

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

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