the Chairman of the Board of Directors are defined in the Regulations on the Board of Directors approved by decision of the Company's sole shareholder.
2.5.2	The chairman of the board of directors should ensure that the board meetings are held in a constructive atmosphere and that any items on the meeting agenda are discussed freely. The chairman should also monitor fulfilment of decisions made by the board of directors.	1. The performance of the chairman of the board of directors was evaluated as part of the procedure of evaluating the performance of the board of directors in the reporting period.	Observed	
2.5.3	The chairman of the board of directors should take the necessary measures to provide the board members in a timely manner with information required to make decisions on issues on the agenda.	1. The duty of the chairman of the board of directors to take measures to ensure that materials relating to the agenda of the board meeting are provided to the board members in a timely manner is set forth in the company's internal documents.	Observed	
2.6	Members of the board of directors should act in good faith and reasonably in the best interests of the company and its shareholders, being sufficiently informed, with due care and diligence.			
2.6.1	Board members should make decisions considering all available information, with no conflict of interest, treating all shareholders equally, and in the context of normal business risks.	1. The company's internal documents establish that a member of the board of directors shall notify the board of directors if he/she has a conflict of interest relating to any item on the agenda of the meeting of the board of directors or its committee before discussion of such item is commenced. 2. The company's internal documents provide that a board member shall abstain from voting on any issues in respect of which he/she has a conflict of interest. 3. The company has established a procedure enabling board members to receive, at the expense of the company, professional advice on issues within their competence.	Observed	
2.6.2	Rights and duties of board members should be clearly stated and documented in the company's internal documents.	1. The company has adopted and published an internal document that clearly defines the rights and duties of board members.	Observed	

No.	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	Status of compliance with the principle of corporate governance	Explanations for deviations from criteria for assessing compliance with the principle of corporate governance
2.6.3	Board members should have sufficient time to perform their duties.	1. Individual attendance of meetings of the board of directors and committees and the time devoted to preparation for meetings was taken into account when performing the procedure of evaluating the board of directors in the reporting period. 2. In accordance with the company's internal documents, board members are required to notify the board of directors of their intention to take a position in governing bodies of other entities (other than entities controlled by or affiliated with the company), as well as of such appointment.	Observed	
2.6.4	All board members should have equal opportunity to access the company's documents and information. Newly elected board members should be provided with sufficient information about the company and the work of its board of directors as soon as practicable.	1. In accordance with the company's internal documents, board members have the right to access the company's documents and make inquiries concerning the company and entities under its control, and the executive bodies of the company are required to provide such information and documents. 2. The company has a formalised introductory programme for newly elected board members.	Observed	
2.7	Meetings of the board of directors, preparation for them, and participation of board members therein should ensure efficient work of the board.			
2.7.1	Meetings of the board of directors should be held as needed, having regard to the scope of the company's activities and the goals set by the company for a specific period.	1. The board of directors held at least six meetings during the reporting year.	Observed	
2.7.2	The company's internal documents should establish a procedure for preparing for and holding board meetings that enables the board members to prepare properly for such meetings.	1. The company has approved an internal document establishing the procedure for preparing for and holding board meetings which, inter alia, provides that a notice of a meeting shall be given, as a rule, at least 5 days before the date of the meeting.	Observed	
2.7.3	The form of a meeting of the board of directors should be determined with due regard to the importance of the issues on the agenda. The most important issues should be decided at meetings held in person.	1. The company's charter or internal documents provide that the most important issues (according to the list provided in recommendation 168 of the Code) shall be decided at meetings held in person.	Observed	
2.7.4	Decisions on the most important issues relating to the company's activities should be made at a meeting of the board by a qualified majority vote or by a majority vote of all elected board members.	1. The company's charter provides that decisions on the most important issues outlined in recommendation 170 of the Code shall be made at a meeting of the board by a qualified majority of at least three-fourths or a majority of all elected board members.	Observed	

No.	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	Status of compliance with the principle of corporate governance	Explanations for deviations from criteria for assessing compliance with the principle of corporate governance
2.8	The board of directors should form committees for preliminary consideration of the most important issues relating to the company's activities.			
2.8.1	An audit committee comprised of independent directors should be formed for preliminary consideration of matters related to control over the company's financial and economic activities.	1. The board of directors has formed an audit committee composed entirely of independent directors. 2. The company's internal documents define the tasks of the audit committee, including, but not limited to, those set out in recommendation 172 of the Code. 3. At least one member of the audit committee who is an independent director has experience and knowledge in the preparation, analysis, evaluation and audit of accounting (financial) statements. 4. Meetings of the audit committee were held at least once per quarter during the reporting period.	Partially observed	A majority of the Audit Committee members are independent directors. The Committee is chaired by an independent director. The Regulations on the Audit Committee of the PAO Sovcomflot Board of Directors are in accordance with the recommendations of the CG Code.
2.8.2	A remuneration committee consisting of independent directors and chaired by an independent director other than the chairman of the board of directors should be formed for preliminary consideration of matters related to the development of efficient and transparent remuneration practices.	1. The board of directors has formed a remuneration committee composed entirely of independent directors. 2. The chairman of the remuneration committee is an independent director other than the chairman of the board of directors. 3. The company's internal documents define the tasks of the remuneration committee, including, but not limited to, those set out in recommendation 180 of the Code.	Partially observed	A majority of the HR and Compensation Committee members are independent directors. An independent director was elected as Chairman of the Committee. The Regulations on the HR and Compensation Committee of the PAO Sovcomflot Board of Directors are in accordance with the recommendations of the CG Code.
2.8.3	A nominating (appointments, human resources) committee with a majority of its members being independent directors should be formed for preliminary consideration of matters relating to human resources planning (succession planning), professional composition and efficiency of the board of directors.	1. The board of directors has formed a nominating committee with a majority of its members being independent directors (or its functions specified in recommendation 186 of the Code are delegated to another committee). 2. The company's internal documents define the tasks of the nominating committee (or a relevant committee with combined functions), including, but not limited to, those set out in recommendation 186 of the Code.	Observed	The tasks of the nominating committee are performed in the Company by the HR and Compensation Committee of the PAO Sovcomflot Board of Directors.
2.8.4	Taking into account the company's scope of activities and related risk level, the board of directors should make sure that the composition of its committees is fully aligned to the company's goals. Additional committees (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, health, safety and environment committee, etc.) should be either set up or not deemed necessary.	1. In the reporting period the company's board of directors reviewed the composition of its committees for alignment with the tasks of the board and the company's goals. Additional committees have either been set up or not deemed necessary.	Observed	

No.	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	Status of compliance with the principle of corporate governance	Explanations for deviations from criteria for assessing compliance with the principle of corporate governance
2.8.5	The composition of the committees should be determined in such a way that it would allow a comprehensive discussion of issues being considered on a preliminary basis with due regard for differing opinions.	1. The committees of the board of directors are headed by independent directors. 2. Internal documents (policies) of the company include provisions that persons who are not members of the audit committee, nominating committee and remuneration committee may attend their meetings only at the invitation of their chairmen.	Partially observed	The Audit Committee and the HR and Compensation Committee of the PAO Sovcomflot Board of Directors are headed by independent directors. The Strategy Committee and the Committee for Innovative Development and Technical Policy of the PAO Sovcomflot Board of Directors are headed by directors who are government appointees. The Regulations on Committees provide that persons who are not committee members may attend their meetings only by decision of their chairmen.
2.8.6	Chairmen of the committees should inform the board of directors and its chairman of the work of their committees on a regular basis.	1. During the reporting period, chairmen of the committees reported on the work of their committees to the board of directors on a regular basis.	Observed	
2.9	The board of directors should ensure that the quality of its work and that of its committees and members is assessed.			
2.9.1	Assessment of the quality of the board's work should be aimed at defining how efficiently the board of directors, its committees and members work and whether their work meets the needs of the company's development, revitalizing the work of the board and identifying areas where it might be improved.	1. Self-assessment or external evaluation of the board's work conducted in the reporting period included evaluation of the work of the committees, individual members of the board and the board of directors as a whole. 2. The results of self-assessment or external evaluation of the board of directors conducted during the reporting period were discussed at a meeting of the board of directors held in person.	Observed	
2.9.2	The work of the board of directors, its committees and board members should be evaluated on a regular basis, at least once a year. To carry out an independent evaluation of the quality of the board of directors' work, a third-party entity (consultant) should be retained at least once every three years.	1. The company retained a third-party entity (consultant) to carry out an independent evaluation of the quality of the board's work at least once during the last three reporting periods.	Partially observed	Self-assessment of the board's work is conducted on an annual basis. External evaluation of the board's work is scheduled for 2020.
3.1	The company's corporate secretary should be responsible for efficient day-to-day relations with its shareholders, coordination of the company's actions to protect the rights and interests of its shareholders, and supporting the work of its board of directors.			
3.1.1	The corporate secretary should have knowledge, experience, and qualifications sufficient for performance of his/her duties, as well as an impeccable reputation and should enjoy the trust of the shareholders.	1. The company has adopted and disclosed an internal document – regulations on the corporate secretary. 2. The company's website and annual report provide biographical details of the corporate secretary with the same level of detail as for members of the board of directors and executive managers of the company.	Partially observed	Regulations on the Corporate Secretary of PAO Sovcomflot were approved by the Board of Directors decision on 11 April 2017. The Company's Corporate Secretary was appointed by the Board of Directors decision on 31 July 2017.
3.1.2	The corporate secretary should be sufficiently independent of the company's executive bodies and have the powers and resources required to perform his/her tasks.	1. The board of directors approves the appointment/removal of and additional remuneration payable to the corporate secretary.	Observed	

No.	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	Status of compliance with the principle of corporate governance	Explanations for deviations from criteria for assessing compliance with the principle of corporate governance
4.1	The level of remuneration paid by the company should be sufficient to attract, motivate and retain persons with the necessary skills and qualifications. The remuneration of members of the board of directors, the executive bodies and other key managers of the company should be paid in accordance with the remuneration policy adopted in the company.			
4.1.1	The level of remuneration paid by the company to members of the board of directors, executive bodies and other key managers should be sufficient to motivate them to work efficiently and enable the company to attract and retain knowledgeable and skilled specialists. The company should avoid setting the level of remuneration any higher than necessary, or creating an unjustifiably wide gap between the levels of remuneration paid to the above persons and other employees of the company.	1. The company has adopted an internal document (documents) - remuneration policy (policies) for members of the board of directors, executive bodies and other key managers, which clearly define(s) approaches to remuneration for these persons.	Observed	
4.1.2	The company's remuneration policy should be developed by the remuneration committee and approved by the board of directors. The board of directors, with the support of its remuneration committee, should monitor introduction and implementation of the remuneration policy in the company and if necessary review and amend the same.	1. During the reporting period the remuneration committee reviewed the remuneration policy (policies) and its (their) implementation practices and, where necessary, made appropriate recommendations to the board of directors.	Observed	
4.1.3	The company's remuneration policy should contain transparent mechanisms to determine the amount of remuneration for members of the board of directors, the executive bodies and other key managers of the company, as well as to regulate all types of payments, benefits and privileges provided to the above persons.	1. The company's remuneration policy (policies) contains (contain) transparent mechanisms to determine the amount of remuneration for members of the board of directors, the executive bodies and other key managers of the company, as well as to regulate all types of payments, benefits and privileges provided to the above persons.	Observed	
4.1.4	The company should develop a policy on reimbursement (compensation) of expenses containing a list of reimbursable expenses and specifying service levels to which members of the board of directors, the executive bodies and other key managers of the company may be entitled. This policy can be made an integral part of the company's remuneration policy.	1. The remuneration policy (policies) or other internal documents of the company establishes (establish) the rules for reimbursing expenses to members of the board of directors, the executive bodies and other key managers of the company.	Observed	

No.	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	Status of compliance with the principle of corporate governance	Explanations for deviations from criteria for assessing compliance with the principle of corporate governance
4.2	The system of remuneration for board members should ensure that the financial interests of the directors are aligned with the long-term financial interests of shareholders.			
4.2.1	The company should pay a fixed annual fee to members of the board of directors. The company should not pay a fee for attending individual meetings of the board of directors or its committees. The company should not use any forms of short-term incentives or additional financial incentives for members of the board of directors.	1. A fixed annual fee was the only form of monetary remuneration of the board members for their work on the board during the reporting period.	Observed	
4.2.2	Long-term ownership of shares in the company should contribute most to aligning financial interests of board members with the long-term interests of shareholders. However, the company should not make the right to dispose of shares dependent on the achievement of certain performance indicators, and board members should not take part in option programmes.	1. If the company's remuneration policy (policies) being its internal document(s) provides (provide) for allotment of company shares to members of the board of directors, clear rules regarding ownership of shares by board members, aimed at promoting long-term ownership of such shares, are established and disclosed.	Not observed (not applicable)	The Regulations on the Payment of Compensation and the Reimbursement of Expenses to Members of the PAO Sovcomflot Board of Directors provide for payment of compensation to Board members in monetary form. The sole shareholder of PAO Sovcomflot is the Russian Federation.
4.2.3	The company should not provide for any additional allowance or compensation in the event of early dismissal of board members in connection with a change of control over the company or other circumstances.	1. The company does not provide for any additional allowance or compensation in the event of early dismissal of board members in connection with a change of control over the company or other circumstances.	Observed	
4.3	The system of remuneration for members of the executive bodies and other key managers of the company should provide that their remuneration is dependent on the company's performance results and their personal contributions to the achievement thereof.			
4.3.1	Remuneration for members of the executive bodies and other key managers of the company should be set so as to ensure a reasonable and justified ratio between its fixed and variable portions that is dependent on the company's performance results and their personal (individual) contributions to the end result.	1. During the reporting period the amount of variable portion of remuneration for members of the executive bodies and other key managers of the company was determined using annual performance indicators approved by the board of directors. 2. During the latest evaluation of the remuneration system for members of the executive bodies and other key managers of the company, the board of directors (the remuneration committee) made sure that the company used an effective ratio between the fixed and variable portions of remuneration. 3. The company has in place a procedure ensuring that any bonuses wrongfully obtained by members of executive bodies and other key managers are repaid to the company.	Observed	

No.	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	Status of compliance with the principle of corporate governance	Explanations for deviations from criteria for assessing compliance with the principle of corporate governance
4.3.2	The company should introduce a long-term incentive programme for members of the executive bodies and other key managers of the company involving its shares (or options or other derivative financial instruments, the underlying asset for which are the company's shares).	1. The company has introduced a long-term incentive programme for members of the executive bodies and other key managers of the company involving the company's shares (financial instruments based on the company's shares). 2. The long-term incentive programme for members of the executive bodies and other key managers of the company provides that the right to dispose of shares and other financial instruments used in the programme shall arise no earlier than three years from the date when such shares were provided. In addition, the right to dispose of the same is made conditional on the achievement by the company of certain performance indicators.	Not observed (non-applicable)	The Regulations on Long-Term Motivation approved by the Company's Board of Directors do not provide for the use of shares or other financial instruments, as 100% of the shares are held by the sole shareholder, the Russian Federation.
4.3.3	The amount of severance pay (golden parachute) payable by the company to members of executive bodies or other key managers in the event of early termination at the initiative of the company, provided that there have been no bad faith actions on their part, should not exceed twice the value of the fixed portion of the annual remuneration.	1. The amount of severance pay (golden parachute) paid by the company during the reporting period in the event of early termination of members of executive bodies or other key managers at the initiative of the company, provided that there have been not bad faith action on their part, did not exceed twice the value of the fixed portion of the annual remuneration.	Observed	
5.1	The Company should create an efficient risk management and internal control system designed to provide reasonable assurance that the company's goals will be achieved.			
5.1.1	The board of directors should determine the principles of and approaches to organising the risk management and internal control system in the company.	1. The functions of various management bodies and divisions of the company within the risk management and internal control system are clearly defined in the company's internal documents/relevant policy approved by the board of directors.	Observed	
5.1.2	The company's executive bodies should ensure the establishment and continuing operation of an efficient risk management and internal control system in the company.	1. The company's executive bodies ensured the distribution of functions and authority in risk management and internal control between managers (heads) of divisions and departments accountable to them.	Observed	
5.1.3	The company's risk management and internal control system should give an objective, fair and clear view of the current state and future prospects of the company and ensure integrity and transparency of its accounts and reports, and reasonableness and acceptability of risks being assumed by the company.	1. The company has approved an anti-corruption policy. 2. The company has organised an easy way to inform the board of directors or its audit committee of any breaches of legislation, internal procedures and the ethics code of the company.	Observed	
5.1.4	The board of directors should take the necessary measures to ensure that the existing risk management and internal control system of the company is consistent with the principles and approaches to its organisation defined by the board of directors and that it operates efficiently.	1. During the reporting period the board of directors or its audit committee evaluated the efficiency of the risk management and internal control system of the company. Information about the main results of this evaluation is included in the company's annual report.	Observed	

No.	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	Status of compliance with the principle of corporate governance	Explanations for deviations from criteria for assessing compliance with the principle of corporate governance
5.2	The company should organise internal audits for regular independent evaluation of the reliability and efficiency of its risk management and internal control system and corporate governance practices.			
5.2.1	The company should create a separate structural division or retain an independent third-party organisation to carry out internal audits. The internal audit division should have separate lines of functional and administrative reporting. Functionally, the internal audit division should report to the board of directors.	1. To carry out internal audits, the company has created a separate structural division, which functionally reports to the board of directors or its audit committee, or retained an independent third-party organisation with the same line of reporting.	Observed	
5.2.2	The internal audit division should evaluate the efficiency of the internal control system, the risk management system and the corporate governance system. The company should apply generally accepted standards of internal auditing.	1. The efficiency of the internal control and risk management system was evaluated as part of internal audit conducted during the reporting period. 2. The company applies generally accepted approaches to internal control and risk management.	Observed	
6.1	The company and its activities should be transparent to its shareholders, investors, and other stakeholders.			
6.1.1	The company should develop and implement an information policy ensuring the efficient exchange of information by the company, its shareholders, investors, and other stakeholders.	1. The board of directors has approved the company's information policy, which was developed by taking into account recommendations of the Code. 2. The board of directors (or one of its committees) considered matters related to the company's compliance with its information policy at least once during the reporting period.	Observed	
6.1.2	The company should disclose information on its corporate governance system and practices, including detailed information on compliance with the principles and recommendations of the Code.	1. The company discloses information on its corporate governance system and the general principles of corporate governance applied in the company, in particular, on the company's website. 2. The company discloses information on the composition of its executive bodies and board of directors, independence of the board members and their membership in committees of the board of directors (as defined in the Code). 3. If there is a person that controls the company, the company publishes a memorandum setting out the plans of the controlling person in respect of corporate governance in the company.	Partially observed	In view of the fact that the sole shareholder of PAO Sovcomflot is the State (Russian Federation), the Company does not publish a memorandum setting out the plans of the controlling person in respect of corporate governance in the Company.

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6.2	The company should disclose full, up-to-date and reliable information about the company in good time to enable its shareholders and investors to make informed decisions.			
6.2.1	The company should disclose information in accordance with the principles of regularity, consistency and timeliness, as well as accessibility, reliability, completeness and comparability.	1. The company's information policy defines approaches and criteria for identifying information that may have a significant impact on the valuation of the company and the value of its securities and on procedures ensuring the timely disclosure of such information. 2. If the company's securities are traded on foreign organised markets, disclosure of material information in the Russian Federation and in such markets is synchronous and equivalent during the year. 3. If foreign shareholders hold a substantial number of company shares, disclosures during the reporting year were made not only in Russian, but also in one of the most common foreign languages.	Observed	
6.2.2	The company should avoid using a formalistic approach to information disclosure and disclose material information about its activities even if disclosure of such information is not required by legislation.	1. During the reporting period the company disclosed the annual and semi-annual financial statements prepared under IFRS. The annual report of the company for the reporting period included the annual financial statements prepared under IFRS, together with the auditor's report. 2. The company discloses full information on the company's capital structure in the annual report and on the company's website in accordance with recommendation 290 of the Code.	Observed	
6.2.3	The annual report, as one of the most important tools of information exchange with shareholders and other stakeholders, should contain information making it possible to assess the company's performance results for the year.	1. The company's annual report contains information on the key aspects of its operating activities and financial results. 2. The company's annual report contains information about the environmental and social aspects of the company's activities.	Observed	
6.3	The company should provide information and documents requested by its shareholders in accordance with the principle of equal and unhindered accessibility.			
6.3.1	The company should provide information and documents requested by its shareholders in accordance with the principle of equal and unhindered accessibility.	1. The company's information policy provides a non-burdensome procedure for giving its shareholders access to information, including information about legal entities controlled by the company, at the request of shareholders.	Observed	
6.3.2	When providing information to its shareholders, the company should maintain a reasonable balance between the interests of individual shareholders and its own interests, mindful of its interest in keeping important business information that may have a material impact on its competitiveness confidential.	1. During the reporting period the company did not refuse shareholder requests for information or such refusals were justified. 2. In cases determined by the company's information policy, shareholders are notified of the confidential nature of information and assume an obligation to keep it confidential.	Observed	

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7.1	Any actions that will or may materially affect the company's share capital structure and its financial position and, accordingly, the position of its shareholders ("material corporate actions") should be taken on fair terms ensuring that the rights and interests of the shareholders as well as other stakeholders are observed.			
7.1.1	Material corporate actions are deemed to include reorganisation of the company, acquisition of 30 or more percent of its voting shares (takeover), making major transactions by the company, increasing or reducing its share capital, listing and delisting of its shares, as well as other actions which might result in material changes in the rights of shareholders or infringement of their interests. The company's charter should contain a list of (criteria for identifying) transactions or other actions that constitute material corporate actions and provide that decisions on such actions shall fall within the competence of the board of directors.	1. The company's charter contains a list of transactions or other actions that constitute material corporate actions and the criteria for identifying them. Decisions on material corporate actions fall within the competence of the board of directors. In cases where the law expressly places these corporate actions within the competence of the general shareholders meeting, the board of directors provides appropriate recommendations to the shareholders. 2. According to the company's charter, material corporate actions include reorganisation of the company, acquisition of 30 or more per-cent of its voting shares (takeover), entering by the company into major transactions, increasing or decreasing its share capital, and listing and delisting of its shares.	Partially observed	The Company's CG Code defines material corporate actions (see its Article 7). According to the current Charter of the Company, material corporate actions are approved by the General Meeting of Shareholders (the sole shareholder) or the Board of Directors of the Company depending on the competence established by laws and the Company's Charter. All issues that must be submitted to the General Meeting of Shareholders are subject to preliminary consideration by the Board of Directors (Article 12 of the Company's Charter).
7.1.2	The board of directors should play a key role in passing resolutions or making recommendations relating to material corporate actions, relying on opinions of the company's independent directors.	1. The company has in place a procedure whereby independent directors can communicate their opinions on material corporate actions before their approval.	Observed	
7.1.3	When taking material corporate actions which would affect rights and legitimate interests of shareholders, equal terms and conditions should be ensured for all shareholders; if statutory mechanisms designed to protect shareholder rights prove insufficient, additional measures should be taken to protect the rights and legitimate interests of the company's shareholders. In such instances, the company should not only seek to comply with the formal requirements of law, but should also be guided by the principles of corporate governance set out in the Code.	1. Taking into account specific features of the company's operations, its charter sets lower criteria for recognizing the company's transactions as material corporate actions than the minimum criteria set by law. 2. During the reporting period all material corporate actions passed an approval process before their execution.	Observed	
7.2	The company should have in place a procedure for taking material corporate actions that enables its shareholders to receive full information about such actions in due time and influence them, and that also guarantees that the shareholder rights are observed and duly protected in the course of taking such actions.			
7.2.1	Information about material corporate actions should be disclosed together with explanations concerning reasons for, conditions and consequences of such actions.	1. During the reporting period the company disclosed information about its material corporate actions in due time and in detail, including the reasons for and the timing of such actions.	Observed	

No.	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	Status of compliance with the principle of corporate governance	Explanations for deviations from criteria for assessing compliance with the principle of corporate governance
7.2.2	Rules and procedures in relation to material corporate actions taken by the company should be set out in its internal documents.	1. The company's internal documents provide a procedure for retaining an independent appraiser to value assets being disposed of or acquired in a major transaction or an interested party transaction. 2. The company's internal documents provide a procedure for retaining an independent appraiser to estimate the acquisition and redemption value of company shares. 3. The company's internal documents provide for an expanded list of grounds on which members of the board of directors and other persons referred to in respective laws are deemed to be interested parties in transactions of the company.	Observed	

2. SOVCOMFLOT GROUP – KEY RISKS

Type of risk	Risk factors	Risk mitigation measures
Economic risks	Changes in freight and hire rates on the international freight market	Draft and approve the Development Strategy of the Group and regularly update the document in connection with changes in market conditions and the external environment; identify the optimal ratio of revenues from long-term and spot contracts
	Seasonal and regional changes in tonnage supply and demand	Monitor global freight markets to make timely decisions on the optimal distribution of the fleet
	Strong competition from other carriers	Leverage the Group's accumulated experience in the operation of different types of vessels, taking into account customer requirements
	Arrival of new cargo transportation, loading, storage and warehousing technologies and resulting changes in technological requirements in the field of maritime transport	Build and commission specialised state-of-the-art vessels; promptly sell obsolete fleet
	Quantitative and qualitative changes in global fleet composition	Diversify the Group's activities and break into new, promising segments
Environmental risks	Accidents having negative environmental impacts	Identify significant environmental aspects of the Group's activities, plan and implement required environmental measures, monitor and analyse their sufficiency
	Impact on the atmosphere of polluting emissions, and on the oceans from the dumping of wastewater and different types of garbage	Implement integrated management and control systems based on international safety and quality standards
Regulatory and legal risks	Changes in international legislation and shipping industry regulations, customs and tax laws, licensing, environmental protection, etc.	Monitor changes in shipping industry regulations, be proactive in response to such changes, and maintain a constructive dialogue with regulatory authorities
	The introduction of stringent requirements on vessels by leading classification societies, as well as international oil and trading companies	Draft and implement best-practice design and technological solutions that meet current and potential future requirements
	Seizure of the Group's vessels, in respect of which maritime liens or maritime claims may arise	Monitor the likelihood of claims and other legal encumbrances in respect of the Group's vessels; proactively respond to potential actions in this area
	Inadequate insurance coverage of the Group's vessels	Insure the Group fleet with leading international and Russian companies

Type of risk	Risk factors	Risk mitigation measures
Operational risks	Mechanical faults and damage to vessels; maritime casualties	Improve technical management systems and procedures, implement an across-the-board critical analysis of the reasons for breakages and emergencies, increase the professional level of fleet personnel and onshore support
	Delays and defaults on obligations by main counterparties	Conclude contracts with reputable and highly reliable counterparties
	Suspension of activities owing to labour disputes	Promptly consider the legal interests of Group employees and introduce a culture which promotes the joint resolution of issues as they arise
	Dependence of the Group on hiring and retaining qualified personnel	Improve HR policies, create a high-performing team united by common goals and effective material and moral incentives
Country risks	Adverse changes in the political and economic situation in countries and regions where the Group operates	Draft anti-crisis action plans if adverse scenarios arise
	Negative impact of restrictions imposed against Russia by a number of Western countries	Diversify the customer base, project and business portfolio, and sources of Group financing
	Pirate attacks on the Group's vessels	Organise security for the Group's vessels in dangerous regions, ramp up cooperation with respective international and national authorities, introduce and adjust the rules to be applied by vessels during crises
Financial risks	Changes in foreign currency exchange rates, which have an adverse impact on the Group's expenses and income	Use foreign exchange hedging instruments
	Increased interest payments on current loan obligations	Use interest-rate risk hedging instruments, diversify sources of borrowing
	Exceeding of an acceptable debt burden on the Group's balance sheet	Improve the procedures for ensuring the optimal structure of assets and liabilities, in conjunction with an operational analysis of changes in the financial environment
Public health threats	Public health threats such as coronavirus (COVID-19) or other epidemics or pandemics could affect the operations of the Group, the operations of the Group's customers, suppliers and shipyards	The Group is continuously monitoring public health threats and takes necessary steps to protect the health and safety of its seafarers and shore-based staff, and minimise any disruption in its operations

3. PARTICIPATION OF PAO SOVCOMFLOT IN COMMERCIAL AND NON-PROFIT ORGANISATIONS

Information on participation of PAO Sovcomflot in commercial and non-profit organisations as at 31 December 2019.

Company's name	Country of incorporation	Equity stake (direct or indirect), %	Core/planned activities
PAO Novoship and its subsidiaries	Russia	89,4563	Ownership and control of Group companies
SCF Tankers Limited and its subsidiaries	Liberia	100	Ownership and management of ship-owning companies
SCF Overseas Holding Limited and its subsidiaries	Cyprus	100	Ownership and management of ship-owning companies
Intrigue Shipping Limited and its subsidiaries	Cyprus	100	Ownership and management of ship-owning companies
OOO SCF Arctic	Russia	100	Ownership and management of ship-owning companies
OOO SCF Varandey	Russia	100	Ownership and operation of vessels
OOO SCF GEO	Russia	100	Ownership and operation of vessels
OOO SCF Shelf	Russia	100	Ownership and operation of vessels
OOO SCF Prirazlomnoye	Russia	100	Ownership and operation of vessels
OOO SCF Atlantic	Russia	100	Ownership and operation of vessels
OOO SCF Novy Port	Russia	100	Ownership and operation of vessels
SMART LNG, LLC	Russia	50	Ownership and operation of vessels
OOO SCF LNG Shipping	Russia	100	Ownership and operation of vessels

Company's name	Country of incorporation	Equity stake (direct or indirect), %	Core/planned activities
OOO SCF Eco	Russia	100	Ownership and operation of vessels
Sovcomflot Bulk Shipping Inc. and its subsidiaries	Liberia	100	Ownership and management of ship-owning companies
Sovcomflot (UK) Ltd.	United Kingdom	100	Ship agency services
Sovcomflot (Cyprus) Limited	Cyprus	100	Accounting, treasury and financial consulting
SCF Management Services (Cyprus) Ltd	Cyprus	100	Technical management of ships
OOO SCF Management Services (St. Petersburg)	Russia	100	Technical management of ships
OOO SCF Management Services (Novorossiysk)	Russia	100	Technical management of ships
SCF Management Services (Dubai) Ltd.	UAE	100	Management services for ship-owning companies, technical and commercial management of ships
Sovcomflot Training Centre	Russia	100	Professional training and development of marine and river transport specialists
SCF Capital Designated Activity Company	Ireland	100	Financing activities
SCF Marpetrol S.A.	Spain	100	The company is inactive
Sovchart S.A.	Switzerland	100	The company is inactive

PAO Sovcomflot did not conclude major transactions in 2019. During the reporting period the Company made three interested-party transactions. Interested-party transactions made by the Company during the reporting period that do not require consent or approval of the Company's management bodies under the provisions of Federal Law "On Joint-Stock Companies" which entered into force on 1 January 2017.



4. MAJOR AND INTERESTED-PARTY TRANSACTIONS

- a) Information on the interested-party transactions concluded by the Company during the reporting year, including a list of the transactions concluded by the Company during the reporting year which are considered interested-party transactions in accordance with the Federal Law «On Joint-Stock Companies», indicating an interested party (parties) in each transaction, essential terms and the Company's management body which passed the decision on approval of the transaction.
 - b) Information on the major transactions concluded by the Company during the reporting year, including a list of the transactions concluded by the Company during the reporting year which are considered major transactions in accordance with the Federal Law «On Joint-Stock Companies» and other transactions which are subject to the procedure for approving major transactions in accordance with the Company's Charter, indicating essential terms of each transaction and the Company's management body which passed the decision on approval of the transaction.
1. Supplementary Agreement No. 1 dated 28 January 2019 to the Premises Sublease Agreement dated 30 March 2018 between OOO SCF Management Services (St. Petersburg) (the «Lessor») and PAO Sovcomflot (the «Subles-see») amending Clause 5.1. of the Agreement, under which the monthly rent for the subleased premises shall amount to RUB 17,400.00 (seventeen thousand four hundred roubles) plus VAT as stipulated by Russian legislation.

In all other matters not covered by the said Supplementary Agreement the parties shall be guided by the provisions of Premises Sublease Agreement dated 30 March 2018.

Supplementary Agreement No. 1 to the Premises Sublease Agreement dated 30 March 2018 entered into force upon signature and applies to the relations between the Parties which arose since 1 January 2019.

2. Supplementary Agreement No. 7 dated 29 December 2018 to the Contract dated 29 June 2012 between PAO Sovcomflot (the «Customer») and OOO SCF Arctic (the «Contractor») amending Clause 5.1 of the Contract, under which the monthly cost of works under the Contract shall amount to RUB 4,438,000 (four million four hundred thirty-eight thousand roubles) plus VAT at the rate stipulated by Russian legislation.

All rights and obligations of the parties not affected by the said Supplementary Agreement shall remain unchanged and the parties shall be governed by the Contract taking into account the said Supplementary Agreement.

Supplementary Agreement No. 7 to the Contract dated 29 June 2012 entered into force upon signature and applies to the relations between the Parties as from 1 January 2019.

3. Supplementary Agreement No. 4 dated 28 March 2019 to the Sublease Agreement dated 10 December 2015 between PAO Sovcomflot (the «Lessor») and OOO SCF GEO (the «Lessee»), under which the parties agreed to extend the lease of the Premises and consider the Sublease Agreement extended for the period from 1 April 2019 to 29 February 2020 on the previous terms.

In all matters not covered by the said Supplementary Agreement the Parties shall be governed by the terms of the Sublease Agreement and current legislation of the Russian Federation.

Supplementary Agreement No. 4 to the Sublease Agreement dated 10 December 2015 entered into force upon signature and applies to the legal relations between the Parties as from 1 April 2019.

5. INFORMATION ON LITIGATIONS INVOLVING PAO SOVCOMFLOT

As a global shipping company, the Company operates in various jurisdictions and is involved in court/arbitration proceedings relating to cargo transportation by sea. The Company's third-party liability is, as a rule, insured with international mutual insurance clubs, which assist the Company in the settlement of court/arbitration disputes.

In addition, in carrying out its activities the Company is governed by the requirements of anti-corruption laws and the highest corporate and ethical standards, the principles of fair and faithful conduct of business, and expects compliance with such standards from its business partners.

As part of the policies and procedures applied by the Company to counter fraud and corruption in any form, during the period between 2005 and 2007 the Company initiated certain legal proceedings. In particular, in late 2005 the Group investigated a number of transactions which involved the former management of Novoship (UK) Ltd ("NOUK"). NOUK and its subsidiaries filed claims at the Commercial Court in London in December 2006. Judgment was handed down on 14 December 2012. The Group was initially successful on all claims in the court of first instance, but after appeal unsuccessful on some claims against certain defendants. In 2014 those defendants have indicated an intention to pursue the Group for damages in respect of \$90 million of security provided during the litigation. No claim has yet been filed for damages.

On 23 April 2018, the Dorogomilovo Court of Moscow adjudged Yuri Nikitin, Dmitry Skarga and Tagirlzmaylov guilty of having committed a number of crimes during the period 2000-2005 and causing damage to the Group amounting to over \$300 million. The guilt of the accused for the crimes charged was fully proved during the trial and the accused were sentenced to long terms of imprisonment. In addition, the property of the convicted is subject to confiscation.

After reviewing the appeals filed by the convicted persons, on 2 April 2019 the Moscow City Court issued an appellate ruling upholding the sentence imposed by the Dorogomilovo Court of Moscow on 23 April 2018. The sentence has entered into legal force.

Investigation into other illegal acts by Yuri Nikitin, Dmitry Skarga and Tagirlzmaylov against SCF Group companies, which have not yet been subjected to judicial review, continues. The Company is taking all necessary actions to protect its interests.

6. INFORMATION ON THE RESULTS OF IMPLEMENTING ORDERS OF THE RUSSIAN PRESIDENT AND THE RUSSIAN GOVERNMENT

No	Subject	Order	Shareholder's directives	Results of implementation
1	On implementing the Corporate Governance Code	Russian Government Order No. ISh-P13-5859 dated 31 July 2014	Russian Government Directives No. 1113p-P13 dated 26 February 2015 (Russian Government Order No. ISh-P13-5859 dated 31 July 2014); Russian Government Directives No. 5667p-P13 dated 2 September 2014	1. Meeting of the PAO Sovcomflot Board of Directors dated 30 September 2014 (Minutes No. 138); 2. Meeting of the PAO Sovcomflot Board of Directors dated 9 April 2015 (Minutes No. 143); 3. Meeting of the PAO Sovcomflot Board of Directors dated 10 November 2015 (Minutes No. 149); 4. Meeting of the PAO Sovcomflot Board of Directors dated 10 April 2018 (Minutes No. 171); 5. Information is posted on the Interdepartmental Portal for State Property Management (hereinafter referred to as the «ID Portal»).
2	On approval and audit of the Long-Term Development Programme	Sub-clauses 32, 33 and 34, Clause 1 of List of Orders of the President of the Russian Federation No. Pr-3086 dated 27 December 2013	Russian Government Directives No. 5667p-P13 dated 2 September 2014	1. Meeting of the Board of Directors dated 30 September 2014 (Minutes No. 138); 2. Meeting of the Board of Directors dated 19 November 2014 (Minutes No. 139); 3. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187); 4. Information is posted on the ID Portal.
3	On including the main parameters of requirements for labour resources in the long-term development programme, including for engineering and technical professions, necessary to carry out the main activities of the programme	Sub-clause b, Clause 2 of List of Orders of the President of the Russian Federation No. Pr-1627 dated 1 July 2014	Russian Government Directives No. 4955p-P13 dated 17 July 2014	1. Meeting of the Board of Directors dated 19 November 2014 (Minutes No. 139); 2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187); 3. Information is posted on the ID Portal.
4	On ensuring the adoption of KPIs to assess the performance of management	Clause 5 of List of Orders of the President of the Russian Federation No. Pr-1474 dated 5 July 2013	Russian Government Directives No. 7439p-P13 dated 5 November 2014	1. Meeting of the Board of Directors dated 19 November 2014 (Minutes No. 139); 2. Meeting of the Board of Directors dated 7 August 2015 (Minutes No. 147); 3. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187); 4. Information is posted on the ID Portal.

No	Subject	Order	Shareholder's directives	Results of implementation
5	On introducing a system of paying bonuses to managers based on key performance indicators of their activity, considering the need to reduce operating expenses (expenditures) by at least 2-3 percent per annum	Sub-clause 5, Clause 1 of List of Orders of the President of the Russian Federation No. Pr-2821 dated 5 December 2014	Russian Government Directives No. 2303p-P13 dated 16 April 2015	1. Meeting of the Board of Directors dated 19 May 2015 (Minutes No. 144); 2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187); 3. Information is posted on the ID Portal.
6	On including an integral key performance indicator of innovative activities in the list of key performance indicators of the long-term development programme	Sub-paragraph b, Paragraph 2, Section 2 of Minutes No. 2 of the meeting of the Presidium of the Russian Presidential Council for Economic Modernisation and Innovative Development dated 17 April 2015	Russian Government Directives No. 1472p-P13 dated 3 March 2016	1. Meeting of the Board of Directors dated 25 August 2016 (Minutes No. 156); 2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187); 3. Information is posted on the ID Portal.
7	On developing and approving a list of internal regulatory documents governing the JSC's activities	Clause 1 of Russian Presidential Order No. Pr-3013 dated 27 December 2014	Russian Government Directives No. 3984p-P13 dated 24 June 2015	1. Meeting of the Board of Directors dated 7 August 2015 (Minutes No. 127); 2. Information is posted on the ID Portal.
8	On changing the structure of the JSC's annual report	Clause 3 of Russian Presidential Order No. Pr-3013 dated 27 December 2014	Russian Government Directives No. 2007p-P13 dated 6 April 2015	1. Meeting of the Board of Directors dated 19 May 2015 (Minutes No. 144); 2. Meeting of the Board of Directors dated 22 September 2015 (Minutes No. 148); 3. Information is posted on the ID Portal.
9	On phased replacement of the procurement of foreign products (work, services) with the procurement of Russian products (work, services) equivalent in terms of technical characteristics and consumer attributes	Russian Government Orders No. DMP9-87pr dated 25 November 2013, No. AD-P0-9176 dated 12 December 2014 and No. ISh-P13-1419 dated 5 March 2015	Russian Government Directives No. 1346p-P13 dated 5 March 2015	1. Meeting of the Board of Directors dated 7 April 2015 (Minutes No. 143); 2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187); 3. Information is posted on the ID Portal.
10	On implementation of non-core assets disposal programmes	Paragraph 4, Sub-clause c, Clause 2 of Russian Presidential Decree No. 596 dated 7 May 2012, Russian Government Order No. 894-r dated 10 May 2017	Russian Government Directives No. 6604p-P13 dated 18 September 2017	1. Meeting of the Board of Directors dated 31 October 2017 (Minutes No. 167); 2. Meeting of the Board of Directors dated 31 January 2018 (Minutes No. 169); 3. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187); 3. Information is posted on the ID Portal.
11	On ensuring the establishment of unified treasures of parent, subsidiary and affiliated entities	Clause 1 of List of Orders of the President of the Russian Federation No. Pr-1032 dated 7 May 2014	Russian Government Directives No. 5110p-P13 dated 8 August 2014 and No. 1796p-P13 dated 26 March 2015	1. Meeting of the Board of Directors dated 9 September 2014 (Minutes No. 137); 2. Meeting of the Board of Directors dated 19 May 2015 (Minutes No. 144); 3. Information is posted on the ID Portal.
12	On increasing labour productivity, establishing and modernising highly productive working places	Clause 6, Section 2 of the action plan approved by Russian Government Order No. 1250-r dated 9 July 2014	Russian Government Directives No. 73899p-P13 dated 31 October 2014	1. Meeting of the Board of Directors dated 10 December 2014 (Minutes No. 140); 2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187); 3. Information is posted on the ID Portal.
13	On amending the procurement policy as regards innovative building materials	Paragraph 7 of Minutes No. DM-P9-38pr of the meeting held by the Prime Minister of the Russian Federation dated 14 June 2016	Russian Government Directives No. 6558p-P13 dated 5 September 2016	1. Meeting of the Board of Directors dated 6 December 2016 (Minutes No. 158); 2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187); 3. Information is posted on the ID Portal.

No	Subject	Order	Shareholder's directives	Results of implementation
14	On amending the JSC's procurement policy as regards competitive domestic software	Russian Government Order No. ISh-P13-1872 dated 1 April 2016	Russian Government Directives No. 4972p-P13 dated 11 July 2016	1. Meeting of the Board of Directors dated 25 August 2016 (Minutes No. 156); 2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187); 3. Information is posted on the ID Portal.
15	On expanding the practice of using factoring when performing agreements for the supply of goods (performance of work, rendering of services)	Russian Government Order No. DM-P13-1100 dated 1 March 2016 (Clause 89 of the Russian Government's action plan aimed at ensuring sustainable socioeconomic development of the Russian Federation in 2016)	Russian Government Directives No. 7704p-P13 dated 11 October 2016	1. Meeting of the Board of Directors dated 6 December 2016 (Minutes No. 158); 2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187); 3. Information is posted on the ID Portal.
16	On introducing lean manufacturing systems in JSCs operating within the military-industrial complex and including this indicator in the JSC's KPI system.	Sub-paragraph 2.3, Section I of Minutes No. 4 of the meeting of the Russian Government Military-Industrial Commission dated 25 April 2014	Russian Government Directives No. 3666p-P13 dated 11 June 2015	Not applicable
17	On transferring a part of net profit to the federal budget as dividends on the shares owned by the Russian Federation	Russian Government Orders No. 774-r dated 29 May 2006, No. DM-P13-2762 dated 26 April 2017 and No. 944-r dated 18 May 2017	Directives of the Federal Agency for State Property Management with regard to the JSCs included in Annex 2 to the Special List	Not applicable
18	On developing and approving regulations to ensure rationing of procurement and introduction of procurement norms in joint-stock companies	Clause 2 of List of Orders of the Government of the Russian Federation No. DM-P9-8413 dated 12 December 2015.	Russian Government Directives No. 2793p-P13 dated 19 April 2016	1. Meeting of the Board of Directors dated 31 May 2016 (Minutes No. 153); 2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187); 3. Information is posted on the ID Portal.
19	On introducing professional standards in the activities of joint-stock companies	Taking into account the provisions of Federal Law No. 122-FZ "On Amendments to the Labour Code of the Russian Federation and Articles 11 and 73 of the Federal Law "On Education in the Russian Federation" dated 2 May 2015	Russian Government Directives No. 5119p-P13 dated 14 July 2016	1. Meeting of the Board of Directors dated 25 August 2016 (Minutes No. 156); 2. Information is posted on the ID Portal.
20	On making settlements in roubles under new export contracts	Sub-paragraph 1, Paragraph 1, Section I of Minutes No. 7 of the meeting of the National Council for Financial Stability dated 10 April 2015	Russian Government Directives No. 4807p-P13 dated 23 July 2015	1. Meeting of the Board of Directors dated 22 September 2015 (Minutes No. 148); 2. Information is posted on the ID Portal.
21	On completing the questionnaire on analysis of introduction of internal documents	Clause 2 of Russian Presidential Order No. Pr-769 dated 26 April 2016, Clause 6 of Russian Government Order No. AD-P36-4292 dated 20 July 2016	Letter No. RB11/9968 from the Federal Agency for State Property Management dated 20 March 2017	Information is posted on the ID Portal.
22	On updating the JSC's long-term development programme and submitting auditor's opinions regarding LDPs	Russian Presidential Decree No. 204 dated 7 May 2018, Russian Government Order No. DM-P13-4513 dated 21 July 2018	Russian Government Directives No. 276p-P13 dated 17 January 2019	1. Meeting of the Board of Directors dated 11 April 2019 (Minutes No. 180); 2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187); 3. Information is posted on the ID Portal.
23	On transition by JSCs to primarily domestic software	Paragraphs 4 and 6, Section II of Minutes No. 1 of the meeting of the Governmental Commission on the Use of Information Technologies dated 9 February 2018	Russian Government Directives No. 10068p-P13 dated 6 December 2018	1. Meeting of the Board of Directors dated 29 January 2019 (Minutes No. 178); 2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187); 3. Information is posted on the ID Portal.

No	Subject	Order	Shareholder's directives	Results of implementation
24	On the procedure for approval by the Russian Ministry for Development of the Far East of investment programmes and other infrastructure development plans implemented by state corporations, state-owned companies and other entities with state participation	Russian Government Resolution No. 1502 dated 27 December 2016	Russian Government Directives No. 3538p-P13 dated 25 May 2017	1. Meeting of the Board of Directors dated 31 July 2017 (Minutes No. 164); 2. Meeting of the Board of Directors dated 3 October 2017 (Minutes No. 166); 3. Information is posted on the ID Portal.
25	On implementing partnership programmes with SMEs	Sub-clause c, Clause 1 of Russian Presidential Order No. Pr-2763 dated 31 December 2017, Russian Government Order No. DM-P13-77 dated 13 January 2018	Russian Government Directives No. 7377p-P13 dated 7 December 2013	1. Meeting of the Board of Directors dated 30 May 2014 (Minutes No. 135); 2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187); 3. Information is posted on the ID Portal.
26	On the procedure for approval by the Russian Ministry for Development of the Far East of investment programmes and other infrastructure development plans implemented by state corporations, state-owned companies and other entities with state participation	Clause 3 of Russian Government Resolution No. 1502 dated 27 December 2016	Russian Government Directives No. 8860p-P13 A dated 29 October 2018	Not applicable
27	On volumes of contracts for procurement of civilian products for the fuel and energy complex concluded by military-industrial complex enterprises	Clause 2 of Russian Government Order No. RD-P7-4168 dated 28 June 2017	Russian Government Directives No. 7923p-P13 dated 27 September 2018	Not applicable
28	On drafting programmes to improve procurement management quality	Russian Presidential Decree No. 204 dated 7 May 2018 "On National Goals and Strategic Objectives for the Development of the Russian Federation for the Period up to 2024", which defines the areas for development of small and medium-sized businesses, and in pursuance of Paragraph 4.2, Section 3 of the Federal Project "Acceleration of Small and Medium-Sized Businesses".	Russian Government Directives No. 1519p-P13 dated 20 February 2019	1. Meeting of the Board of Directors dated 10 April 2019 (Minutes No. 180); 2. Information is posted on the ID Portal.
29	On expanding the practice of using factoring when performing agreements for the supply of goods (performance of work, rendering of services)	Russian Presidential Decree No. 204 dated 7 May 2018 "On National Goals and Strategic Objectives for the Development of the Russian Federation for the Period up to 2024", which defines the areas for development of small and medium-sized businesses, and in pursuance of Paragraph 4.2, Section 3 of the Federal Project "Acceleration of Small and Medium-Sized Businesses".	Russian Government Directives No. 4111p-P13 dated 8 May 2019	1. Meeting of the Board of Directors dated 31 October 2019 (Minutes No. 185); 2. Information is posted on the ID Portal.
30	On electing chairmen of the boards of directors of the joint-stock companies with state participation not included in the Special List, which were formed in the respective corporate year	Activity plan of the Federal Agency for State Property Management for 2018 and the 2019 and 2020 planning periods relating to the implementation of the State Programme of the Russian Federation "Management of Federal Property".	Directives No. IP-11/21449 of the Federal Agency for State Property Management dated 25 June 2019	Not applicable

No	Subject	Order	Shareholder's directives	Results of implementation
31	On drafting JSCs' innovative development programmes	Minutes No. ADP36-153pr of the Russian Government dated 1 October 2014, Russian Government Order No. DM-P36-7563 dated 7 November 2015	Russian Government Directives No. 3262p-P13 dated 27 April 2018	Not applicable
32	On comparison by JSCs of the level of technological development and current values of KPIs with the development level and indicators of leading similar companies in accordance with Methodological Recommendations	Russian Government Order No. ISh-P13-1925 dated 5 April 2018, Paragraph 9, Section III of Minutes No.1 of the meeting of the interdepartmental working group on the implementation of innovative development priorities at the Presidium of the Russian Presidential Council for Economy Modernization and Innovative Development dated 14 April 2014 and Letter No. 32225-OF/D01i from the Russian Ministry of Economic Development dated 13 November 2017	Russian Government Directives No. 3262p-P13 dated 27 April 2018	Not applicable
33	On taking an inventory of intellectual property rights with a view to then organise measures to ensure that the identified property items the rights to which belong to the JSC are afforded legal protection and these rights are recognised on the balance sheet as intangible assets for subsequent introduction into economic circulation and valuation of the rights thereto.	Russian Government Order No. ISh-P13-1925 dated 5 April 2018	Russian Government Directives No. 7050p-P13 dated 30 August 2018	1. Meeting of the Board of Directors dated 9 October 2018 (Minutes No. 176); 2. Information is posted on the ID Portal.
34	On updating KPIs	Russian Government Order No. 1388-r dated 27 June 2019	Russian Government Directives No. 9054p-p13 dated 2 October 2019	1. Meeting of the Board of Directors dated 31 October 2019 (Minutes No. 185); 2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187); 3. Information is posted on the ID Portal.
35	On procurement of Russian products used in national projects and an integrated plan to modernise and expand backbone infrastructure	Clause 6 of Order No. DK-P9-81pr of Deputy Chairman of the Government of the Russian Federation D.N. Kozak dated 13 May 2019	Russian Government Directives No. 9984p-P13 dated 1 November 2019	1. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187); 2. Information is posted on the ID Portal.
36	On the possibility of transition by JSCs to tax control in the form of tax monitoring	Clause 4 of Russian Government Order No. DM-P13-8pr dated 13 February 2019	Russian Government Directives No. 11528p-P13 dated 13 December 2019	Meeting of the Board of Directors dated 7 April 2020 (Minutes No. 192)
37	On increasing labour productivity	Paragraph 1, Section I of Minutes No. SA-P13-25pr of the extended meeting on monitoring the implementation of national projects "Labour Productivity and Employment Support", "Small and Medium-Sized Entrepreneurship and Support of Individual Entrepreneurial Initiative" and "International Cooperation and Export" dated 5 March 2019	Russian Government Directives No. 12153-P13 dated 25 December 2019	Meeting of the Board of Directors dated 7 April 2020 (Minutes No. 192)

No	Subject	Order	Shareholder's directives	Results of implementation
38	On assessing the existence or absence of major investment projects being implemented or scheduled for implementation	Russian Presidential Decree No. 204 dated 7 May 2018, Russian Government Order No. DM-P13-4513 dated 21 July 2018 (Paragraph 3.7. of the Action Plan to accelerate fixed capital investment and increase its share of gross domestic product to 25 percent approved at the meeting of the Government of the Russian Federation on 12 July 2018 (Minutes No. 20, Section I))	Russian Government Directives No. 12119-P13 dated 25 December 2019	Meeting of the Board of Directors dated 7 April 2020 (Minutes No. 192)
39	On preventing corruption risks	Russian Presidential Order No. Pr-113 dated 17 January 2012, Russian Government Orders No. VP-P13-459 dated 27 January 2012 and No. ISh-P13-7501 dated 7 December 2012	Directives No. OD-11/12116 of the Federal Agency for State Property Management dated 22 March 2013	Not applicable
40	On supplementing the procurement regulations to establish priority of procurement of products using aluminium and/or semi-finished aluminium from Russian enterprises	Paragraph 2 of Minutes No. DK-P13-100pr of the meeting held by Deputy Chairman of the Government of the Russian Federation D.N. Kozak dated 29 May 2019	Russian Government Directives No. 6574p-P13 dated 18 July 2019	Not applicable
41	On participation in the preparation of regulatory documents for holding professional excellence championships based on Worldskills standards	Sub-clause d, Clause 1 of List of Orders of the President of the Russian Federation No. Pr-1921 dated 21 September 2015	No directives have been issued	Not applicable

7. LIST OF KEY INTERNAL REGULATIONS SERVING AS THE BASIS FOR THE COMPILATION OF THIS ANNUAL REPORT

1. The PAO Sovcomflot Charter;
2. Regulations on the General Meeting of Shareholders of PAO Sovcomflot;
3. Regulations on the PAO Sovcomflot Board of Directors;
4. Regulations on the PAO Sovcomflot Executive Board;
5. Regulations on the Chief Executive Officer of PAO Sovcomflot;
6. Regulations on the PAO Sovcomflot Auditing Commission;
7. Regulations on the Payment of Compensation and the Reimbursement of Expenses to PAO Sovcomflot Board of Directors Members;
8. Regulations on the Payment of Compensation and the Reimbursement of Expenses to PAO Sovcomflot Auditing Commission Members;
9. Regulations on the Dividend Policy of PAO Sovcomflot;
10. The Long-Term Development Programme of Sovcomflot Group;
11. The PAO Sovcomflot Development Strategy;
12. The PAO Sovcomflot Corporate Governance Code;
13. Regulations on the Audit Committee of the PAO Sovcomflot Board of Directors;
14. Regulations on the Committee for Innovative Development and Technical Policy of PAO Sovcomflot;
15. Regulations on the HR and Compensation Committee of the PAO Sovcomflot Board of Directors;
16. Regulations on the Strategy Committee of the PAO Sovcomflot Board of Directors;
17. The Information Policy of PAO Sovcomflot;
18. Regulations on the Internal Audit Department of PAO Sovcomflot;
19. Regulations on the Corporate Secretary of PAO Sovcomflot;
20. Regulations on the Procedure for Procuring Goods, Works and Services for the Needs of PAO Sovcomflot;
21. Regulations on the Professional Training/Retraining and Raising the Qualifications Level of PAO Sovcomflot Personnel;
22. Regulations on Wages and Material Incentives for PAO Sovcomflot Employees;
23. The Long-Term Motivation Programme for PAO Sovcomflot Employees;
24. The Programme on the Sale of PAO Sovcomflot Non-Core Assets;
25. The PAO Sovcomflot Energy Conservation and Energy Efficiency Programme;
26. The PAO Sovcomflot Project Management Regulation;
27. The Standard for Auditing the Implementation of the PAO Sovcomflot Long-Term Development Programme;
28. The Technical Policy of PAO Sovcomflot;
29. Regulations on the PAO Sovcomflot Risk Management System;
30. Regulations on the Finance Department - Treasury of PAO Sovcomflot;
31. Regulations on Sponsorship and Charity of PAO Sovcomflot.

8. NON-CORE ASSET SALE PROGRAMME

In accordance with the decision of the PAO Sovcomflot Board of Directors dated 31 January 2018 (Minutes No. 169 dated 5 February 2018) and based on the results of the analysis for compliance with the methodological guide-lines for identifying and disposing of non-core assets approved by Russian Government Order No. 894-r dated 10 May 2017, a new version of the PAO Sovcomflot Non-Core Asset Disposal Programme was approved and the register of PAO Sovcomflot non-core assets, which also included the non-core assets of its subsidiary PAO Novoship, was updated.

The PAO Sovcomflot Non-Core Asset Disposal Programme defines the main approaches, principles and procedures for identifying and disposing of non-core assets belonging to the Company.

The main objectives of the PAO Sovcomflot Non-Core Asset Disposal Programme are to

- promote more efficient use of assets and maximise income (minimise losses) on the sale of the Company's property;
- reduce financial costs associated with the maintenance and servicing of non-core assets;
- form additional sources of financing;
- improve the competitiveness and investment attractiveness of the Company;
- increase capitalisation.

One core asset, shares of JSC St. Petersburg International Commodity Exchange, was sold during the reporting period. The actual sale value of the asset exceeded its book value by RUB 549,280. The difference between the actual value of the asset and its book value is due to the fact that the sale was made through a public auction on the Sber-bank - AST Electronic Trading Platform at market value

Information on the sale of non-core assets of PAO Sovcomflot in 2019

No.	Asset	Means for identifying the asset	Activity using the asset	Book value, RUB	Actual sale value, RUB
1.	2% interest in JSC St. Petersburg International Commodity Exchange	Registration number: 1-02-80100-N	Organisation of exchange trades	8,700,000	60,249,280

In accordance with the decision of the PAO Sovcomflot Board of Directors dated 10 December 2019 (Minutes No. 187 dated 13 December 2019), the assets owned PAO Novoship were removed from the register pursuant to the methodological guidelines for identifying and disposing of non-core assets. The sale of these assets will be controlled through the management and supervisory bodies of PAO Novoship.

Given the disposal of shares of JSC St. Petersburg Commodity Exchange, the register of the Company's non-core assets as of 31 December 2019 contained one non-core asset owned by to PAO Sovcomflot by the right of owner-ship.

Register of PAO Sovcomflot non-core assets as of 31 December 2019

No.	Asset	Means for identifying the asset	Activity using the asset	Book value, RUB	Planned method of disposal
1.	0.3% interest in Joint-stock commercial bank "National Reserve Bank"	State registration number: 01021170B	Banking	5,116,000	Sale, public electronic auction

9. GENERAL INFORMATION ABOUT PAO SOVCOMFLOT

Full name of the Company	PAO Sovcomflot
Number and date of issue of the certificate of state registration as a legal entity	Registered by the Moscow Registration Chamber on 18 December 1995 (certificate series BB No. 039.329 dated 18 December 1995). Information on state registration was entered in the Unified State Register of Legal Entities on 31 July 2002, primary state registration number (PSRN) 1027739028712 (certificate series 77 No. 007866796 on the entry of a record in the Unified State Register of Legal Entities on a legal entity registered before 1 July 2002).
Place of registration	3A Moyka River Embankment, St. Petersburg, 191186
Address of the standalone division in Moscow	6 Gasheka Street, Moscow, 125047
Contact telephone	(495) 660 40 00
Fax	(495) 660 40 99
E-mail address	info@scf-group.ru
Website	http://www.scf-group.ru/
Shareholder	Russian Federation represented by the Federal Agency for State Property Management
Amount of authorised capital	RUB 1,966,697,210 (one billion, nine hundred sixty-six million, six hundred ninety-seven thousand, two hundred and ten roubles).
Total number of shares	1,966,697,210 (one billion, nine hundred sixty-six million, six hundred ninety-seven thousand, two hundred and ten)
Number of ordinary shares	1,966,697,210 (one billion, nine hundred sixty-six million, six hundred ninety-seven thousand, two hundred and ten)
Nominal value of ordinary shares	The nominal value of ordinary shares is 1 (one) rouble per share.
State registration number of the issue of ordinary shares and date of state registration	1-01-10613-A; date of assignment of state registration number to the issue of securities: 27 November 2007; date of state registration of the issue: 22 August 1996
Number of shares in the additional issue whose state registration has taken place	280,956,743 (two hundred eighty million nine hundred fifty-six thousand seven hundred forty-three)
State registration number of the additional issue of ordinary shares and date of state registration	1-01-10613-A; 22 November 2008
Number of shares owned by the Russian Federation	1,966,697,210 (one billion, nine hundred sixty-six million, six hundred ninety-seven thousand, two hundred and ten)
Share of the Russian Federation in the authorised capital (ordinary shares and preferred shares)	The Russian Federation owns 100% of the ordinary shares of PAO Sovcomflot. PAO Sovcomflot did not issue preferred shares.
Existence of the special right of the Russian Federation to participate in the company's management (the "Golden Share").	The Russian Federation does not have the special right to participate in the management of PAO Sovcomflot (the "Golden Share").

Full name of the Company	PAO Sovcomflot
Information on the inclusion in the list of strategic enterprises and joint-stock companies	OAO Sovcomflot was included in the list of strategic joint-stock companies by Decree No. 1009 of the President of the Russian Federation dated 4 August 2004 «On approval of the list of strategic enterprises and strategic joint-stock companies»
Full name and address of the registrar	Joint-Stock Company «Independent Registrar Company R.O.S.T.» 18 Stromynka St., bldg. 13, Moscow 107996, Russia
Full name and address of the Company's auditor	Ernst & Young Limited Liability Company 77 Sadovnicheskaya Embankment, bldg. 1, Moscow 115035, Russia
Servicing bank	VTB Bank (PAO), Saint Petersburg
Legal advisors	INCE & Co International LLP, U.K. Reed Smith LLP, U.K. Holman, Fenwick & Willian, U.K. Watson, Farley & Williams LLP, U.K. Reynolds Porter Chamberlain LLP, U.K. Jurinflot Law Firm, Russia Pepelyaev Group LLC, Russia Shchekin & Partners LLC, Russia
Main lines of business	<ul style="list-style-type: none">Consultancy services, including:<ul style="list-style-type: none">Planning and organising the transport of cargo and passengersAdvising on the current status and development outlook of different segments of the shipping marketDeveloping promising projects in the shipping sectorAdvising on vessel purchase and sale transactionsMarketing, studying the state of the market and working with cargo ownersAdvising on insurance issues and arranging insurance coverageParticipation in negotiations to achieve operational goals and preparing corresponding draft documents and agreements; preparing draft corpo-rate and contractual documentsReviewing draft documentation regarding different types of contracts, transactions, including vessel purchase and sale financing, ordering from shipyards, refinancing, etc.Conducting legal analysis of issues in disputeOrganising auditManaging payments and advising on financial issuesRepresenting the client at conferences and seminars dedicated to the shipping industry and transport systemsOther business development activitiesParticipation in other organisations.
Code of the Issuer's principal economic activity according to OKVED (Russian Classification of Economic Activities)	70.22
Company headcount	103 people ¹
Operating period of the Company in the respective sector	31 years

^{1.} As at the date of preliminary approval of the Annual Report by the Company's Board of Directors.

10. GLOSSARY

Abbreviations

EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization - an analytical indicator equal to the amount of earnings before interest, taxes, depreciation, amortisation and impairment
Adjusted EBITDA	EBITDA adjusted for other non-operating income and expenses; gain/loss on derivative financial instruments held for trading; gain/loss on ineffective portion of hedges; gain/loss on sale of subsidiaries; foreign exchange gain/loss; gain/loss on sale of equity investments; other operating income and expenses; gain on derecognition of dividend liability
LTIF	Lost Time Injury Frequency
TRCF	Total Recordable Cases Frequency
SCF	Sovcomflot
SCF	Sovcomflot
ANO	Autonomous non-profit organisation
NF	Naval forces, naval fleet
DWT	Deadweight
LDP	Long-term development programme
FESRC	Far Eastern Shipbuilding and Ship Repair Centre
KPI	Key performance indicators
ISMS	Integrated safety management system
LIBOR	London Interbank Offered Rate
MARPOL	International Convention for the Prevention of Pollution from Ships
ISM Code	International Safety Management Code
IFRS	International financial reporting standards
VAT	Value added tax
R&D	Research and development
NCA _s	Non-core assets
PAO	Public Joint-Stock Company
LTIP	Long-term incentive programme
SUR	Seafarers' Union of Russia
RAS	Russian accounting standards
RSPP	Russian Union of Industrialists and Entrepreneurs
LNG	Liquefied natural gas
LPG	Liquefied petroleum gas
SMS	Safety management system
Bank of Russia	Central Bank of Russia

Definitions

Group	Sovcomflot Group
Deadweight	The total weight of payload carried by the vessel, measured in tonnes
MARPOL 73/78 Convention	International Convention for the Prevention of Pollution from Ships
Non-core assets	a) The non-current assets of the Company that form part of immovable fixed assets, intangible assets and construction in progress, which do not contribute to the core and related business and are included in the register of non-core assets; b) shares convertible into equity securities, and participatory interests in the authorised (joint-stock) capitals of legal entities whose business/activities are not related to running the core and related business, which are included in the register of non-core assets.
PAO Sovcomflot	Public Joint-Stock Company Sovcomflot, parent company of Sovcomflot Group
Time charter equivalent	The regular average daily revenue of a vessel operating on a voyage charter that the ship owner should earn on any shipment destination
Chartering of a vessel	The agreement to hire a vessel for a specific shipment (voyage) or the hiring of a vessel for a specific time period
Shuttle tanker	A crude oil tanker that makes regular trips between a producing field and an onshore terminal or oil refinery
International ISO standards	A set of business and technology assessment criteria, which is currently used by global market players as a standardisation framework. They are intended to help organisations meet customer and other stakeholder requirements and expectations
Backwardation	A situation where the futures price is below the spot price of the underlying asset
Contango	A situation where the futures price is above the spot price of the underlying asset
ClarkSea Index	An index provided by Clarksons Research; represents a weighted average index of earnings for the main vessel types where the weighting is based on the number of vessels in each fleet sector

FOR NOTES



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