

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.	<p>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.</p> <p>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.</p>	Not observed (non-applicable)	<p>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.</p> <p>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</p>

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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.	<ol style="list-style-type: none"> 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.	<ol style="list-style-type: none"> 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.	<ol style="list-style-type: none"> 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.	<ol style="list-style-type: none"> 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. 		

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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.	<p>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.</p> <p>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.</p> <p>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.</p>		
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.	<p>1. The company has developed a dividend policy which has been approved by the board of directors and disclosed.</p> <p>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.</p>	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.	<p>1. The dividend policy of the company clearly indicates financial/economic circumstances in which the company should not pay dividends.</p>	Observed	
1.2.3	The company should not allow the deterioration of the dividend rights of its existing shareholders.	<p>1. In the reporting period the company did not take any action leading to the deterioration of dividend rights of its existing shareholders.</p>	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.	<p>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.</p>	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 quasitreaury 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	

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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	

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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.	<p>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.</p> <p>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.</p>	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.

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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	

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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.	<p>1. The chairman of the board of directors is an independent director or the senior independent director among the independent directors is identified.</p> <p>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.</p>	Partially observed	<p>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.</p> <p>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.</p>
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.	<p>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.</p> <p>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.</p> <p>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.</p>	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	

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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	

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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.	<p>1. The board of directors has formed an audit committee composed entirely of independent directors.</p> <p>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.</p> <p>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.</p> <p>4. Meetings of the audit committee were held at least once per quarter during the reporting period.</p>	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.	<p>1. The board of directors has formed a remuneration committee composed entirely of independent directors.</p> <p>2. The chairman of the remuneration committee is an independent director other than the chairman of the board of directors.</p> <p>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.</p>	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.	<p>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).</p> <p>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.</p>	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.	<p>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.</p>	Observed	

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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.	<ol style="list-style-type: none"> The committees of the board of directors are headed by independent directors. 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.	<ol style="list-style-type: none"> 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.	<ol style="list-style-type: none"> 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. 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.	<ol style="list-style-type: none"> 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.	<ol style="list-style-type: none"> The company has adopted and disclosed an internal document – regulations on the corporate secretary. 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.	<ol style="list-style-type: none"> 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.

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
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.	<ol style="list-style-type: none"> 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.	<ol style="list-style-type: none"> 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.	<ol style="list-style-type: none"> 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.	<ol style="list-style-type: none"> 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.	<ol style="list-style-type: none"> 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	

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
7.1	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.	<ol style="list-style-type: none"> 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. 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.	<ol style="list-style-type: none"> 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.	<ol style="list-style-type: none"> 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. 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.	<ol style="list-style-type: none"> 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.	<p>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.</p> <p>2. The company's internal documents provide a procedure for retaining an independent appraiser to estimate the acquisition and redemption value of company shares.</p> <p>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.</p>	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