

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.

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).



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 is 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 For more details see the relevant sections of this Annual Report.

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