

Annual report 2018





Annual reports of PAO Sovcomflot for the previous years are available on the Company's website in the Investors section.

<http://www.scf-group.com/investors/>

About the report

Annual report of Sovcomflot (PAO Sovcomflot, the Company) for 2018 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 2018 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, percents, amounts made in rounding of the estimate indicators.

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

The 2018 annual report of PAO Sovcomflot was preliminarily approved by the Company's Board of Directors (Minutes No. 180 of 15 April 2019) 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.



Contents

Sovcomflot Group: Key Facts 6

2018 – Key events and achievements 8

SCF's global environmental initiative 12

Message from the Chairman of the Board of Directors 14

Message from the President and Chief Executive Officer 16

1. About Sovcomflot Group18

1.1. Company profile 19

1.2. Industry overview 21

1.2.1. Global market trends 21

1.2.2. Competitive position 24

2. Strategy25

2.1. Development strategy of Sovcomflot Group 26

2.2. Long-Term Development Programme of Sovcomflot Group 26

2.3. Strategic decision-making structure 27

2.4. Key performance indicators of the Long-Term Development Programme 28

3. Group performance30

3.1. Production activities 31

3.1.1. Composition of the fleet 31

3.1.2. Fleet operation 32

3.1.3. Operating results 33

3.2. Investment activities 35

3.2.1. Dynamics of investments 35

3.2.2. Implementation of investment projects – Key results .. 36

3.2.3. Implementation of the shipbuilding programme 37

3.3. Innovative activities and R&D 38

3.3.1. Areas of innovative activities 38

3.3.2. Assessment of the innovative development performance 40

3.4. Financial results 40

3.4.1. Key financial indicators 40

3.4.2. Income statement indicators 41

3.4.3. Liquidity indicators 43

3.4.4. Credit rating of the Group 43

4. Corporate governance44

4.1. Corporate governance system 45

4.2. General meeting of shareholders 48

4.3. Board of Directors of PAO Sovcomflot 49

4.3.1. Composition of the Board of Directors 49

4.3.2. Activities of the Board of Directors in 2018 53

4.3.3. Activities of the Board of Directors committees in 2018 55

4.4. Chief Executive Officer and Executive Board of PAO Sovcomflot 58

4.5. Auditing Commission 62

4.6. Compensation system for members of management bodies 63

4.6.1. Compensation of the Board of Directors members in 2018 63

4.6.2. Compensation of Executive Board members and the Chief Executive Officer in 2018 64

4.7. Stakeholder communications 65

4.8. Risk management system and internal control 66

4.8.1. Risk management system 66

4.8.2. Internal control 67

4.9. Internal and external audit 68

4.9.1. Internal audit 68

4.9.2. External audit 68

5. Share capital and dividend policy69

5.1. Structure of the share capital 70

5.2. Distribution of profit 70

5.3. Dividend policy 71

6. Sustainable development72

6.1. Occupational health and safety 73

6.1.1. Safety management system and service quality 73

6.1.2. Key occupational safety indicators 73

6.2. Human resources and social programmes 74

6.2.1. Employment policy 74

6.2.2. Professional development 75

6.2.3. Personnel motivation 76

6.3. Charity and sponsorship 77

6.4. Environmental protection 84

6.4.1. Environmental protection policy 84

6.4.2. Atmospheric emissions 84

6.4.3. Wastewater and waste management 87

6.4.4. Energy consumption and efficiency 87

6.4.5. Energy efficiency initiatives 88

Annexes89

1. Report on compliance with the principles and recommendations of the Bank of Russia Corporate Governance Code 90

2. Sovcomflot Group – Key risks 104

3. Participation of PAO Sovcomflot in commercial and non-profit organisations 105

4. Major and interested-party transactions 106

5. Information on litigations involving PAO Sovcomflot 107

6. Information on the results of implementing orders of the Russian President and the Russian Government. ... 108

7. List of key internal regulations serving as the basis for the compilation of this Annual Report 113

8. Non-Core Asset Sale Programme 114

9. General information about PAO Sovcomflot 115

10. Glossary 117

Sovcomflot Group: Key Facts

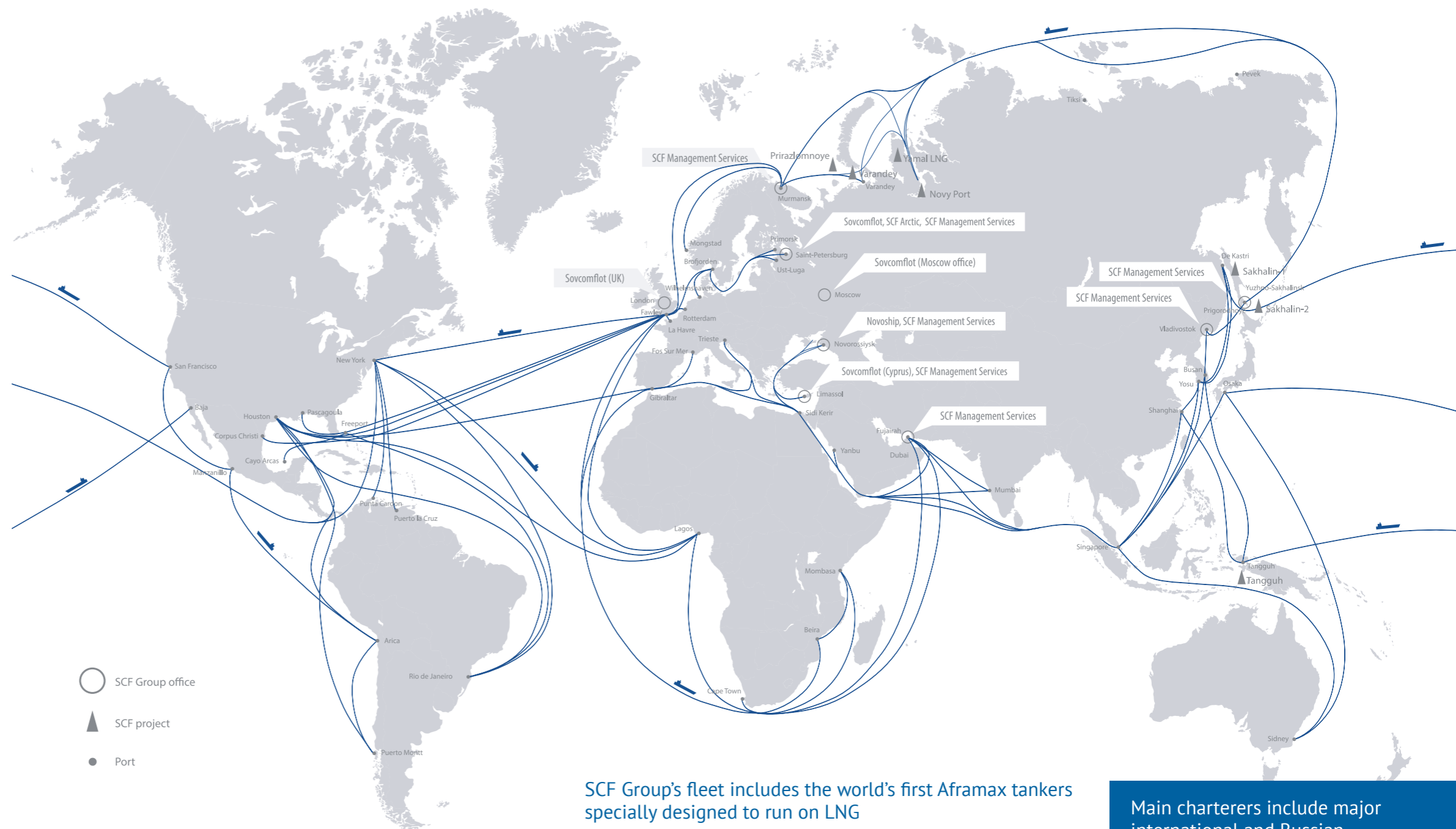
Russia's largest shipping company and one of the global leaders in marine transportation of hydrocarbons (crude oil and petroleum products, liquefied gas) and in transport servicing of oil and gas projects on the continental shelf, including offshore seismic exploration

As of 31 December 2018 the Group's fleet included
144 vessels
with a total deadweight of 12.44 million tonnes¹

4 new vessels
were added to the fleet in 2018

The average age of the fleet is
10.2 years

The Group's staff totals over
> 7,800 people
offshore and onshore. The Company is one of the largest employers in the cities located at the seaside in North-West, South and Far East of Russia



The world's leading operator and the largest owner of ice-class vessels designed to operate in difficult navigational conditions:
80 ice-class vessels
rated from ICE 1C to Arc7 and Icebreaker ICE-15

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

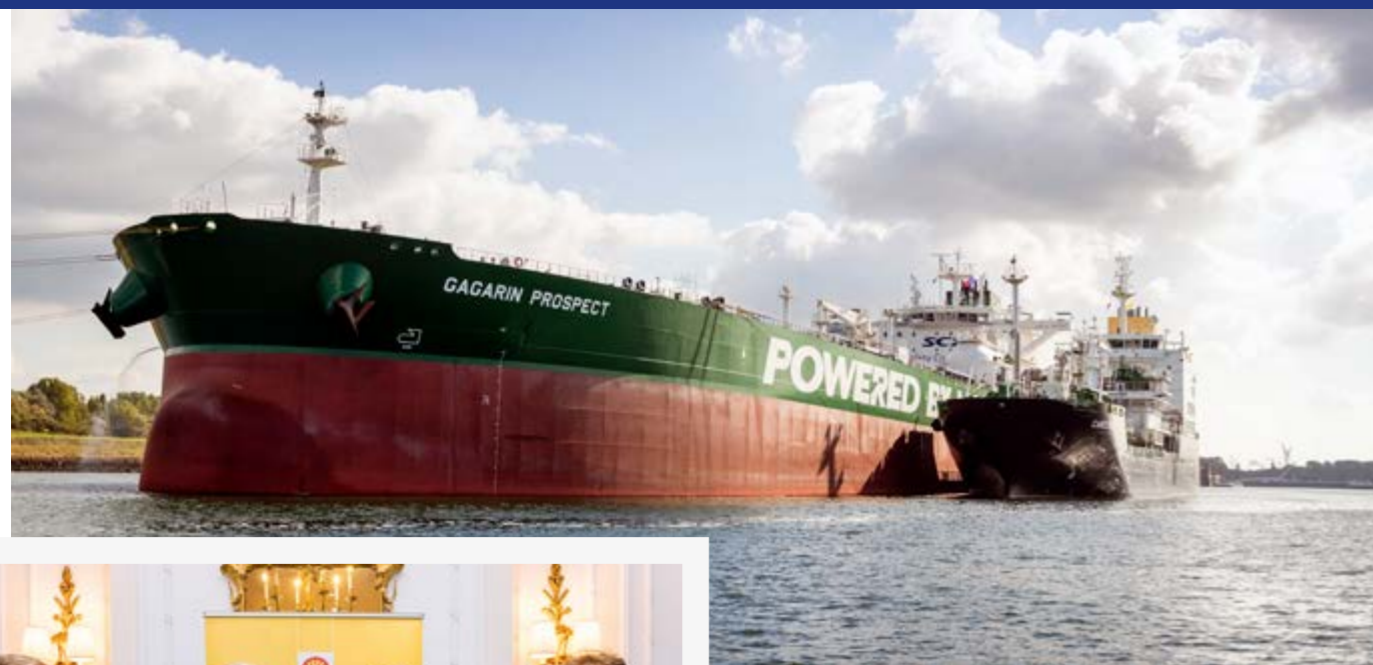
The Group has offices in Moscow, St. Petersburg, Novorossiysk, Murmansk, Vladivostok, Yuzhno-Sakhalinsk, Limassol, and Dubai

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

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

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

2018 – Key events and achievements



March

Russian President Vladimir Putin signed a decree to confer state awards on a group of Sovcomflot employees for major contribution to the implementation of the project for creating the world's first icebreaking LNG carrier, Christophe de Margerie.

Sovcomflot won the annual contest «Industry Leader», organised by the Federal Marine and River Transport Agency, in category «Shipping company engaged in maritime liquid bulk cargo transportation».

February

- Sovcomflot Group and Shell entered into long-term charter contracts for two new-generation Aframax tankers using LNG as the primary fuel.
- A ceremony of raising the flag of the Russian Federation and naming of a new multifunctional icebreaking platform supply vessel, Yevgeny Primakov, took place in Saint Petersburg.
- Sovcomflot and Sberbank signed a project financing agreement for a total amount of US\$106 million and a term of up to 14 years. The funds were used to build an Arctic shuttle tanker for servicing Gazprom Neft's Novy Port project.



April

- Sovcomflot Group entered into a credit facility agreement for a total amount of US\$252 million and a term of up to 7 years with a consortium of six international banks (ABN AMRO Bank, BNP Paribas, Citibank, ING Bank, KfW IPEX-Bank and Societe Generale). The raised funds were used to finance the construction of a series of six LNG-fuelled Aframax crude oil tankers.
- Marine Money named the credit facility agreement between Sovcomflot and VTB as the Deal of the Year in Project Financing – West category. The borrowed capital was used to finance the construction of the Arctic LNG carrier Christophe de Margerie.



May

- The 17th annual conference of business partners of PAO Sovcomflot, timed to coincide with the 30th anniversary of the establishment of Sovcomflot as a joint-stock company, was held in Saint Petersburg.
- The Russian round of the Fort Ross Dialogue, an annual Russo-American conference, took place in Veliky Novgorod with the support of Sovcomflot and its partners, Transneft and Chevron.



June

- Sovcomflot Group and NOVATEK signed a strategic partnership agreement to provide transport support for Yamal LNG, Arctic LNG 2 and other Arctic projects developed by NOVATEK.

July

- Gagarin Prospect, the first vessel in a series of six Aframax oil tankers of a new generation specially designed to run on LNG was delivered to SCF Group.

August

- The LNG carrier Pskov delivered to consumers the first batch of liquefied gas produced by the second production line of the Yamal LNG plant.
- Sovcomflot's shuttle tanker Governor Farkhutdinov delivered the milestone 600th cargo of crude oil from Sakhalin-2 to the port of Quanzhou, China.

September

- An order for the construction of a series of two LNG-fuelled Aframax crude oil tankers was placed at the Zvezda Shipbuilding Complex. The ships will be subsequently chartered to Rosneft under 20-year time charter contracts.
- SCF Far East Tall Ships Regatta 2018 was successfully completed. Vladimir Putin presented Sergey Vorobiev, captain of the sailing ship Nadezhda, with the prize for the first place won by the ship in the race of Class A tall ships from Yeosu (South Korea) to Vladivostok.
- The Arctic LNG carrier Christophe de Margerie delivered to consumers the milestone 5-millionth tonne of liquefied natural gas from the Yamal LNG plant.
- The Vessel Electric Propulsion Training Centre was opened at the Admiral Nevelskoy Maritime State University with the support of Sovcomflot and ABB to prepare seafarers for work on vessels equipped with Azipod propulsion units. The opening ceremony was attended by Russian Minister of Transport Yevgeny Dietrich.



October

Sovcomflot became the winner of the 2018 International Competition for Scientific, Technical and Innovative Projects aimed at the development and exploration of the Arctic and the continental shelf, held with the support of the Russian Government and the Russian Ministry of Energy. A team of company specialists was honoured with the first prize "for the development of technological solutions enabling the creation of an autonomous system for reliable and safe navigation in the most challenging zones of the Gulf of Ob".

The 7th Russian-American forum, Fort Ross Dialogue, was successfully held in San Francisco with the support of Sovcomflot, Transneft and Chevron.

Gagarin Prospect, an LNG-fuelled Aframax tanker, successfully completed the first LNG bunkering operation at the Port of Rotterdam and made her first commercial voyage across the Baltic and North Seas operating on LNG.

Lomonosov Prospect, a large-capacity LNG-fuelled tanker, successfully completed a commercial voyage along the Northern Sea Route to deliver hydrocarbons from South Korea to Northern Europe.



November

- Sovcomflot entered into a US\$149 million credit facility agreement for a term of up to 10 years with a consortium of three European banks (ING Bank, KfW IPEX-Bank and Credit Agricole CIB).
- The LNG carrier Pskov completed the first LNG ship-to-ship transfer operation for the Yamal LNG project. This operation marked the start of a new stage in the development of the transport logistics system for delivery of Yamal gas to consumers.



December

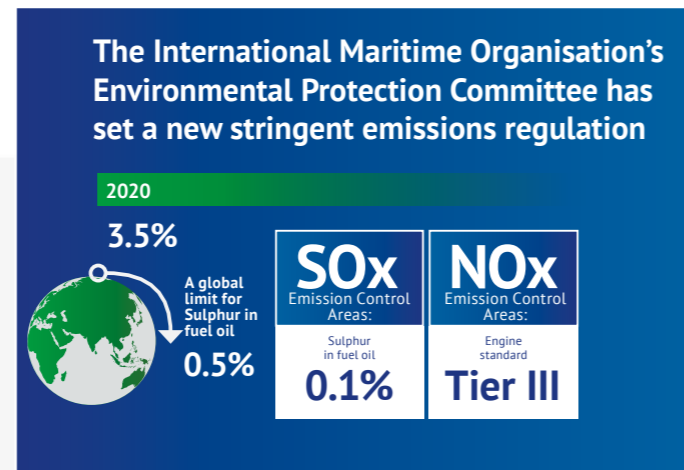
- The Arctic LNG carrier Christophe de Margerie loaded the first cargo of LNG produced on the third production line of the Yamal LNG project. The cargo operations at the port of Sabetta were inaugurated by Prime Minister Dmitry Medvedev.
- Sovcomflot won the Environment Award – Individual Company at the 2018 Lloyd's List Global Awards.
- Sovcomflot entered into a US\$264 million revolving credit facility agreement for a term of up to six years with a consortium of five international banks (Citibank, DVB Bank, ING Bank, Societe Generale and UniCredit).
- An order for the construction of three LNG-fuelled MR product tankers was placed at the Zvezda Shipbuilding Complex.

SCF's global environmental initiative

In 2018 Sovcomflot put into operation large-capacity LNG-fuelled tankers. The Company, in partnership with Shell, set a new standard for environmental sustainability in maritime shipping.

Advantages of operating on LNG

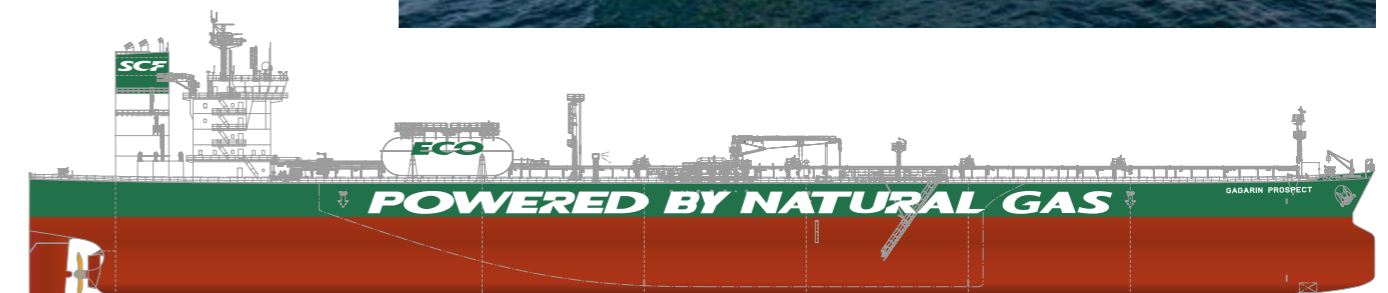
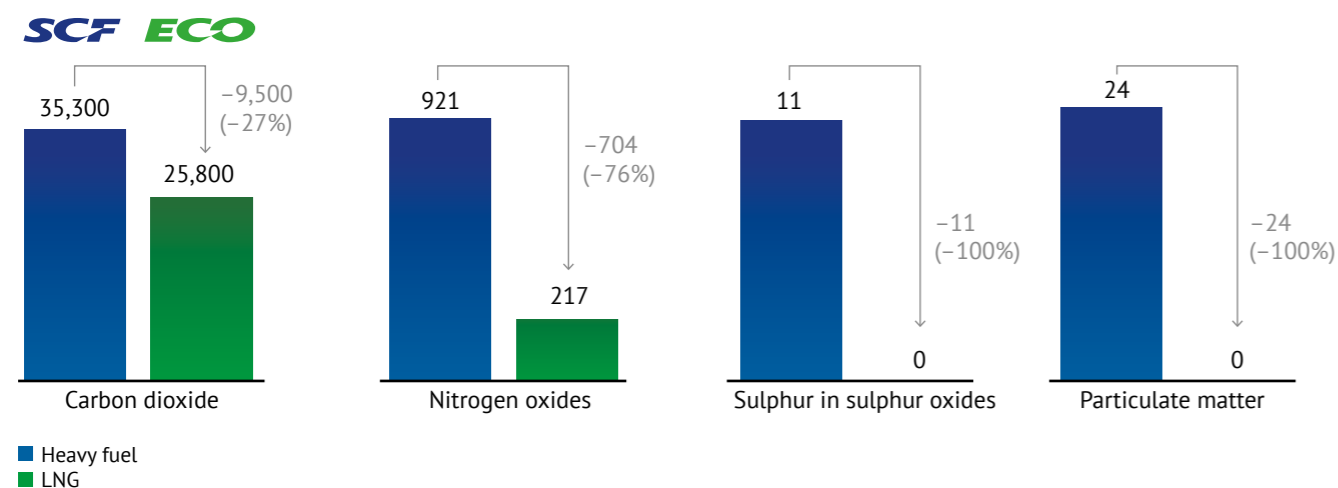
The reduction of sulphur oxides and soot emissions reaches 100%, nitrogen oxides emissions decrease by 76% and carbon dioxide emissions by 15% as compared with power plants running on conventional heavy fuel.



In mid-2018, new-generation Aframax tankers entered the global energy shipping market. The first vessel of the series was chartered to Shell in July. SCF's tanker Gagarin Prospect became a pioneer, just like Yuri Gagarin.



Atmospheric emissions from an LNG-fuelled power plant compared with that running on heavy fuel, tonnes per year



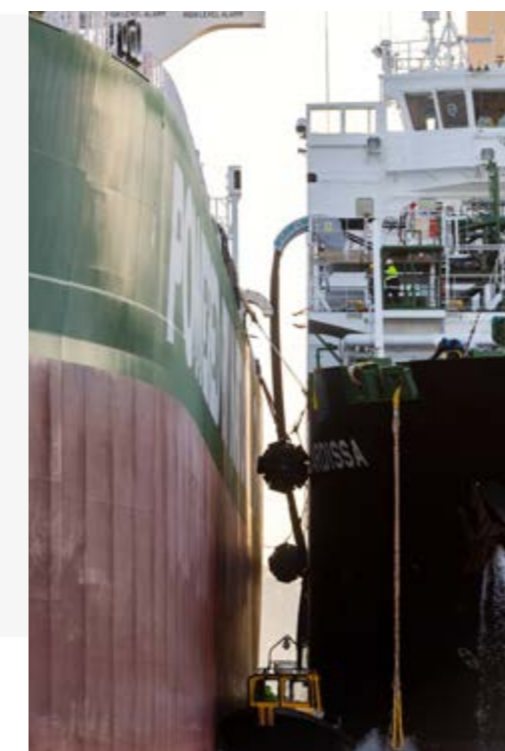
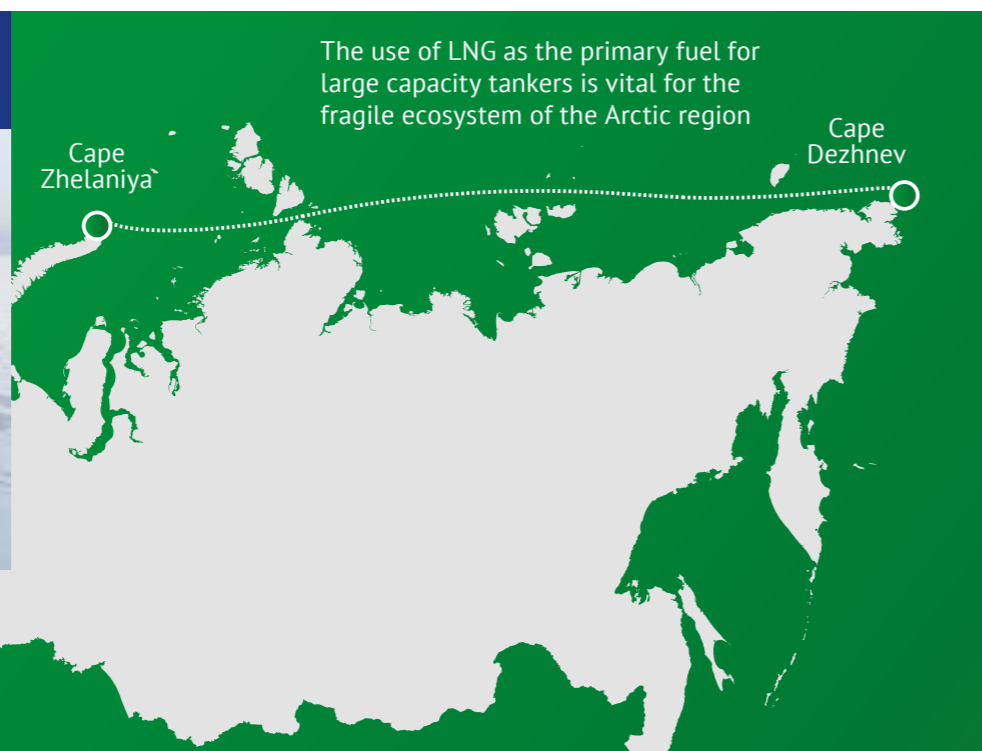
The series includes six vessels:

- Gagarin Prospect** (part of the fleet since July 2018)
- Lomonosov Prospect** (part of the fleet since October 2018)
- Mendeleev Prospect** (part of the fleet since November 2018)
- Korolev Prospect** (part of the fleet since February 2019)
- Vernadsky Prospect** (part of the fleet since March 2019)
- Samuel Prospect** (the tanker is under construction and will be named after Sir Marcus Samuel, the founder of Shell Transport & Trading Co)



Commercial voyage of Lomonosov Prospect along the Northern Sea Route in October 2018

Distance: 2,194 nautical miles
Voyage time: 7.8 days



Development of LNG bunkering infrastructure

The first ship-to-ship LNG bunkering took place at the Port of Rotterdam in early October 2018 when Shell's bunker vessel Cardissa re-fuelled SCF's large-capacity tanker Gagarin Prospect.

This set an important precedent for the global shipping industry to use LNG as a fuel for large-capacity vessels.





Message from the Chairman of the Board of Directors

SCF
Safety Comes First



Despite the objective difficulties, Sovcomflot fully accomplished the tasks set by the shareholder, having once again confirmed the effectiveness of the current business model.

The Sovcomflot Board of Directors notes that the stable operating and financial performance of the Company was achieved amidst the continuing unfavourable conditions in the global market for maritime transportation of crude oil and petroleum products. The global conventional tanker market has experienced a protracted downturn over the last few years. In 2017-2018, freight rates for conventional vessels were steadily falling and by mid-2018 reached the lowest values since 1992.

Despite the objective difficulties, Sovcomflot fully accomplished the tasks set by the shareholder, having once again confirmed the effectiveness of the current business model, which contemplates the expansion of participation of the Company's fleet in industrial projects with high value added, primarily those associated with the servicing of offshore oil and gas production and transportation of liquefied natural gas.

The consistent implementation of the Strategy enabled the Company to achieve better financial results for the year than most competitors and record an operating profit of US\$187.3 million. The RAS net profit of PAO Sovcomflot amounted to RUB 2,870 million. The Company's stable financial position enables it to allocate RUB 1,434.8 million for dividend payments.

In 2018 the Company strengthened its position as the industry's technological leader by having successfully implemented the project for creating a Green Aframax tanker series. These vessels that use LNG as the primary fuel meet the highest global standards for environmental sustainability and energy efficiency. The Company's work in this area is in full accordance

USD **187,3**
million
operating profit

RUB **2,870**
million
RAS net profit

RUB **1 434,8**
million
amount of recommended dividend

with the state programme of the Russian Federation that provides for the expansion of the use of gas engine fuel in the transport sector. Being one of the largest customers in the Russian civil shipbuilding industry, Sovcomflot contributes to localising the construction of these vessels in Russia at the Zvezda Shipbuilding Complex in Primorsky Krai.

Human capital is the most valuable asset of Sovcomflot. The Company is one of the most stable and attractive employers in the Russian shipping industry. The Company views support for the young generation and fostering future talents for the transport industry as an important element of social responsibility. As part of cooperation with the country's leading maritime universities and occupational guidance organisations, Sovcomflot is consistently implementing educational programmes in accordance with the priorities of the domestic maritime industry.

The Board of Directors expresses its deep gratitude to all partners and customers of Sovcomflot Group for mutually beneficial and fruitful cooperation. Thanks to your trust and support, the Company managed to achieve all the set goals and can look into the future with confidence.

Ilya Klebanov
Chairman of the Board of Directors
PAO Sovcomflot



Message from the President and Chief Executive Officer

SCF
Safety Comes First

In 2018, the work of shipping companies engaged in the transportation of hydrocarbons was undertaken in extremely challenging conditions. Due to a significant surplus of tonnage supply over demand, freight rates for crude oil tankers were much lower than the levels seen in the previous twelve months, which was previously considered one of the most difficult periods for crude oil and petroleum product shipping in recent history. The negative impact of non-market factors on global trade and finance increased which, in combination with soft market conditions, contributed to a deterioration in the financial performance of tanker owners operating vessels primarily in the conventional market segment.

Against this background, the Group's consistent implementation of its current business strategy, which prioritises its development in premium market segments, such as the servicing of offshore oil and gas production and the transportation of liquefied natural gas for long-term energy projects, enabled Sovcomflot to deliver steady operational and financial results for the reporting period.

The Group's revenues from the servicing of offshore oil and gas production and gas transportation saw steady growth, accounting for 57% of TCE revenue at the year-end, compared with 51% at the end of the prior year. As a result, the Group's gross revenue reached USD 1,519.9 million, having increased by 5.9% year-on-year, EBITDA rose by 6.5% to USD 580.7 million, and operating profit stood at USD 187.3 million.

The results in 2018 enabled the Group to implement its investment programme in full, and Sovcomflot was also able to confirm its global leadership in the development and mastering of the most effective and safe technical solutions deployed within the tanker industry. Three vessels from a series of six new-generation Aframax tankers, using the more environmentally friendly LNG as their primary fuel, were added to SCF's fleet. In the second half of 2018, orders for another five LNG-fuelled tankers - two crude oil Aframax tankers and three MR product tankers - were placed at the Zvezda Shipbuilding Complex in Primorsky Krai, Russia. Meanwhile, a new operations centre serving SCF's fleet activities in the Arctic was commissioned. This centre has a wide range of functional capabilities for handling complex navigational tasks, using the latest digital technologies, and has virtually no analogues in the industry.

Over the past year, SCF strengthened its leadership in the servicing of hydrocarbon fields on the continental shelf, as well as oil & gas projects in the Arctic and sub-Arctic regions. With the commissioning and long-term charter of Yevgeny Primakov to Sakhalin Energy, the Sakhalin-2 project operator, the Group's fleet of multifunctional icebreaking platform supply vessels servicing the Sakhalin projects reached 10 units.

The results in 2018 enabled the Group to implement its investment programme in full, and Sovcomflot was also able to confirm its global leadership in the development and mastering of the most effective and safe technical solutions deployed within the tanker industry



USD **1,519.9**
million
gross revenue

USD **187.3**
million
operating profit

USD **8.4**
billion
total contracted future
revenue

As part of a further development in the Group's interaction with NOVATEK, SCF's LNG carriers Pskov and Christophe the Margerie delivered the first cargoes of liquefied natural gas to consumers produced in the first and third phases of the Yamal LNG project respectively. In June, SCF Group and NOVATEK entered into a strategic cooperation agreement regarding logistics support for the Yamal LNG, Arctic LNG-2 and other projects.

Work is currently being completed on the Sovcomflot Strategy for the period up to 2025, under which the Group is to maintain its development focus that guarantees further business stability and steady results.

The fourth quarter of 2018 saw some signs of recovery in market conditions. The positive dynamics of spot freight rates, which generally continued in the first quarter of 2019, together with a forecasted balance in tanker tonnage supply and demand, which favours shipowners, give us grounds to view the current year and 2020 with cautious optimism.

As at 31 December 2018, the Group's total contracted future revenue stood at USD 8.4 billion.

Human capital has been and remains key to the Group's success. In 2018 a long-term employee motivation programme, approved by Sovcomflot's Board of Directors, was implemented. The programme participants include distinguished masters and chief engineers across SCF's fleet who perform their voyage responsibilities in a quality and accident-free manner, and pay special attention to fostering the development of SCF's younger officers.

The Executive Board of PAO Sovcomflot expresses its special gratitude to all of the Group's employees – fleet masters, crews and onshore personnel - for their high professionalism and great contribution to strengthening the Group's economic prospects. I thank the shareholder, customers and our partners for their effective support and participation in the implementation of the Group's plans.

Sergey Frank
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

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.

The company's own and chartered fleet, specialising in oil and gas shipping in difficult ice conditions, includes 144 vessels with a total deadweight of 12,443 thousand tonnes and an average age of 10 years. 80 vessels have an ice class.

The SCF fleet is organised into four divisions¹:

- Conventional tanker fleet management and development division;
- Gas fleet management and development division;
- Offshore fleet management and development division;
- Seismic exploration division.

Fleet structure by division as of 31 December 2018

Conventional Division

Transportation of oil, petroleum products and bulk cargoes

- 2 VLCC, 15 Suezmax and 36 Aframax crude oil tankers (and 5 under construction)
- 9 LR II, 9 LR I², 26 MR and 4 Handysize product and chemical tankers
- 2 Panamax bulkers

Gas Division

Transportation of liquefied natural and petroleum gas (LNG and LPG)

- 9 LNG tankers³(and 3 under construction)
- 4 LPG tankers

Offshore Division

Supply and servicing of offshore platforms, management of terminals, shuttle transportation

- 8 Aframax, 5 Panamax and 3 MR shuttle tankers (and 1 under construction)
- 10 multifunctional ice-breaking vessels

Seismic Exploration Division

Offshore seismic exploration

- 2 seismic research vessels

More detailed information can be found in section 3.1.1. of this Report, Fleet composition, 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. SCF Group is involved in servicing large oil and gas projects in Russia and beyond: Yamal LNG, Sakhalin-1, Sakhalin-2, Prirazlomnoye, Novy Port, Varandey, Tangguh (Indonesia).

1. The fleet structure by division differs from the operating segments structure reported under IFRS (for more details see the financial statements).
2. The fleet of joint ventures
3. Including the fleet of joint ventures: 4 LNG carriers

Our in-house engineering and a set of advanced technologies, especially those 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. Tonnage is chartered out on a competitive basis under the principles of equal conditions and opportunities for all customers.

Main charterers of SCF Group's vessels¹



1. By the share of gross freight in 2018

Russian export and transit cargoes exported through Russia account for 38.5% of all cargoes transported by the Group's vessels in 2018.

1.2. INDUSTRY OVERVIEW

1.2.1. Global market trends

Historically, the international tanker market has been characterised by marked cyclicality and a large amplitude of fluctuations in freight rates due to changes in tonnage supply and demand.

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, 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

Since the beginning of 2018 the price structure in the oil markets has remained in backwardation¹, which negatively affected the demand for oil tankers for both floating storage and arbitrage shipments over long distances. The policy pursued by OPEC and the largest producers in an attempt to reduce crude oil inventory levels was effective. In February 2018, inventories almost reached the average level for the last five years. Nevertheless, the rate of inventory reduction was, apparently, lower than previously expected, which led to the oil production cap deal being extended until the end of 2018. The output reduction reached 140% in the first quarter, which meant an actual cut in OPEC production by 2.4 million barrels per day against the 1.8 million envisaged by the agreement.

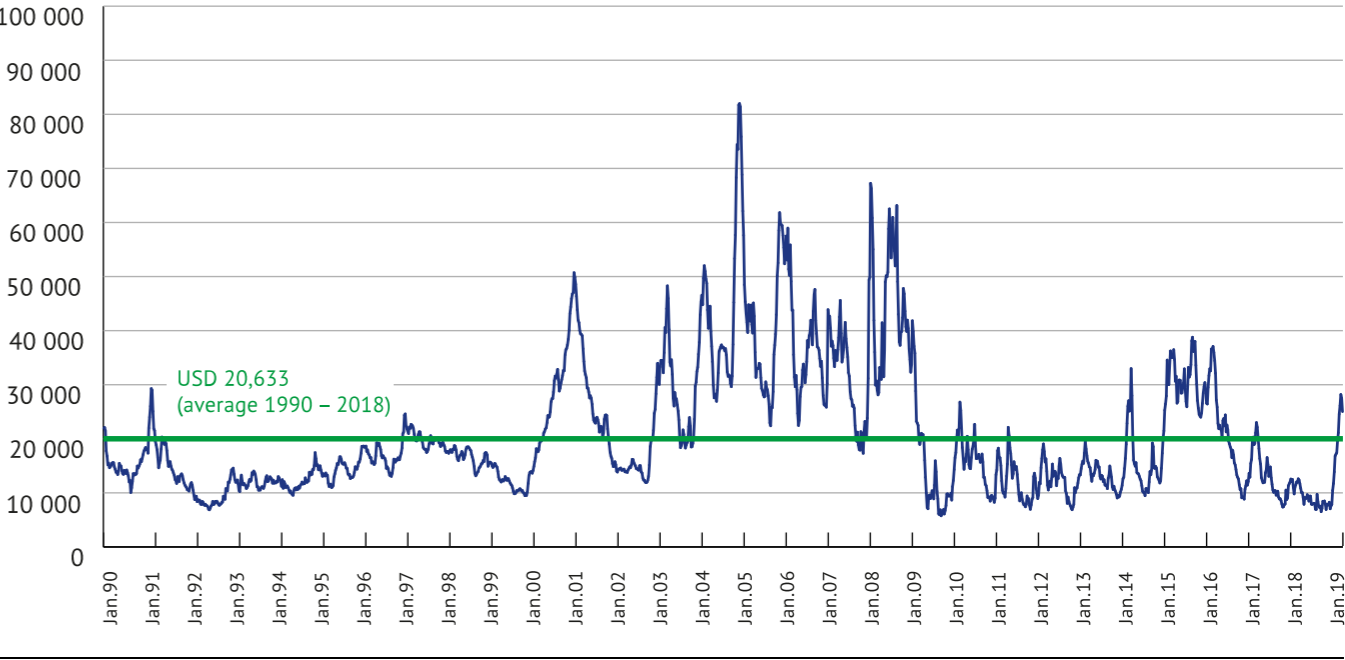
On the back of positive macroeconomic indicators in the USA, China and other largest economies, which prompted an upward revision in global economic growth forecasts, and a tangible result in maintaining oil supply discipline since the early 2018, oil prices have been increasing steadily, with Brent crude reaching US\$75-80 per barrel in 2Q and 3Q 2018. In June 2018, OPEC countries reached an agreement to gradually increase oil production by 1 million barrels a day. As soon as in June, there emerged trends towards an increase in the number of oil cargoes in the market and cautious optimism regarding improvement of the situation in the freight market by the end of the year.

Oil prices were rising during the third quarter and at the beginning of the fourth quarter. As a result, the average monthly Brent crude price in October amounted to US\$81.03 a barrel. Concerns about potential disruptions in oil deliveries due to the renewal of U.S. sanctions against Iran from the beginning of October were one of the major price growth factors. However, due to the entry of additional oil into the market, the lack of a significant reduction in Iranian exports and an increase in the risk of deceleration in the Chinese economy in 2019, oil prices fell in November and remained at US\$55-65 per barrel during 4Q 2018. The futures price structure shifted to contango² from time to time.

Tanker market

2018 proved to be a second consecutive challenging year for the tanker industry, with trading conditions remaining extremely difficult and the spot rates well below their historical averages. Tanker markets hit the lowest level on average since 1992.

Dynamics of the value of the ClarkSea Index³ (USD per day)



1. See the Glossary.
2. See the Glossary.
3. See the Glossary.

Despite the positive trends of 4Q, in 2018 the value of the ClarkSea Index amounted to USD 11,216 per day (the lowest value of the index was recorded in 1992 at USD 8,983 per day).

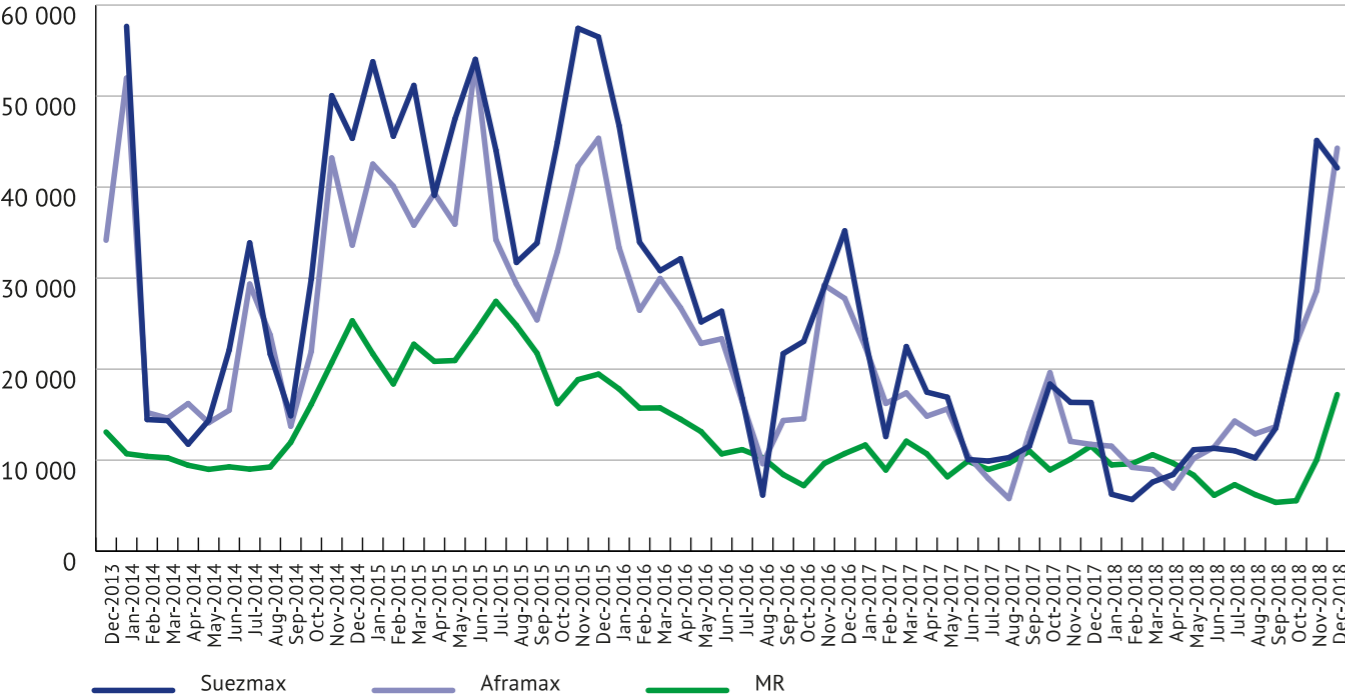
No improvements were seen in the tanker markets during the period from December to September 2018. In addition to a decrease in demand for oil transportation due to OPEC countries exceeding their production cut targets (the actual cut in production in 1H 2018 was about 2.4 million barrels per day), the rates of new ship deliveries from shipbuilding yards were high in 1H 2018, including due to ship delivery deadlines previously agreed between shipbuilder and shipowners who suffered losses having been brought forward from 2017. The rates for VLCC, Suezmax and Aframax crude oil vessels during the period from December to September 2018 were on average 35-65% lower than average rates in 2017, and 50-60% lower than in 9M 2017. For LR2, LR1 and MR product vessels, the rates were at the 2017 level.

Weighted average spot TCE (USD per day)

Vessel size category	2018	2017 ¹	Difference
VLCC tankers	15,561	17,794	-12.55%
Suezmax tankers	16,466	15,436	6.67%
Aframax tankers	16,175	13,873	16.59%
MR product carriers	8,750	10,213	-14.32%
Handysize product tankers	6,734	7,380	-8.75%

Source: Clarksons

Dynamics of spot tanker freight rates (USD per day)



Source: Clarksons

In the time charter market, rates were declining during 2018, but in the fourth quarter the decline was compensated for by dynamics of spot rates.

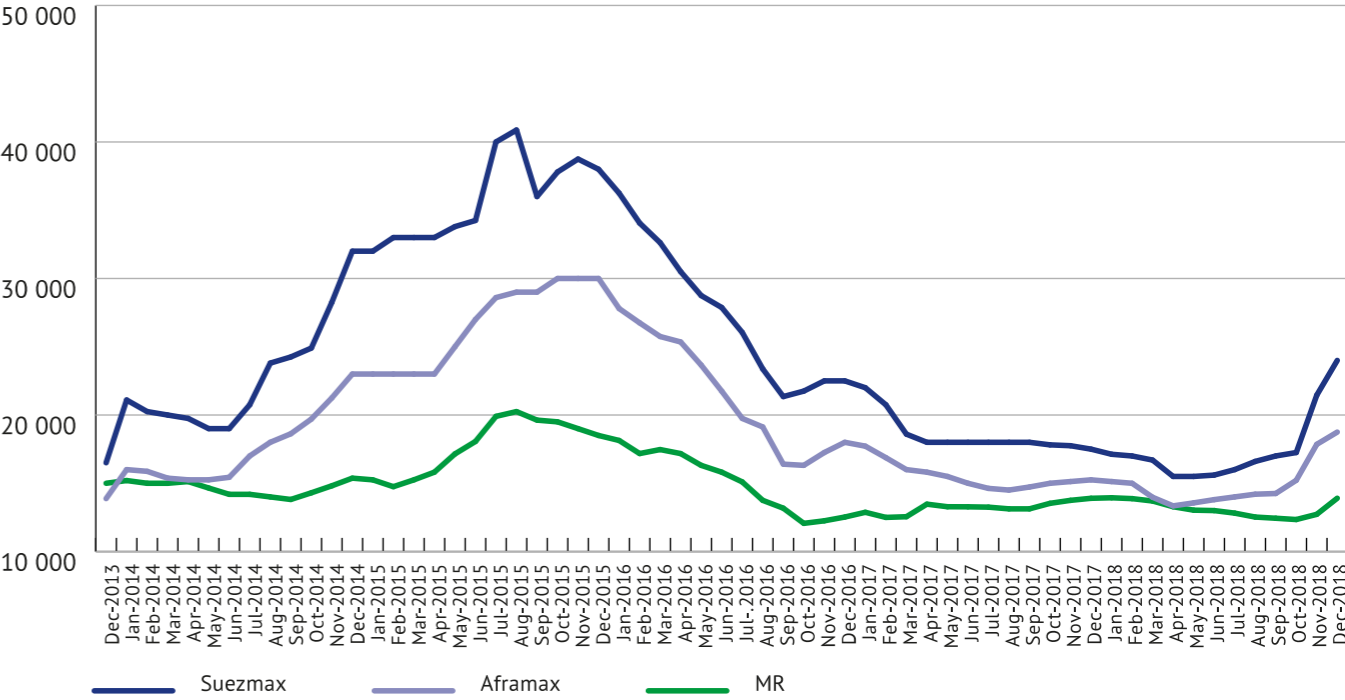
1. Clarksons Research Services data for 2017 as of 31 December 2018 were updated in comparison with similar data as of 31 December 2017.

Weighted average one-year time charter rates (USD per day)

Vessel size category	2018	2017 ¹	Difference
VLCC tankers	22,899	27,084	-15.45%
Suezmax tankers	17,486	18,495	-5.46%
Aframax tankers	14,925	15,490	-3.65%
Product carriers (dark petroleum products)	12,962	13,077	-0.88%
Product carriers (light petroleum products)	11,572	11,430	1.24%

Source: Clarksons

Dynamics of tanker time charter rates (USD per day)



Source: Clarksons

New build and S&P market

Activity in the second-hand tanker market was declining at the beginning of the year, but the demand for vessels recovered beginning from the second quarter and for the full year increased by 19.35% compared to 2017, with 333 deals (total deadweight: 32,596 thousand tonnes, total value: USD 4,956 million) against 279 deals in 2017 (total deadweight: 27,838 thousand tonnes, total value: USD 5,586 million). 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. Meanwhile, due to the same factors, prices for second-hand tonnage decreased significantly in 2018, which in turn attracted buyers to the market after the first quarter.

Prices in the tanker sale and purchase market dropped by 20-25%. Prices for bulk carriers stagnated following growth in 2017.

Activity in the second-hand tanker market

Indicator	2018	2017 ¹	Difference
Number of vessels sold (units)	333	279	19.35%
Total deadweight of sold ships ('000 tonnes)	32,596	27,838	17.09%
Total value of sales (USD million)	4,956	5,586	-11.28%

Source: Clarksons

At the end of 2017 and during 2018, the demand and orders for new vessels increased multiply compared to stagnation in the shipbuilding market in 2016 and 1H 2017. The segments of container ships and LNG carriers accounted for the major part of orders in 2018. The number of orders for both tanker and dry cargo fleet also increased significantly due to the reasonable expectation that the bottom in prices for new ships had been passed. The value of orders for new ships has increased by about 15% since the beginning of 2018 due to the stabilisation of demand for contracts and an increase in metal prices and exchange rates of currencies used by Far East shipbuilders.

Dynamics of the number of new ship orders

Type of vessel	2018	2017 ²	Difference
Crude oil and product tankers	169	262	-35.50%
Chemical tankers	35	72	-51.39%
LPG carriers	41	27	51.85%
LNG carriers	76	18	322.22%
Total	321	379	-15.30%

Source: Clarksons

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;
- Dynacom Tankers, Greece;
- Scorpio Group, Monaco
- Torm A/S, Denmark
- Minerva Marine, Greece;
- BW Group, Bermuda
- Tsakos Group, Greece;
- MISC, Malaysia.

The 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 to the high degree of fragmentation on the tanker transportation market and the continued presence of a significant number of 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:

Parameter	Global ranking
Arctic shuttle tanker fleet	1
Ice-class tanker fleet	1
Aframax tanker fleet	1
Fleet of multifunctional icebreaking vessels	1
Size of tanker fleet	3
Shuttle tanker fleet	3
Ice-class LNG tanker fleet	5
Product tanker fleet	6

No. 1
IN THE WORLD

Arctic shuttle tanker fleet
Ice-class tanker fleet
Aframax tanker fleet
Fleet of multifunctional icebreaking vessels



2

Strategy

The Sovcomflot Development Strategy is to expand the highly profitable industrial business portfolio (long-term contracts with a fixed return) while retaining a leading position in the conventional tanker segment, based on implementation of advanced environmental protection technologies and strengthening of cooperation with key charterers

1. Clarksons Research Services data for 2017 as of 31 December 2018 were updated in comparison with similar data as of 31 December 2017.
2. Clarksons Research Services data for 2017 as of 31 December 2018 were updated in comparison with similar data as of 31 December 2017.

2.1. DEVELOPMENT STRATEGY OF SOVCOMFLOT GROUP

The Group Strategy up to 2017 was approved by the Board of Directors in September 2011¹. The strategy parameters were updated in 2013 with the planning horizon extended to 2018².

According to the Strategy, Sovcomflot Group's mission is to manage the portfolio of assets in the segments of maritime transportation of hydrocarbons (crude oil, liquefied gas) and servicing of offshore oil and gas production. The goal of the Company's strategy is to ensure a continuous increase in shareholder value by maximising returns from ownership of assets and fleet operation while maintaining national interests and high quality and operational safety standards.

The main strategic development areas of SCF Group are:

- Services for offshore hydrocarbon exploration and production in harsh climatic and ice conditions;
- Liquefied gas transportation;
- Conventional energy shipping.

The Strategy sets forth the Sovcomflot Group's priorities in sustainable development: ensuring navigation safety, reducing adverse environmental impacts, improving the professionalism of personnel, and placing a focus on technical and innovative development.

The tasks faced by Sovcomflot Group in accordance with the Strategy are as follows:

- Maximising income from the operation of the conventional fleet (crude oil and product tankers), taking into account the prevailing freight market conditions, seasonal factors, and emerging local “peak” freight rates in certain geographic markets;
- Further optimising the fleet size, factoring in the state of the market for second-hand tonnage, and realising opportunities to revamp the fleet in order to reduce operating costs and increase competitiveness;
- Implementing current and launching new Russian and international projects involving the transportation of liquefied gas, shuttle transportation of oil, and servicing of offshore hydrocarbon production in order to increase the share of long-term project business in total revenue and the aggregate assets of the Group;
- Implementing special activities aimed at the development and introduction of promising innovative technologies and ensuring compliance with the requirements of current and prospective environmental legislation.

2.2. LONG-TERM DEVELOPMENT PROGRAMME OF SOVCOMFLOT GROUP

The Long-Term Development Programme (LDP) of PAO Sovcomflot intended for the period 2014 – 2020 provides an update on the Company's development strategy. The LDP was approved by the Company's Board of Directors in November 2014³ after coordination with relevant agencies and review at a meeting held with the participation of representatives of the Government of the Russian Federation.

The main goal of the LDP faced by PAO Sovcomflot is to maximise the Company's shareholder value by expanding the industrial business portfolio (long-term contracts with a fixed high rate of return) in the segments of liquefied gas transportation and servicing of offshore hydrocarbon fields while retaining a leading position in the most strategically and economically attractive sectors of the tanker shipping industry.

The main quantitative targets established by the LDP were formulated as a set of financial and industry-specific 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 audit. The auditor's opinion and main conclusions regarding implementation of the LDP are subject to disclosure in the annual report⁴.

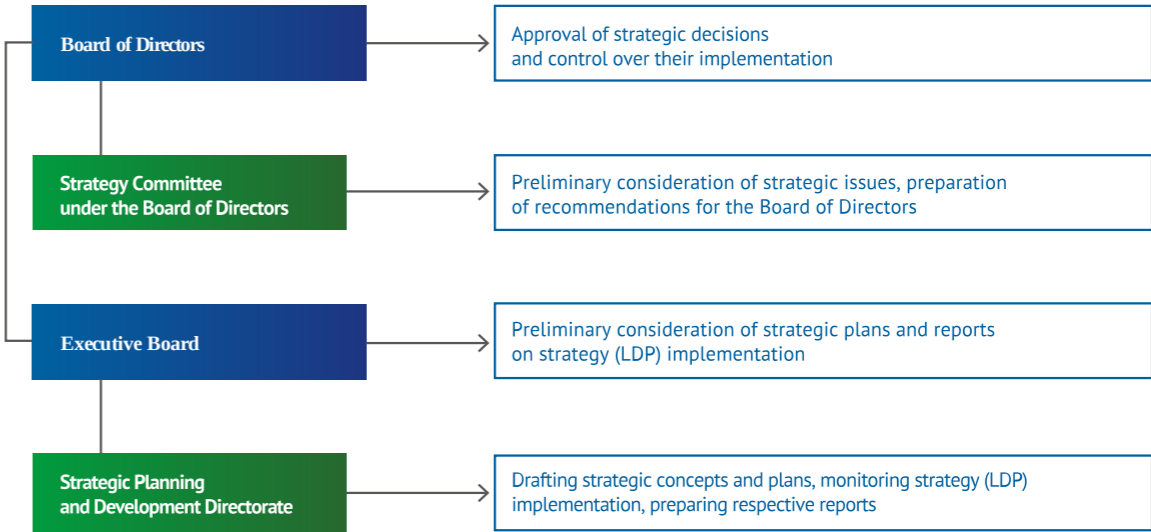
LDP 2018 results were audited by AO KPMG. On 2 April 2019, the audit gave a positive opinion. According to the audit opinion, the LDP implementation report is presented fairly, in all material respects, in conformity with the applicable laws, standards, and internal regulations of the Company, gives a true and fair view and is free from material misstatement.

1. Minutes of the Board of Directors dated 12 September 2011 No. 113.
2. Minutes of the Board of Directors dated 20 March 2013 No. 127.
3. Minutes of the Board of Directors dated 24 November 2014 No. 139.
4. 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. 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 2018 broken down by approved KPIs.

Attainment of KPI targets set by the LDP in 2018¹

No.	KPI	Target value (basic scenario)	The lowest scenario	Actual value	Comments
1	Net revenue (time charter equivalent income), USD million	≥ 1,530	≥ 1,170	1 138,05	The main reasons for the deviation: 1. 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 LDP
2	Profit/loss, USD million	≥ 340	≥ -30	-45,56	
3	EBITDA margin, %	≥ 65%	≥ 62%	54,40 %	
4	EBITDA, USD million (for reference)	≥ 1,100	≥ 720	619,10	
5	Total dividends (index of dynamics of dividend payments vs. average level during the past three years), %	≥ 100%	≥ 100%	46,42 %	2. Unfavourable freight market conditions: in 2018, freight rates plunged to the lowest levels in more than 20 years
6	Return on Invested Capital (ROIC), %	≥ 7.0%	≥ 3.4%	2,75 %	
7	Return on Equity (ROE), %	≥ 7.6%	≥ -1.0%	-1,34 %	3. Later than planned commissioning of vessels due to delays in construction
8	Net Debt / EBITDA	≤ 8	≤ 8	5,48	
9	Utilisation efficiency of fixed assets (fleet), %	≥ 95%	≥ 95%	97,85 %	Attained
10	Implementation of the innovative development programme, %	≥ 100%	≥ 100%	114,07 %	Attained

Attainment of targets set by the PAO Sovcomflot LDP for 2018 compared to the previous year

No.	KPI	Actual for 2017	Actual for 2018
1	Net revenue (time charter equivalent income), USD million	1,119.62	1 138,05
2	Profit/loss, USD million	-112.97	-45,56
3	EBITDA margin, %	46.15 %	54,40 %
4	EBITDA, USD million (for reference)	516.68	619,10
5	Total dividends (index of dynamics of dividend payments vs. average level during the past three years), %	36.84 %	46,42 %
6	Return on Invested Capital (ROIC), %	2.18 %	2,75 %
7	Return on Equity (ROE), %	-3.13 %	-1,34 %
8	Net Debt / EBITDA	6.58	5,48
9	Utilisation efficiency of fixed assets (fleet), %	96.81 %	97,85 %
10	Implementation of the innovative development programme, %	116.24 %	114,07 %

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 No. 140 of the Board of Directors dated 12 December 2014).

Attainment of KPI targets set by the LDP on average in 2015-2018¹

No.	KPI	Target value (basic scenario)	The lowest scenario	Actual value	Comments
1	Net revenue (time charter equivalent income), USD million	≥ 1,362.23	≥ 1,194.73	1 197.66	Actual between the basic and lowest scenario
2	Net profit, USD million	≥ 240.93	≥ 83.43	100.69	
3	EBITDA margin, %	≥ 61.07 %	≥ 59.07 %	58.26 %	Actual is compa-rable to the lowest scenario (the mar-gin is less than 1%)
4	EBITDA, USD million (for reference)	≥ 840.20	≥ 705.20	703.68	
5	Total dividends (index of dynamics of dividend payments vs. average level during the past three years), %	≥ 100.00 %	≥ 100.00 %	116.55 %	Attained
6	Return on Invested Capital (ROIC), %	≥ 5.89 %	≥ 4.29 %	4.51 %	Actual between the basic and lowest scenario
7	Return on Equity (ROE), %	≥ 5.87 %	≥ 2.27 %	3.17 %	
8	Net Debt / EBITDA	≤ 8.00	≤ 8.00	4.78	Attained
9	Utilisation efficiency of fixed assets (fleet), %	≥ 95.00 %	≥ 95.00 %	97.49 %	Attained
10	Implementation of the innovative development programme, %	≥ 100.00 %	≥ 100.00 %	115.86 %	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 No. 140 of the Board of Directors dated 12 December 2014).



3

Group performance

The operating results achieved in 2018 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 2018, the Group's fleet included 144 vessels with a total deadweight of 12,443 thousand tonnes.

Composition of the Sovcomflot Group fleet¹

Vessels by type	Number of vessels			Total deadweight, '000 tonnes		
	31/12/18	31/12/17	31/12/16	31/12/18	31/12/17	31/12/16
Crude oil tankers	53	59	59	7,006	7,653	7,653
Product tankers	48	49	49	3,071	3,120	3,120
Shuttle tankers	16	16	16	1,301	1,301	1,301
LNG and LPG carriers	13	13	12	870	870	790
Bulk carriers	2	2	2	150	150	150
Multifunctional icebreaking vessels	10	9	6	38	35	25
Seismic exploration vessels and chartered vessels	2	2	2	7	7	7
Total	144	150	146	12,443	13,136	13,046

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

Therefore, in 2018 the number of vessels in the Group's fleet decreased by 4%. Its total deadweight decreased by 693 thousand tonnes or by 5.3%.

4

NEW VESSELS

were added to the SCF fleet in 2018

In 2018 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 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).

During 2018 Sovcomflot Group sold 10 over-age vessels in the second hand vessel market (nine Aframax tankers and one MR product tanker with an average age of over 17 years and a total deadweight of about one million tonnes).

1. Including the fleet of joint ventures: 9 LR1 product carriers and 4 LNG carriers.

10.2 YEARS

is the average age of the SCF Group fleet

The average age of the Group's fleet at the end of 2018 was 10.2 years, which is 12% less than the average for leading shipping companies (according to Clarksons).

Age characteristic of the Group's fleet as of 31 December 2018

Vessels by type	Average age in years
Crude oil tankers	11.2
Product tankers	10.8
Shuttle tankers	10.0
LNG and LPG carriers	7.4
Bulk carriers	6.0
Multifunctional icebreaking vessels	6.9
Research vessels and chartered vessels	7.1
SCF Group fleet	10.2

3.1.2. Fleet operation

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

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 SCF Management Services: 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.

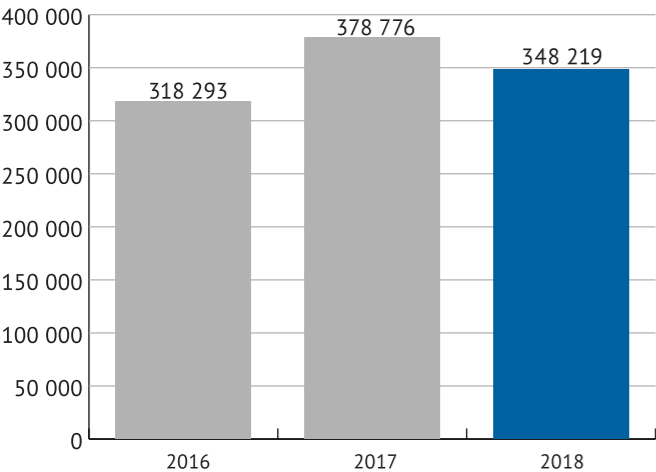
Sovcomflot Group manages the operation of the fleet based on the provisions of the Technical Policy. This policy is a set of measures and actions that enable the Group to achieve operational advantages in the maritime transportation and service market sectors.

US\$348.2
MILLION

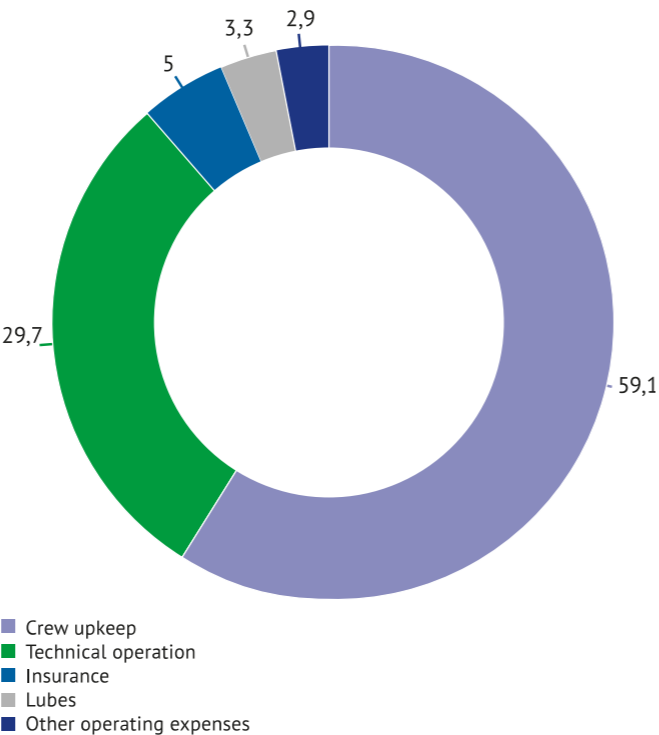
the amount of actual operating expenses in 2018 (down 8% from 2017)

In accordance with the ISMS, the 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.

Dynamics of actual operating expenses for 2016-2018, '000 million



Structure of operating expenses in 2018, %



Within the structure of operating expenses the majority are attributable to crew upkeep (59.1%), while technical operation and modernisation account for 29.7%, insurance for 5.0%, lubes for 3.3%, and other operating expenses for 2.9%.

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

The 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, 2016-2018

Indicator	2018	2017	2016
Dry dock repairs (number of vessels)	24	38	10
In-water inspections (number of vessels)	30	20	10
Actual expenses for dry docking and repair of vessels ('000 USD)	51,519	64,593	21,457

In 2018 24 vessels were dry docked and repaired (vs. 38 vessels a year earlier). One of the goals of the Group under the Technical Policy is to increase the inter-docking period. In 2018 the intermediate survey for 30 vessels was carried out afloat - without dry-docking.

During the reporting period there were four operational accidents, which resulted in damage to hull structures and vessel equipment, and required the decommissioning of vessels for repairs. The Group works proactively to reduce the number of accidents and also performs a detailed analysis of incidents to prevent re-occurrence.

3.1.3. Operating results

Overall results for Sovcomflot Group

Key operating performance indicators improved in 2018 compared to 2017, despite the high volatility in the tanker markets and a sharp fall in freight rates. The main reason for that were 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 2018 increased by 1.6% compared to 2017, to US\$1,074.7 million under IFRS against US\$1,058 million in 2017. The Net earnings from vessels' trading of the Group also increased (by 9.2%), to US\$ 697.5 million.

US\$1,074.7
MILLION

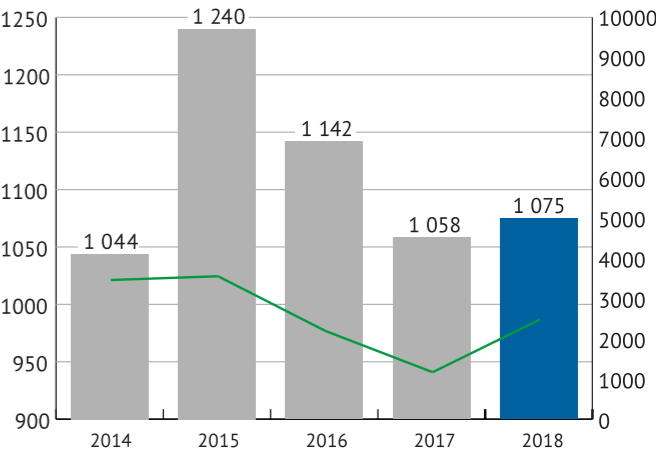
TCE revenue for 2018 (up 1.6% from 2017)

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.

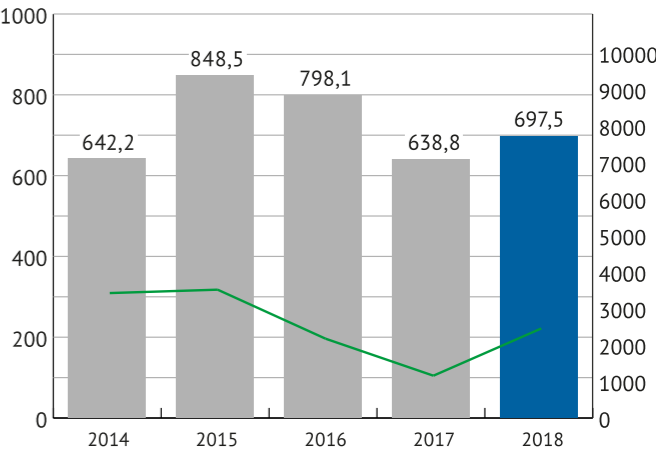
1. See the Glossary.
2. See the Glossary.

In 2018 the Group carried over 54 million tonnes of Russian export and transit cargo exported through Russia. This cargo accounts for 40.1% of the total cargo transported by the Group's vessels in 2018 (against 49% in 2017).

Dynamics of the Group's TCE revenues (USD million) versus the ClarkSea Index¹ values (USD per day)



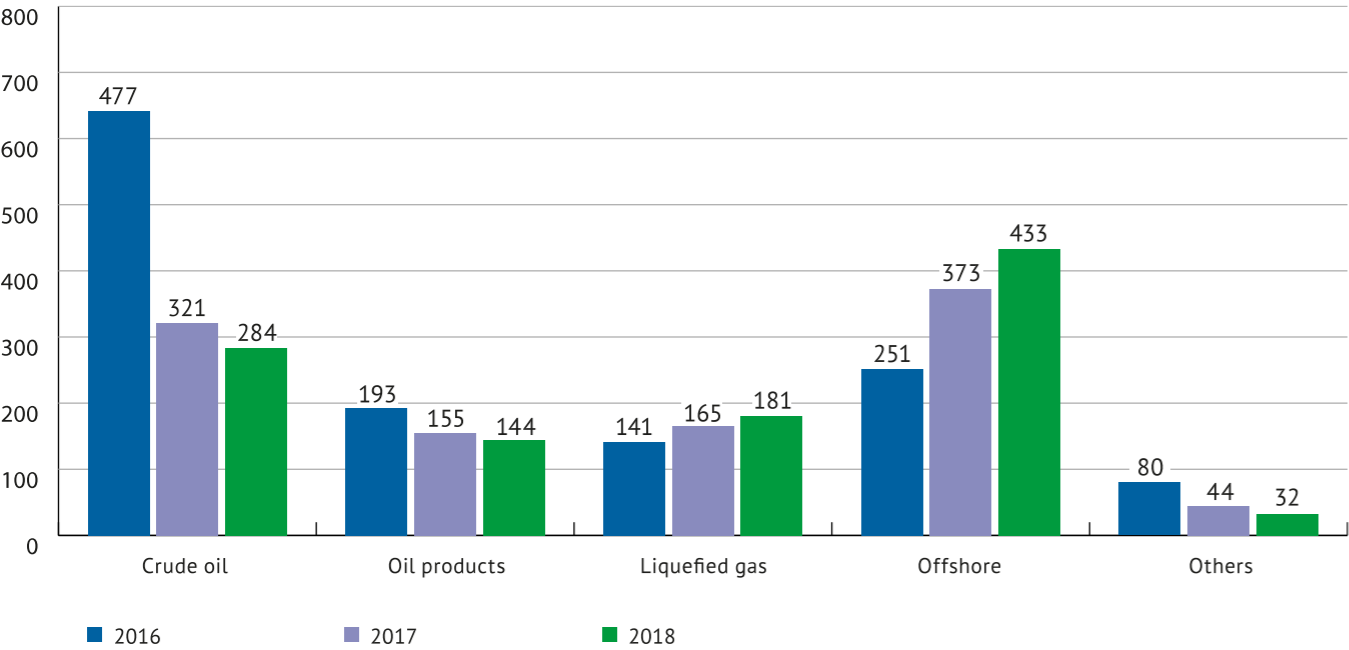
Dynamics of Net earnings from vessels' trading of the Group (USD million) versus the ClarkSea Index² values (USD per day)



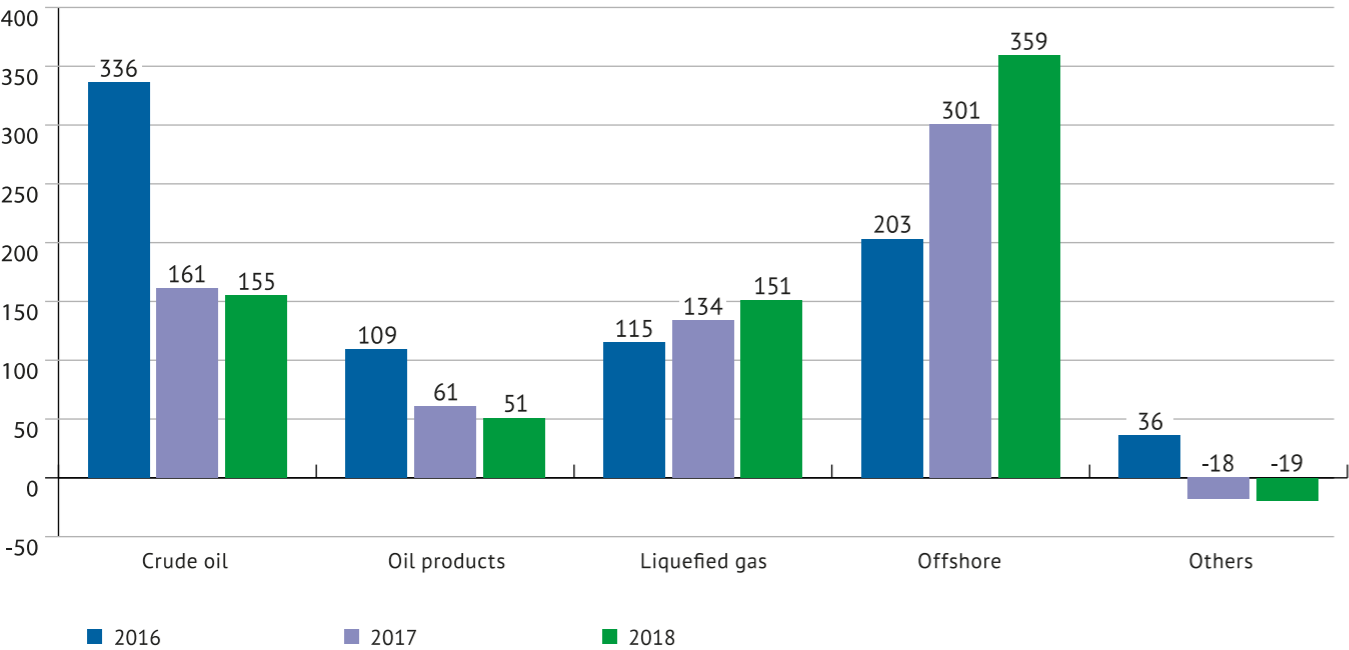
Fleet performance indicators by lines of business

The Group's key operating performance indicators by main operating segments exhibited differently directed dynamics in 2018 - negative in conventional segments and positive in industrial segments.

Dynamics of TCE revenues by operating segments, 2016-2018, USD million¹



Dynamics of the Net earnings from vessels' trading by operating segments, 2016-2018, USD million²



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

The commissioning of new tonnage and further development of industrial projects had a positive impact on the Company's results.

The decrease in TCE revenues and Net earnings from vessels' trading in the segment of crude oil and petroleum products transportation was due to the negative impact of a decline in freight rates in the global freight market.

57 %
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. 51 % in 2017)

3.2. INVESTMENT ACTIVITIES

3.2.1. Dynamics of investments

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

With due regard for the Group's strategic priorities, the Investment Programme chiefly focuses on the implementation of highly profitable industrial projects in the field of transportation of liquefied gas and the servicing of offshore hydrocarbon fields. In 2018 most investments were directed to these segments. Investments were also made in the repair and modernisation of the existing fleet of the Group.

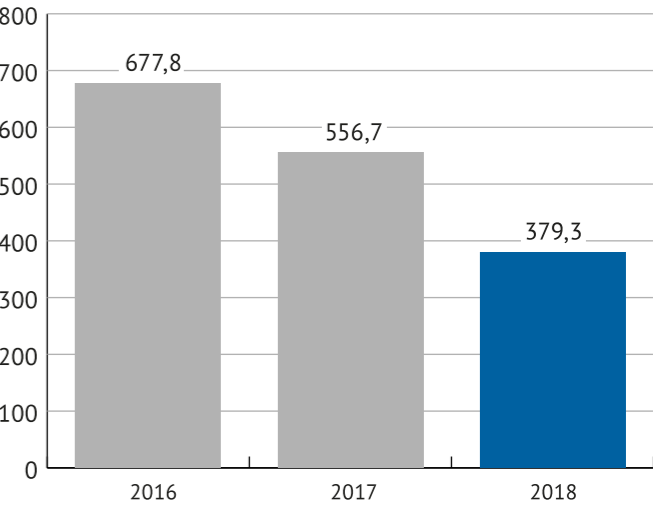
In 2018 investment projects financing amounted to US\$379.3 million, which is 32% less than in 2017.

The increase in TCE revenues in the segment of offshore services was driven by the commissioning of new vessels.

The increase in TCE revenues in the segment of liquefied gas transportation occurred mainly due to the fact that the Company commenced servicing a new industrial project in 2017 and continued operations under the project in 2018.

In the "Others" segment, which in 2018 included two bulkers and two seismic research vessels, revenues declined by 27% compared to 2017, resulting in a loss from vessels' trading of US\$18.9 million. This result was due to unfavourable conditions in the global offshore seismic exploration market and the impact of certain other factors.

Dynamics of Group investments, 2016-2018, USD million¹



Investment projects of Sovcomflot Group in 2018

Client / project	Target	Number	Implementation stage (as of 31 December 2018)
Total	Construction of an Atlanticmax LNG carrier	1	The vessel is under construction
Sakhalin Energy / Sakhalin-2	Construction of multifunctional ice-breaking vessels	4	The vessels have been put into operation ²
Gazprom Neft / Novy Port	Construction of an MR Arctic shuttle tanker	1	The vessel is under construction
Rosneft	Construction of dual-fuel Aframax tankers ⁵	2	The vessels are under construction
Shell ⁴	Construction of dual-fuel Aframax tankers	6	Three tankers have been put into operation, another three vessels are under construction
Shell	Construction of Atlanticmax LNG carriers	2	The vessels are under construction

1. Investments are as reported in the cash flow statement in the consolidated financial statements of PAO Sovcomflot prepared under IFRS.
2. Three vessels of the series were added to the fleet in 2017 and one in 2018.
3. 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.
4. Sovcomflot Group and Shell entered into long-time charter contracts for two vessels of the series in February 2018.

3.2.2. Implementation of investment projects - Key results



Dual-fuel Aframax tankers

In 2018 Sovcomflot put into operation three LNG-fuelled Aframax crude oil tankers - Gagarin Prospect, Lomonosov Prospect, and Mendelev Prospect. These are the world's first Aframax tankers specially designed to use LNG as the primary fuel. Another two similar vessels, Korolev Prospect and Vernadsky Prospect, were added to the Group's fleet by the end of 1Q 2019. The sixth vessel of the series, Samuel Prospect, is under construction.

The series of SCF's "green" tankers 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 diesel fuel. SCF's "green" 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 bunkering.

SCF's initiative was highly appreciated by industry experts: in December 2018 Sovcomflot Group won the Environment Award at the Lloyd's List Global Awards 2018.

Serial construction of "green" 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 at the end of 2018. The tankers are designed to transport petroleum products and gas condensate and will be chartered to NOVATEK under long-term time charters. The entry into force of the shipbuilding contracts and time charters concluded in 2018 is conditional upon all conditions precedent being fulfilled in 2019.



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

In July 2017 Sovcomflot Group entered into a shipbuilding contract for an Arctic shuttle tanker with ice class Arc7 in continuation of the Shturman Albanov series. Sovcomflot and Gazprom Neft, the project's operator, have entered into a long-term time-charter agreement for the vessel under construction. The new Arctic shuttle tanker is scheduled to be delivered in October 2019.

Three shuttle tankers of the series, each with a deadweight of 42 thousand tonnes, are already employed on the project for the development of the Novy Port oil and gas condensate field. These vessels have no analogues in the world, as they can operate in the Arctic seas year-round at temperatures down to -45°C, and their draft enables them to manoeuvre freely in the shallow Gulf of Ob.



Ice-breaking platform supply vessel Yevgeny Primakov

In January 2018 Sovcomflot put into operation the standby vessel with ice class Icebreaker ICE-15 Yevgeny Primakov, the fourth in the series of multifunctional icebreaking vessels built to order for SCF Group to service offshore platforms of the Sakhalin-2 project (the Sea of Okhotsk). Today these vessels are among the best in their class. They were designed by taking into account the difficult navigation and ice conditions in the Sea of Okhotsk.

In 2014 Sovcomflot Group and Sakhalin Energy entered into time charter agreements providing for operation of all four vessels under the project during 20 years. In total, seven SCF's multifunctional icebreaking support and supply vessels are employed in the Sakhalin-2 project. Sovcomflot Group is the world's leader by the number of such vessels.

In February 2019 Offshore Support Journal, an international trade publication, named Yevgeny Primakov the winner of the Support Vessel of the Year category.



Fifth-generation Atlanticmax LNG carriers

In November 2018 Sovcomflot Group entered into a credit facility agreement with a consortium of three European banks to finance the construction of a fifth-generation Atlanticmax LNG carrier, which will be operated under a long-term contract with Total. The new vessel will have a capacity of 174,000 cubic metres of LNG and will feature an upgraded Mark III Flex cargo system. The vessel will be fitted with two low-speed, dual-fuel 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 reduce cargo losses during long voyages and waiting time, giving vessels of this type a competitive advantage. In addition, two similar vessels to be employed under time charter agreements with Shell are being built to order for Sovcomflot Group.

3.2.3. Implementation of the shipbuilding programme

In 2018 Sovcomflot Group's shipbuilding programme included 13 vessels of four different types, including those intended for the Sakhalin-2 and Novy Port projects.

During the reporting period, Sovcomflot Group put into operation four new vessels with a total deadweight of about 340 thousand tonnes: a multifunctional icebreaking vessel and three dual-fuel Aframax tankers.

As at 31 December 2018 Sovcomflot Group's order portfolio included nine vessels, with a total deadweight of 858,000 tonnes.

Shipbuilding portfolio of the Group as at 31 December 2018¹

Hull number	Type of vessel	Deadweight, tonnes	Ice class
S922	LNG-fuelled Aframax tanker	114,000	1B
S923	LNG-fuelled Aframax tanker	114,000	1B
S924	LNG-fuelled Aframax tanker	114,000	1B
2245	MR Arctic shuttle tanker	42,000	Arc7
8006	Atlanticmax LNG carrier	82,000	-
8007	Atlanticmax LNG carrier	82,000	-
8008	Atlanticmax LNG carrier	82,000	-
131110	LNG-fuelled Aframax tanker	114,000	1B
131120	LNG-fuelled Aframax tanker	114,000	1B
Total		858,000	

3.3. INNOVATIVE ACTIVITIES AND R&D

3.3.1. Areas of innovative activities

Sovcomflot is a world leader in developing and implementing innovations in the field of maritime transport. The Groups 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.

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 Innovate 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 7 2011.

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

- Developing the shipowner's technical specifications for Aframax tankers with dual-fuel main engines;

- Designing vessels capable of operating in the most challenging winter conditions in the North Atlantic for an extended service life of 25 years (equivalent to a 40-year service life of a vessel operating in other parts of the world's ocean).
- Factoring in new shipbuilding regulations into strength calculations and fatigue characteristics of hull structures.
- Conducting research, calculations and experiments to select optimal parameters for ship power plants in terms of energy efficiency and environmental impact reduction, as well as to select optimal hull shapes and parameters for propeller-rudder systems.

Sovcomflot 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. Our engineering staff have high scientific potentials: currently, 17 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.

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

The centre performs the following tasks using artificial intelligence:

- Controlling and analysing navigation safety data.
- Optimising ship routes taking into account hydrodynamics, 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).
- Voyage planning: selecting electronic maps and guides, preparing a request and ordering maps for a voyage.
- Special Arctic navigation control capabilities: analysis of meteorological and ice conditions and movements of ships, identification of hazardous ice formations and areas with difficult 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.

Key achievements in innovation and R&D

- Sovcomflot won the Environment Award – Individual Company at the Lloyd's List Global Awards 2018. The initiative for using LNG as the primary fuel for large-capacity tankers was highly appreciated by experts. In 2018, Sovcomflot put into operation the world's first Aframax crude oil tankers specially designed to use LNG as the primary fuel¹.

Yevgeny Primakov , a multifunctional icebreaking platform supply vessel put into operation in January 2018², was named Support Vessel of the Year by Offshore Support Journal, an international trade publication.

- By the Decree of Russian President Vladimir Putin dated 2 March 2018 a group of seagoing personnel and employees of onshore units of PAO Sovcomflot was honoured with high state awards for major contribution to the implementation of the project for creating the world's first icebreaking LNG tanker, *Christophe de Margerie* . The tanker was specially designed and built to order for Sovcomflot to enable the safe year-round transportation of liquefied gas for the Yamal LNG project. Operations under the project started in December 2017.
- PAO Sovcomflot employees, in collaboration with specialists from the Central Research Institute of Automatics and Hydraulics and Bauman Moscow State Technical University, prepared a research paper on the topic "Development of technological solutions enabling the creation of an autonomous system for safe and reliable navigation in the most challenging zones of the Gulf of Ob". The research was performed as part of the international competition of scientific, scientific-technical and innovative developments aimed at the development and exploration of the Arctic and continental shelf in 2018, conducted with the support of the Government of the Russian Federation. The paper won the first prize at the competition.
- A new edition of a unique training manual, Practical Recommendations by SCF Captains for Vessel Management under Ice Conditions, was prepared in 2018. The author team is comprised of ice captains of Sovcomflot ships that participated in the implementation of industrial Arctic projects. The manual is based on the consolidated and systematised experience gained in working 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. The updated manual was published and distributed to the SCF fleet and Russian maritime universities and training centres in January 2019.
- 2018 marks ten years since SCF vessels began servicing the Varandey Project. The Company's participation in the project was recognised by the Russian Government award in science and technology “for the development and industrial implementation of innovative scientific, methodological and technological solutions for the establishment of an oil transportation system in the seas of the Arctic Ocean”. This involves the construction and operation of a unique series of Vasily Dinkov-class Arctic shuttle tankers. In 2008, the tanker *Vasily Dinkov* was also among the finalists for the prestigious Ship of the Year award from leading shipping publication Lloyd's List.

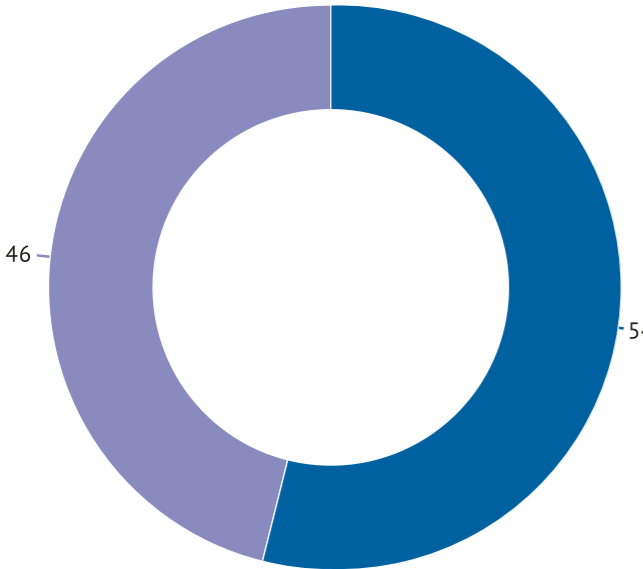
1. Hulls 131110 and 131120 were ordered by a VEB-Leasing Group company and are to be subsequently transferred to SCF Group for operation after completion of construction.

1. For more detailed information about this series of vessels, see section 3.2.2. of this Report, Implementation of investment projects - Key results, and section 6.4., Environmental protection.
2. For more detailed information about the vessel, see section 3.2.2., Implementation of investment projects - Key results.

Financing of innovative activities

The financing of R&D, engineering activities, professional training, retraining and skill improvement of PAO Sovcomflot personnel in 2018 amounted to USD5.3 million.

Structure of R&D expenses in 2018, %



- R&D for the construction of new ships
- Targeted personnel training, retraining and skill improvement

3.3.2. Assessment of the innovative development performance

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

114,07%

the value of the integral performance indicator of innovative development of PAO Sovcomflot in 2018

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 INTERTANKO 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. Key financial indicators

In 2018 the tanker market remained at one of the lowest levels in the past 25 years. However, in 4Q 2018 there appeared some signs of recovery in freight rates in the tanker market due to a slight increase in cargo base and demand for energy shipping. Against this background, measures taken to diversify the fleet with a focus on the development of industrial business, as well as the Group's balanced freight policy, enabled the Group to maintain a stable financial position in the reporting period.

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 vessels in operation decreased by 2% from US\$6,291.3 million at the end of 2017 to US\$6,165.7 million at the end of the reporting period. Total assets of the Group amounted to US\$7,142.2 million as at 31 December 2018. The share capital at the end of 2018 was US\$3,350,1 million, down 1.7% from 2017.

US\$7,142.2 MILLION

the amount of the SCF Group's assets at the end of 2018

The Group maintains a stable programme of capital investments during all phases of the shipping cycle. Investments in fleet construction¹ in 2018 totalled US\$379.3 million (2017: US\$556.7 million), with the amount payable under current shipbuilding contracts in 2019-2021 at the end of 2018 being US\$690.3 million.

The investment programme and operating activities were financed through secured bank loans (as at 31 December 2018, total debt to banks amounted to US\$2,575.5 million thousand), proceeds from the placement of unsecured Eurobonds amounting to US\$900 million, and operating cash flow.

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

1. Investments are as reported in the cash flow statement in the consolidated financial statements of PAO Sovcomflot prepared under IFRS, which includes the costs of acquiring vessels during the reporting period and the costs of vessel construction in progress.

The Group concluded seven new credit facility agreements for a total amount of US\$ 866 million. Proceeds under these agreements were used to finance the construction of new vessels and refinance existing credit liabilities. The Company also drew down funds under previously concluded 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.

The Group carefully monitors its capital structure and works to optimise it. The Company's credit metrics in the year under review were affected by an increase in credit exposure for financing the fleet construction programme and a fall in revenues amid negative tanker market conditions. Sovcomflot Group's leverage (net debt to capital ratio) at the end of 2018 was 48.6%, net debt to EBITDA ratio was 5.46¹.

Capital structure dynamics, USD million

Name	2018	2017	% Δ
Secured loans and finance lease liabilities	2,575.5	2,601.0	-1.0%
Eurobonds and other loans	902.7	905.9	-0.4%
Less: cash and bank deposits, including restricted cash	(307.4)	(434.9)	-29.3%
Net debt	3,170.8	3,072.0	3.2%
Equity	3,350.1	3,409.0	-1.7%
Total capital ²	6,520.8	6,481.0	0.6%
Net debt/capital ratio	48.6%	47.4%	2.5%
Net debt/EBITDA ratio	5.46	5.63	-2.7%

The Group's current leverage corresponds 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 historically low tanker market negatively affected SCF Group's results in 2018, but thanks to the recovery in freight rates in the conventional segment, which began in the fourth quarter, TCE revenues amounted to US\$1,074.7 million, up 1.6 % from the previous period.

Profit indicators (USD million)

Name	2018	2017	% Δ
Revenue	1,519.9	1,435.4	5.9 %
TCE revenue	1,074.7	1,058.0	1.6 %
EBITDA	580.7	545.4	6.5 %
Adjusted operating profit / (loss) ³	6.9	(5.3)	-
Net (loss) / profit	(45.6)	(113.0)	-

1. The figure indicated here and hereafter refers to adjusted EBITDA – see the definition in the glossary (Appendix to this Annual Report).
2. Total capital = net debt plus total equity
3. See the definition in the glossary.

US\$1,519.9 MILLION

the revenue generated in 2018 (up 5.9 % from 2017)

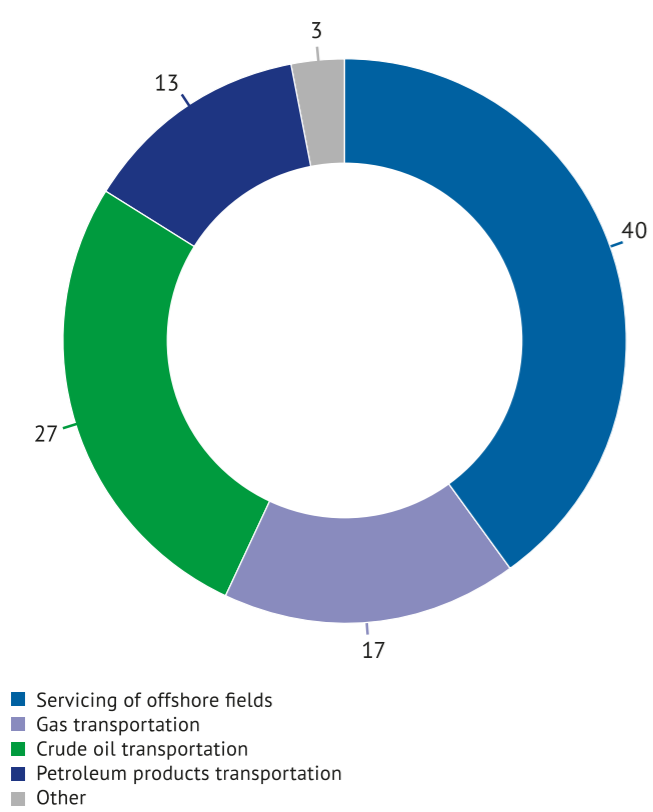
In 2018, the Group demonstrated the high stability of its industrial business model and recorded a US\$6.9 million profit adjusted for impairment charges on vessels and non-operating expenses versus a loss of US\$ 5.3 million in 2017. In accordance with IFRS, in 2018 the Company recognised impairment provisions of US\$49.3 in relation to the fleet and other assets, resulting in a total net loss of US\$45.6 million.

US\$580.7 MILLION

the EBITDA for 2018 (6.5 % higher than in 2017)

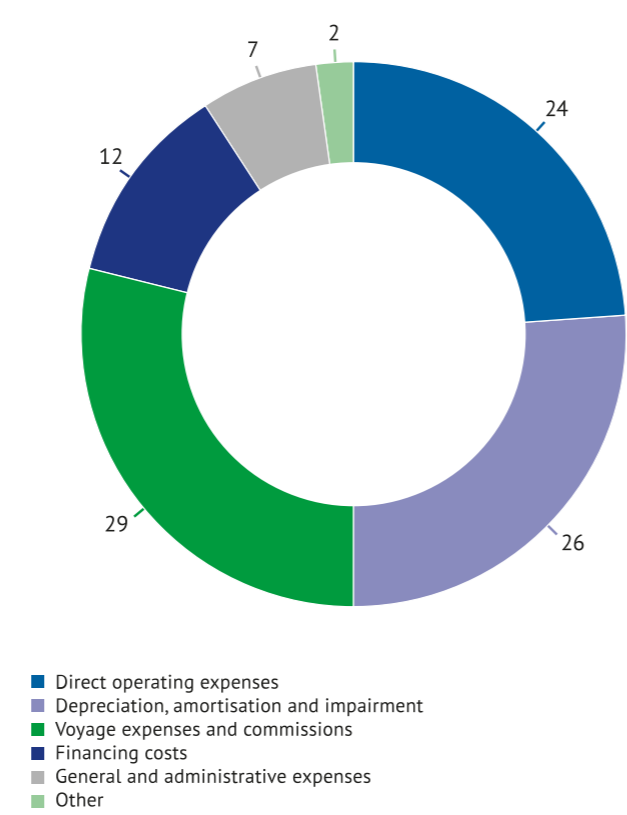
In the reporting year the Group continued to implement consistently its industrial development strategy aimed at expanding the offshore and gas business segments, whose share of time charter revenue reached 57 %, with revenues from the conventional fleet operations (transportation of crude oil and petroleum products) accounting for 40 %. The maximisation of income from the high-margin industrial business portfolio allowed for the negative impact of fleet performance in the conventional market to be minimised.

Structure of the time charter equivalent by operating segments, %



The implementation of a cost optimisation programme in 2018 allowed achieving 10 % reduction in direct operating expenses, which amounted to US\$ 377.2 million. An 18 % increase in voyage expenses and commissions to US\$445.2 million was due to a rise in bunker fuel prices and an increase in the number of vessels employed in the spot market. General and administrative expenses decreased by 4 % to US\$111.8 million. Net financing expenses increased to US\$192.2 million amid a general rise in the prime rate in USD and an increase in the Company's loan liabilities associated with the financing of new shipbuilding.

Structure of main expense items, %¹



1. Direct operating expenses are the sum of operating and freight expenses.

3.4.3. Liquidity indicators

The Group has a strong liquidity position, which represents a significant positive factor for maintaining the Company's creditworthiness and financial stability. Available cash balances in bank accounts and deposits totalled US\$267.6 million at the end of 2018, which is in line with the Group's cash management policy. The Group also had unused revolving credit facilities of US\$76.0 million and available special-purpose credit facilities for new builds of US\$360.2 million. Thus, the Company's current liquidity as at 31 December 2018 totalled US\$703.8 million. The Company's liquidity at the end of 2018 fully covers the current investment commitments under the existing shipbuilding programme for 2019 amounting to US\$341.1 million.

3.4.4. Credit rating of the Group

During 2018 Sovcomflot Group continued to work with international credit rating agencies.

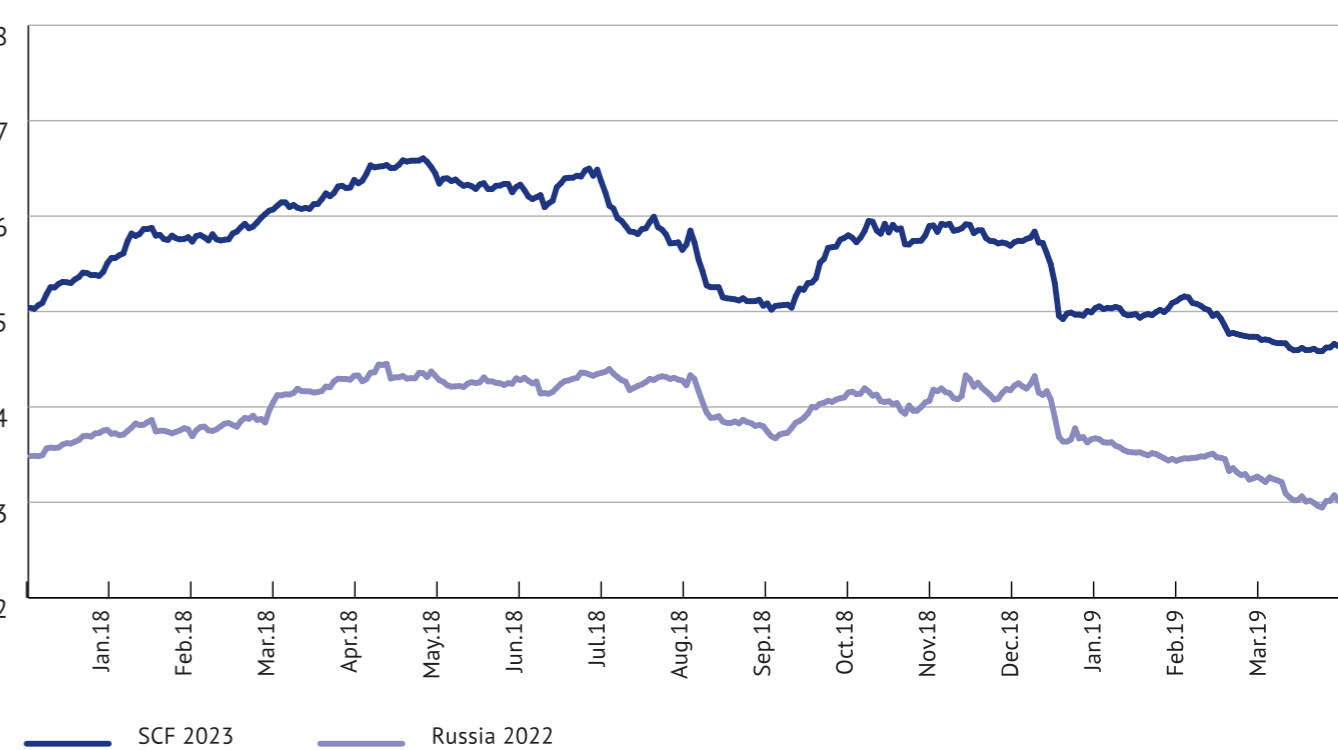
Moody's Investors Service affirmed the Group's credit rating at Ba1 with a stable outlook. Fitch Ratings reaffirmed the Group's rating at BB with a positive outlook. S&P Global Ratings maintained the current credit rating for the Group at BB+ with a stable outlook.

Credit ratings of Sovcomflot Group as of 31 December 2018

	S&P Global Ratings	Fitch Ratings	Moody's Investors Service
Credit rating	BB+	BB	Ba1
Outlook	Stable	Positive	Stable

Amid the general volatility in capital markets, at the end of the reporting period the Company's Eurobonds traded at a discount to par value and had a yield to maturity in 2023 of 6.2 % with an average yield for the year of 5.6 %.

Yield to maturity of bonds of SCF Group and Russian Federation, %



Source: Citibank



The high development level of the corporate governance system at PAO Sovcomflot facilitates improvements in investment attractiveness and an increase in operational efficiency. The planned public capital markets entry makes the development of corporate governance practices a priority task for PAO Sovcomflot.

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 governance¹

- 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);
- 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);
- Code of Corporate Governance (the new version was approved by the PAO Sovcomflot Board of Directors decision dated 10 November 2015, Minutes No. 149);
- 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;
- 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);
- Regulations on the Strategy Committee of the Board of Directors (approved by the Board of Directors decision dated 5 February 2009, Minutes No. 95);
- 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);
- 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);
- Regulations on the Committee for Innovative Development and Technical Policy (approved by the Board of Directors decision dated 25 February 2011, Minutes No. 109);
- Regulations on the Executive Board (approved by Instructions No. 838-r of the Federal Agency for State Property Management dated 30 June 2009);
- Regulations on the Chief Executive Officer (approved by Instructions No. 696-r of the Federal Agency for State Property Management dated 30 June 2014);
- 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);
- Regulations on the Internal Audit Department of PAO Sovcomflot (the new version was approved by the Board of Directors decision dated 26 May 2017, Minutes No. 163);
- Regulations on the Corporate Secretary of PAO Sovcomflot (approved by the Board of Directors decision dated 11 April 2017, Minutes No. 162).
- 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:

- in 2016 the Company fully observed 70.14% and partially observed 26.86% of the CG Code principles. The overall observance rate was 97.0%;
- in 2017 the Company fully observed 83.58% and partially observed 14.92% of the CG Code principles. The overall observance rate was 98.5%.
- in 2018 the ratio between these indicators remained unchanged.

98,5 %

the overall observance rate of the CG Code principles, which is above the threshold recommended by the Federal Agency for State Property Management (65 %) and reflects the high level of corporate governance in the Company

The Company has had a Corporate Governance Code since 2017, 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 innovation 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 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 PAO Sovcomflot Board of Directors. These documents were updated to reflect recommendations of the CG Code, as well as the specifics of the Company's operations.

The results of the CG Code implementation in accordance with the road map were reviewed by the Company's Board of Directors in 2018.

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 requirements of current legislation of the Russian Federation on countering corruption, including measures to prevent and combat corruption offences. The Company has an approved Anti-Corruption Policy and a hot line operating since 2015.

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.

1. As of 31 December 2018

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 29 June 2018, the PAO Sovcomflot Annual General Meeting of Shareholders was held (Instructions No. 519-r of the Federal Agency for State Property Management dated 29 June 2018), which adopted the following resolutions:

- Approve the 2017 annual report of PAO Sovcomflot;
- Approve the annual accounting (financial) statements of PAO Sovcomflot for 2017;
- Approve the following distribution of the net profit of PAO Sovcomflot for 2017 amounting to RUB 3,391,390 thousand:
 - > for payment of dividends on the shares of PAO Sovcomflot for 2017: RUB 1,696,000 thousand;
 - > earnings to be retained by PAO Sovcomflot: RUB 1,695,390 thousand;
- Pay the dividends on the ordinary shares of PAO Sovcomflot based on 2017 performance in the amount of RUB 1,696 million, which equates to 0.86235949 roubles per ordinary registered share of PAO Sovcomflot, and set the 10th day following the date of the decision to pay dividends as the dividend record date;
- 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 2018.
- Approve amendments to the Charter of PAO Sovcomflot and the revised version of the Regulations on the PAO Sovcomflot Board of Directors.

At the extraordinary general meeting of shareholders of PAO Sovcomflot held on 1 March 2018 (Instructions No. 95-r of the Federal Agency for State Property Management dated 1 March 2018) it was decided to cancel the placement of equity securities of an additional issue - 280,956,743 ordinary registered uncertified shares with a nominal value of 1 rouble each - registered by the Bank of Russia on 12 March 2015 (state registration number of the issue: 1-01-10613-A). It was also decided again to increase the authorised capital of PAO Sovcomflot by placing additional ordinary registered shares (the “Shares”) on the previous terms:

- number of securities to be placed: 280,956,743;
- nominal value: 1 rouble each;
- procedure for determining the placement price of the shares: the placement price of the additional shares (one Share), which shall not be below the nominal value, shall be determined by the Board of Directors of PAO Sovcomflot no later than the shares placement commencement date in accordance with Articles 36 and 77 of Federal Law No. 208-FZ “On Joint-Stock Companies” dated 26 December 1995 after the state registration of the additional issue of securities. The placement price of the Shares shall be disclosed in the manner to be established in the decision on additional issue of securities and the securities prospectus in accordance with Federal Law No. 39-FZ “On Securities Market” dated 22 April 1996 and applicable regulations;
- method of placement: public subscription;
- payment method: the shares shall be paid for in Russian roubles and/or US dollars (if payments in foreign currency are allowed by regulations at the time of payment) in a cashless way.

4.3. BOARD OF DIRECTORS OF PAO SOVCOMFLOT

4.3.1. Composition of the Board of Directors

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.

The members of the PAO Sovcomflot Board of Directors during the reporting period were elected:

1. By the Annual General Meeting of Shareholders dated 16 June 2017 (Instructions No. 310-r of the Federal Agency for State Property Management dated 16 June 2017) as follows:
 - Ivan Glumov (independent director)
 - Pavel Kadochnikov (government appointee)
 - Ilya Klebanov (government appointee)
 - Alexey Klyavin (independent director)
 - David Moorhouse (government appointee)
 - Viktor Olersky (government employee)
 - Sergey Frank (government appointee)
 - Walid Chammah (independent director)
 - Andrey Sharonov (independent director)
2. 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 employee)

- Sergey Frank (government appointee)
- Walid Chammah (independent director)
- Andrey Sharonov (independent director)

According to the Company's Charter, 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). 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 PAO Sovcomflot Board of Directors according to the Board of Directors decisions dated 1 September 2017 (Minutes No. 165) and 23 July 2018 (Minutes No. 173).

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. Four independent directors were elected to the Board of Directors (as at 31 December 2018): Alexey Klyavin, Ivan Glumov, Walid Chammah, and Andrey Sharonov.



Information on members of the PAO Sovcomflot Board of Directors (as at 31 December 2018)

Ilya Klebanov		Oksana Tarasenko		Alexey Klyavin		Viktor Olersky	
Chairman of the PAO Sovcomflot Board of Directors		Member of the PAO Sovcomflot Board of Directors		Member of the PAO Sovcomflot Board of Directors (independent director)		Member of the PAO Sovcomflot Board of Directors	
Born in 1951.		Born in 1983.		Born in 1954.		Born in 1965.	
Education: M.I. Kalinin Leningrad Polytechnic Institute, Matsushita School of Business, Japan.		Education: Lomonosov Moscow State University, specialising in Jurisprudence; Lomonosov Moscow State University, field of studies: Management Academic degree: Candidate of Juridical Sciences.		Education: Kaliningrad Higher Maritime Engineering School, specialising as Engineer-Navigator.		Education: Leningrad Admiral Makarov Higher Naval Engineering School, specialising in Radio Engineering.	
2003-2011: Administration of the President of the Russian Federation, Plenipotentiary Representative of the Russian President for the North-West Federal District; 2011–present: PAO Sovcomflot, Chairman of the Board of Directors, Member of the Board of Directors; 2015–2016: PAO BFA Bank, Chairman of the Board of Directors; 2015–present: PAO Transneft, Member of the Board of Directors; 2015–present: OOO Neftegazindustria–Invest, Chairman of the Board of Directors; 2015–present: AO SHVABE (GK Rostekh), Chairman of the Board of Directors.		2013-2013: OAO Innopolis, Member of the Board of Directors; 2013-2103: OAO Novosibirsk Refinery, Member of the Board of Directors; 2013-2015: Federal Agency for State Property Management, Head of the Department of Social and Cultural Sphere Organizations and Foreign Property, Head of the Department of Sectoral Organizations and Foreign Property; 2013-2015: OAO Executive Directorate of Printing, Member of the Board of Directors; 2013-2013: OAO Priksky Precious Metals Refinery, Member of the Board of Directors; 2013-2015: OAO First Exemplary Printing House, Member of the Board of Directors; 2013-2014: OAO Far East Energy Management Company, Member of the Board of Directors; 2013-2014: OAO Executive Directorate of the Ministry of Culture of Russia, Member of the Board of Directors; 2013-2015: OAO Yantarny Skaz, Member of the Board of Directors; 2014-2015: OAO Innovative Scientific and Production Center for the Textile and Light Industry, Member of the Board of Directors; 2014-present: AO Roscartographia (formerly, OAO Roscartographia), Member of the Board of Directors; 2014-2015: OAO Innopolis, Member of the Board of Directors; 2015-2018: Ministry of Economic Development of the Russian Federation, Director of the Department of Coordination, Development and Regulation of Foreign Economic Activity, Assistant to the Minister; 2015-2016: AO Russian Agency for Export Credit and Investment Insurance, Member of the Board of Directors; 2016-present: OAO Russian Hippodromes, Member of the Board of Directors; 2017–present: PAO Gazprom, Member of the Auditing Commission; 2018–present: PAO Sovcomflot, Member of the Board of Directors; 2018-present: Ministty of Economic Development of the Russian Federation, Deputy Minister of Economic Development of the Russian Federation.		2003–2011: Russian Ministry of Transport, Assistant to the Minister of Transport, Head of the Department for Shipping Policy, Deputy Director of the Department for State Policy for Rail, Sea and River Transport, Acting Director of the Department for State Policy for Rail, Sea and River Transport, Director of the Department for State Policy for Rail, Sea and River Transport; 2012–present: PAO Sovcomflot, Member of the Board of Directors; 2012-present: FAU Russian River Register, Member of the Supervisory Board; 2013-2014: OAO Yenisei River Shipping Company, Member of the Board of Directors; 2013-2016: Moscow State Academy of Water Transport, Member of the Supervisory Council; 2013–present: Association of Maritime Industry Employers 'Russian Chamber of Shipping', President (principal place of work); 2017-present: Maritime Joint-Stock Bank (Joint-Stock Company), Member of the Board of Directors.		2010–2013: OAO SG-Trans, Member of the Board of Directors; 2010–2014: OAO Sovcomflot, Member of the Board of Directors; 2010–2014: OAO United Shipbuilding Corporation, Member of the Board of Directors; 2010- 2014: OAO MTU Management Company, Member of the Board of Directors; 2010–2015: OAO Novorossiysk Commercial Seaport, Member of the Board of Directors; 2012-2018: FAU Russian River Register, Chairman of the Supervisory Board; 2012-2018: FAU Russian Maritime Register of Shipping, Chairman of the Supervisory Board; 2014-2017: ANO Unified Transport Directorate, Member of the Supervisory Board; 2009-2016: Russian Ministry of Transport, Deputy Minister of Transport; 2016-2018: Russian Ministry of Transport, Deputy Minister of Transport, Head of the Federal Agency of Marine and River Transport; 2017–present: PAO Sovcomflot, Member of the Board of Directors; 2018-present: OOO Russian Fishery Company	
Ivan Glumov				David Moourhouse		Walid Chammah	
Member of the PAO Sovcomflot Board of Directors (independent director)				Member of the PAO Sovcomflot Board of Directors		Member of the PAO Sovcomflot Board of Directors (independent director)	
Born in 1936.				Born in 1947.		Born in 1954.	
Education: Moscow State University of Geodesy, Aerial Photography and Cartography. Academic degree: Doctor of Engineering.				Education: University of London, London City University, Southampton University. Academic degree: Doctor of Science. Member of the UK Foundation for Science and Technology. Fellow of the UK Nautical Institute.		Education: American University in Beirut, Bachelor of Business Administration; American Graduate School of International Management, Master of International Management.	
2004-present: AO Severneftegaz, Chief Executive Officer (principal place of work); 2006- present: AO Severneftegaz, Member of the Board of Directors; 2014-present: AO Rosgeologia, Advisor to the Chief Executive Officer; 2014–present: PAO Sovcomflot, Member of the Board of Directors.				1995-2010: Lloyds Register Group, Member of the Lloyds General Committee, Chairman of Lloyds Register, Executive Director, Chairman of the Board of Trustees, Lloyds Register; 2004–2012: Lloyds Register Educational Trust, Chairman; 2005–2013: Royal Museums Greenwich, Trustee Director; 2006–present: Braemar Shipping Services plc, Non-Executive Chairman of the Board of Directors, Chairman of the Nominations Committee; 2007–present: Trafalgar House Trustee Limited, Trustee Director; 2010–present: PAO Sovcomflot, Member of the Board of Directors (principal place of work); 2010–2015: Maritime London, Chairman of the Board; 2013-present: James Fisher and Sons Shipping Services plc, Non-Executive Board Member; 2015–present: Maritime London, Member of the Board;		2010–2011: Morgan Stanley International, Chairman and Chief Executive Officer; 2011-2012: Morgan Stanley International, Chairman; 2010-present: Chammah & Partners, Partner (principal place of work); 2010-present: American University in Beirut, Member of the Board of Directors, Chairman of the Audit Committee; 2010-present: British-American Business Council, Board Member; 2010-present: HEC Montreal, Advisor to the International Consultative Board; 2010-2015: IMF, Financial Institutions Consultative Group, Board Member; 2015-present: Signa Holding GmbH, Senior Advisor; 2015–present: PAO Sovcomflot, Member of the Board of Directors; 2016-present: Augmenta Capital, Director.	

Sergey Frank

Member of the PAO Sovcomflot Board of Directors.

Born in 1960.

Education: Admiral Nevelskoy Far Eastern Higher Maritime College, specialising in Maritime Navigation; Far Eastern State University, specialising in Jurisprudence. Academic degree: Candidate of Technical Sciences.

2004–present: PAO Sovcomflot, President and Chief Executive Officer, Member of the Board of Directors (principal place of work);
2006–2013: NGO Association of Russian Shipowners, Member of the Board;
2007–2014: Fiona Trust & Holding Corporation, Member of the Board of Directors;
2007–2014: Sovcomflot Bulk Shipping Inc., Member of the Board of Directors;
2008-2018: PAO Novoship, Chairman of the Board of Directors;
2008-present: Admiral Nevelskoy Maritime State University, Chairman of the Supervisory Council;
2010–2013: NGO Association of Russian Shipowners, Chairman of the Committee for Legislative and International Activities;
2011–present: OOO Russian Union of Industrialists and Entrepreneurs, Member of the Board;
2011–present: OOR Russian Union of Industrialists and Entrepreneurs, Member of the Board;
2012-2017: VOO Russian Geographical Society, Member of the Supervisory Council;
2013–present: All-Russia Association of Maritime Industry Employers "Russian Chamber of Shipping", Chairman of the Board, Chairman of the Committee for Legislative and International Activities;
2014-2015: AO United Shipbuilding Corporation, Chairman of the Board of Directors;
2015-present: Admiral Nevelskoy Maritime State University, Honorary President;
2015–present: Russian Union of Industrialists and Entrepreneurs, Vice-President;
2015-2017: AO United Shipbuilding Corporation, Member of the Board of Directors, Chairman of the Committee for Strategic Planning under the Board of Directors.
2008–present: PAO Novoship, Member of the Board of Directors;

The Chairman and members of the Board of Directors did not own shares in PAO Sovcomflot 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.

Andrey Sharonov

Member of the PAO Sovcomflot Board of Directors (independent director)

Born in 1964.

Education: 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.

2010–2013: Government of Moscow, Deputy Mayor of Moscow for Economic Policy;
2011–2014: Federal State Autonomous Institution of Higher Professional Education National Research University Higher School of Economics, Member of the Supervisory Board;
2011-2015: AKB Bank of Moscow (OAO), Member of the Board of Directors;
2013–2016: Moscow School of Management SKOLKOVO, Rector;
2013–2016: OAO Eco-Sistema Management Company, Chairman of the Board of Directors;
2014–2015: AK ALROSA (OAO), Member of the Supervisory Board;
2014–2019: PAO NOVATEK, Independent Member of the Board of Directors;
2014-present: OOO Managing Company NefteTransService, Chairman of the Board of Directors;
2014–present: PAO Sovcomflot, Member of the Board of Directors;
2015–2016: PAO Moscow Exchange, Member of the Supervisory Board;
2015–2017: OAO Rosgeologia, Member of the Board of Directors;
2015-2018: VTB Bank (PAO), Member of the Supervisory Board;
2016–present: Moscow School of Management SKOLKOVO, President (principal place of work).
2017-present: PAO Sovcomflot, Member of the Board of Directors.
2018–present: AO Medicine, Member of the Board of Directors;

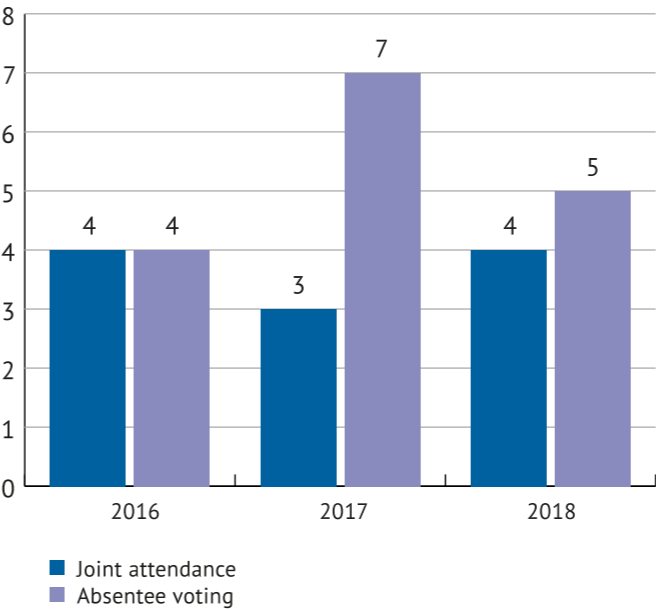
4.3.2 Activities of the Board of Directors in 2018

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.

Given the strategic nature of the Board of Directors' activities, meetings of the Board of Directors are held on a scheduled basis. A 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.

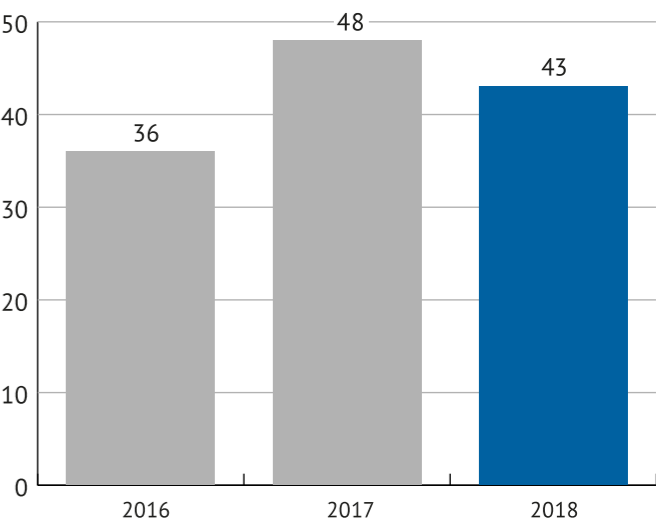
In 2018 the PAO Sovcomflot Board of Directors convened nine times (including four meetings through joint attendance and five through absentee voting)¹.

Number of Board of Directors meetings, 2016-2018



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.

Number of issues considered by the Board of Directors, 2016-2018



- In 2018 the PAO Sovcomflot Board of Directors considered 43 issues in the following main areas:
- Strategic management of Sovcomflot Group, including results of implementation of the long-term development programme in 2018 and quarterly reports on the implementation of the long-term development programme; issues related to the updating of the PAO Sovcomflot 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;
 - Approval of the financial plan (budget) of PAO Sovcomflot and Sovcomflot Group, a summary of performance during 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 the period from 2015 to 2017;
 - Consideration of the report on the risk management system and approval of the risk appetite, corporate risk register and risk map;
 - 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;
 - Approval of interested-party transactions;
 - Support of the organisational activities of the Board of Directors and formation of the Board of Directors committees.

1. Date of the meeting and number of the minutes: 13 January 2018, No. 169 (absentee voting); 19 February 2018, No. 170 (absentee voting); 10 April 2018, No. 171; 30 May 2018, No. 172; 20 July 2018, No. 173 (absentee voting); 28 August 2018, No. 174 (absentee voting); 21 September 2018, No. 175 (absentee voting); 9 October 2018, No. 176; 11 December 2018, No. 177.

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 2018 is planned to be reviewed at the meeting of the PAO Sovcomflot Board of Directors to be held in April 2019 in person. The self-assessment conducted by the Board of Directors and its committees determined that the performance of the Company's Board of Directs and its committees corresponded to the needs for the Company's development.

Participation of PAO Sovcomflot directors in Board of Directors meetings in 2018

Director	Participation in meetings	Total number of meetings
Members of the Board of Directors throughout 2018		
Ivan Glumov	9	9
Ilya Klebanov	9	9
Alexey Klyavin	9	9
David Moorhouse	9	9
Viktor Olersky	9	9
Sergey Frank	9	9
Walid Chammah	9	9
Andrey Sharonov	9	9
Members of the Board of Directors until 29 June 2018		
Pavel Kadochnikov	4	4
Members of the Board of Directors since 29 June 2018		
Oksana Tarasenko	5	5

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 2018

Composition and structures of committees of the Board of Directors as at 31 December 2018

Name	Composition	Competencies
Strategy Committee	<div>1. Viktor Olersky - Chairman</div> <div>2. Ivan Glumov (independent director)</div> <div>3. Oksana Tarasenko</div> <div>4. Alexey Klyavin (independent director)</div> <div>5. Sergey Frank</div> <div>6. Walid Chammah (independent director)</div> <div>7. Andrey Sharonov (independent director)</div>	<div>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.</div> <div>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.</div> <div>Elaborating proposals and recommendations on key performance indicators and the governance system for Sovcomflot Group financial activities.</div> <div>Elaborating proposals and recommendations on investment policy, increasing the capitalisation of Sovcomflot Group, and working with Sovcomflot Group securities.</div> <div>Elaborating proposals and recommendations on the PAO Sovcomflot dividend policy.</div>
Audit Committee	<div>1. Andrey Sharonov (independent director) – Chairman</div> <div>2. David Moorhouse</div> <div>3. Walid Chammah (independent director)</div>	<div>Control over the completeness, accuracy and reliability of the Company's financial statements.</div> <div>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.</div> <div>Evaluation of the Company's financial and economic activities, including assessment of management and financial reporting.</div> <div>Evaluation of the report of the Company's Auditor prior to its presentation at the General Meeting of Shareholders.</div> <div>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.</div> <div>Review of the regulations on internal audit and the work plan of the internal audit department.</div> <div>Review of issues relating to appointment (dismissal) of the head of the internal audit department and amount of his/her compensation.</div> <div>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.</div> <div>Ensuring the independence and objectivity of the internal and external audit functions.</div> <div>Ensuring effective interaction between the Company's internal audit department and external auditors.</div> <div>Elaborating recommendations for selecting an independent appraiser and arranging for a property valuation to be conducted by an independent appraiser in cases provided for by current legislation.</div> <div>Assessment of the effectiveness of the system for reporting potential misconduct by the Company's employees (including illegal use of insider and confidential information) 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.</div>

Name	Composition	Competencies
HR and Compensation Committee (also performs functions of a nominations committee)	1. Walid Chammah (independent director) - Chairman	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 above-mentioned policy.
	2. David Moorhouse	Determining and adjusting the PAO Sovcomflot employment policy.
	3. Andrey Sharonov (independent director)	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 executive body of the Company and other key managers of the Company.
Committee for Innovative Development and Technical Policy		Elaborating and submitting recommendations (opinions) to the Board of Directors on other issues in accordance with instructions from the Board of Directors.
	1. David Moorhouse – Chairman	Considering and approving the innovative development policy and programmes of Sovcomflot Group. Considering and approving R&D projects.
	2. Ivan Glumov (independent director)	Assessing state-of-the-art innovative technologies to be implemented in Sovcomflot Group.
	3. Alexey Klyavin (independent director)	Elaborating the SCF Group's technical policy.
	4. Sergey Frank	Elaborating the SCF Group's innovative development policy.
		Improving the safety and quality service 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 31 July 2017 (Minutes No. 164) and elected by the PAO Sovcomflot Board of Directors decision dated 20 July 2018 (Minutes No. 173).

In 2108 the Committee considered and prepared recommendations for the Board of Directors based on the results of implementation of the long-term development strategy of PAO Sovcomflot and also reviewed issues related to the updating of the PAO Sovcomflot strategy up to 2025¹.

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

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 31 July 2017 (Minutes No. 164) and elected by the PAO Sovcomflot Board of Directors decision dated 20 July 2018 (Minutes No. 173).

In 2108 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, the candidate for the position of Head of the Internal Audit Department of PAO Sovcomflot, activity reports and work plans of the Internal Audit Department of PAO Sovcomflot for 2018, and also participated in the consideration of the consolidated financial statements and external audit report for 2017² as well as the audit plan for 2018 and interim 2018 audit results.

During the reporting period members of the Committee 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 31 July 2017 (Minutes No. 164) and elected by the PAO Sovcomflot Board of Directors decision dated 20 July 2018 (Minutes No. 173).

The Committee prepared recommendations for the Board of Directors³ 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 Committee held regular working 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 31 July 2017 (Minutes No. 164) and elected by the PAO Sovcomflot Board of Directors decision dated 20 July 2018 (Minutes No. 173).

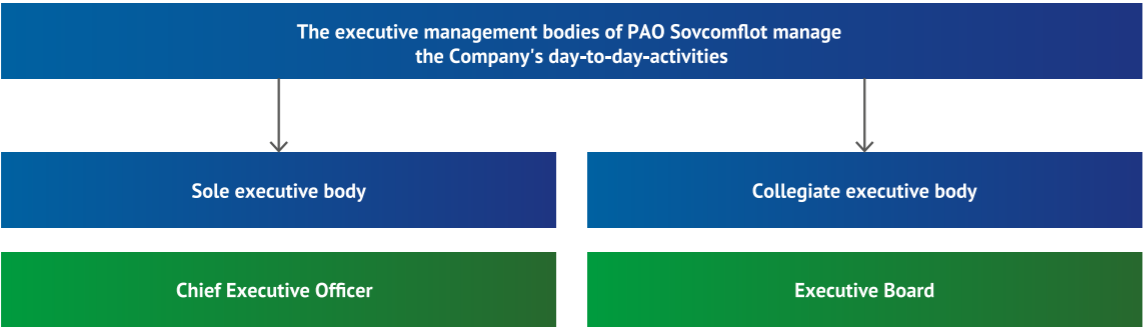
During the reporting period members of the Committee held regular working meetings with corresponding PAO Sovcomflot structural divisions on issues relating to the implementation of the innovative development programme.

1. Date of the meeting and number of the minutes: 10 April 2018, minutes unnumbered; 13 November 2018, minutes unnumbered; 11 December 2018, minutes unnumbered.

2. Date of the meeting and number of the minutes: 24 January 2018, minutes unnumbered; 14 March 2018, minutes unnumbered; 18 April 2018, minutes unnumbered; 8 October 2018, minutes unnumbered; 11 December 2018, minutes unnumbered.

3. Date of the meeting and number of the minutes: 10 April 2018, minutes unnumbered; 29 May 2018, minutes unnumbered; 27 November 2018, minutes unnumbered; 11 December 2018, minutes unnumbered.

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 Sovcomflot Chief Executive Officer were extended for five years by a resolution of the Extraordinary General Meeting of Shareholders (Instructions No. 432-r of the Federal Agency for State Property Management dated 19 June 2015).

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.

Information on members of the PAO Sovcomflot Executive Board (as at 31 December 2018)

Chairman of the Executive Board



Sergey Frank

Chief Executive Officer, Member of the PAO Sovcomflot Board of Directors

Born in 1960

Education: Admiral Nevelskoy Far Eastern Higher Marine Engineering College (FEHMEC), specialising in Maritime Navigation; Far Eastern State University, specialising in Jurisprudence. Academic degree: Candidate of Technical Sciences.

34 years of experience in the industry, 14 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 (FEHMEC), specialising in Maritime Navigation.

39 years of experience in the industry, 12 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.

7 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.

21 years of experience in the industry, 13 years in SCF Group



Callum Ludgate

Managing Director, Member of the Board of Directors of Sovcomflot (UK) Ltd.

Born in 1969

Education: Southampton University

25 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.

23 years of experience in the industry, 18 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.

21 years of experience in the industry, 16 years in SCF Group



Sergey Popravko

Member of the Board of Directors, Managing Director–Fleet Director of SCF Management Services (Dubai) Ltd.

Born in 1961

Education: Admiral Nevelskoy Far Eastern Higher Marine Engineering College (FEHMEC), 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.

34 years of experience in the industry, 13 years in SCF Group



Igor Tonkovidov

Executive Vice President and Chief Technical Officer of PAO Sovcomflot

Born in 1964

Education: Odessa Institute of Marine Engineers, specialising in Ship Machinery; University of London, degree in Financial Management.

32 years of experience in the industry, 19 years in SCF Group

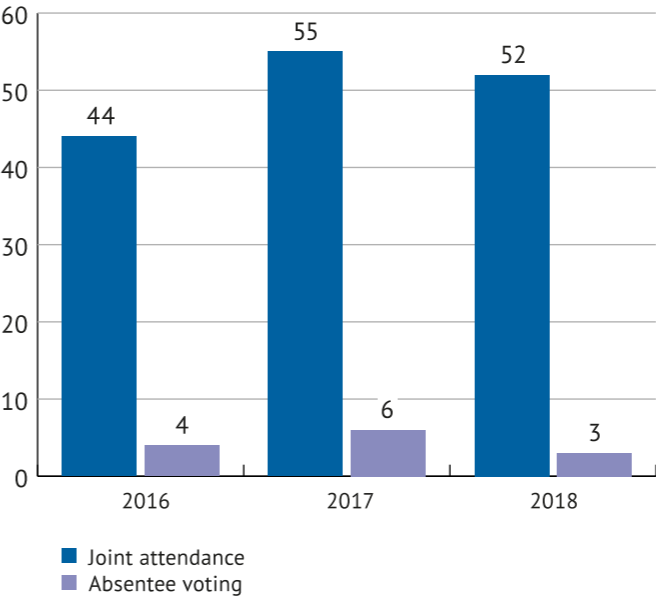
During the reporting period the PAO Sovcomflot Board of Directors also included **Yury Tsvetkov** . His powers as a member of the PAO Sovcomflot Executive Board were terminated on 9 October 2018 in connection with his appointment as Deputy Minister of Transport of the Russian Federation.

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.

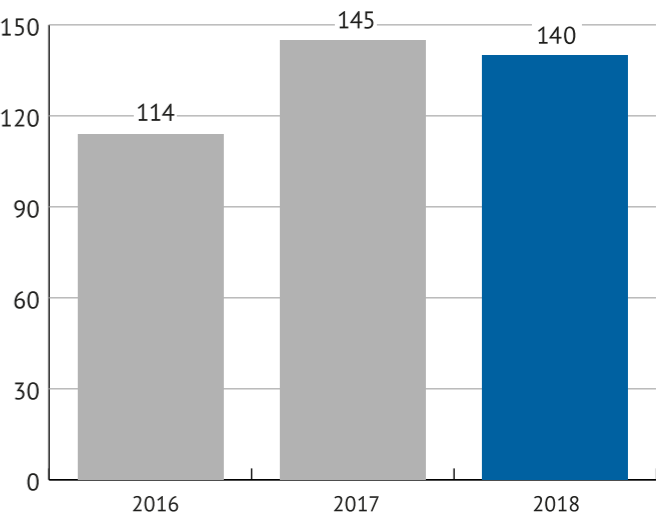
Based on a decision of the Executive Board, the following committees have been established and operate at Sovcomflot to preliminarily consider issues and prepare recommendations for the Executive Board and Chief Executive Officer:

- 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, 2016-2018



Number of issues considered by the Executive Board, 2016-2018



Three out of the 55 meetings of the Executive Board were held by absentee voting. A total of 140 issues were considered at the Executive Board meetings in 2018.

The Executive Board adopted decisions on the following main areas of activity of PAO Sovcomflot at its meetings in 2018:

- 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.

4.5. AUDITING COMMISSION

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

The competence and operating procedures of the Auditing Commission are determined by the Regulations on the Auditing Commission¹approved 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 following compositions, which were elected:

- by the Annual General Meeting of Shareholders dated 16 June 2017 (Instructions No. 310-r of the Federal Agency for State Property Management dated 16 June 2017) as follows: Ivan Bezmenov, Zakhary Dzhioev, and Mikhail Kuznetsov;

- 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 Bezmenov, Dmitry Vladimirov, Zakhary Dzhioev, and Mikhail Kuznetsov;

Composition of the Auditing Commission of PAO Sovcomflot as at 31 December 2018

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 Federal Agency for Marine and River Transport, Head of the Department of Economics and Finance

Compensation paid to the Auditing Commission members in 2018

Indicator	Amount, RUB thousand
Compensation for participation in the body exercising control over the issuer's financial and economic activity	366
Salary	-
Bonuses	-
Commissions	-
Benefits	-
Reimbursement for expenses	-
Other types of compensation	-
TOTAL	366

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

In 2018, compensation was paid to the 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. 449-r of the Federal Agency for State Property Management dated 29 June 2018.

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

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

4.6. COMPENSATION SYSTEM FOR MEMBERS OF MANAGEMENT BODIES

4.6.1 Compensation of the Board of Directors members in 2018

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 Instructions No. 449-r of the Federal Agency for State Property Management dated 29 June 2018, 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 Sovcomflot 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 and Instructions No. 449-r of the Federal Agency for State Property Management dated 29 June 2018, 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 2018

Indicator	Amount, RUB thousand
Compensation for participation in a management body	50,031
Salary	-
Bonuses	-
Commissions	-
Benefits	-
Reimbursement for expenses	3,290
Other types of compensation	-
TOTAL	53,321

4.6.2 Compensation of Executive Board members and the Chief Executive Officer in 2018

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 onshore 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 engineers 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 (KPI targets) defined in the Company's Long-Term Development Programme. If 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 2018 financial year were approved by the Board of Directors decision dated 12 December 2017 (Minutes No. 168).

Compensation of the Executive Board members and Chief Executive Officer in 2018¹

Indicator	Amount, RUB thousand
Salary	185,512
Bonuses	264,176
Commissions	-
Benefits	-
Reimbursement for expenses	-
Other types of compensation	-
TOTAL	449,688

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).

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

4.7. STAKEHOLDER COMMUNICATIONS

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.

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

In 2018 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	Shareholder Investors Banks 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	Group customers Suppliers 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	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	Russian legislative and executive state authorities	Participating in the activities of working groups and expert councils established under Russian state authorities
Society	Academic institutions Health care institutions < Industry veterans Local 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	Industry non-governmental organisations Business associations NGOs	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	Print publications Electronic 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.

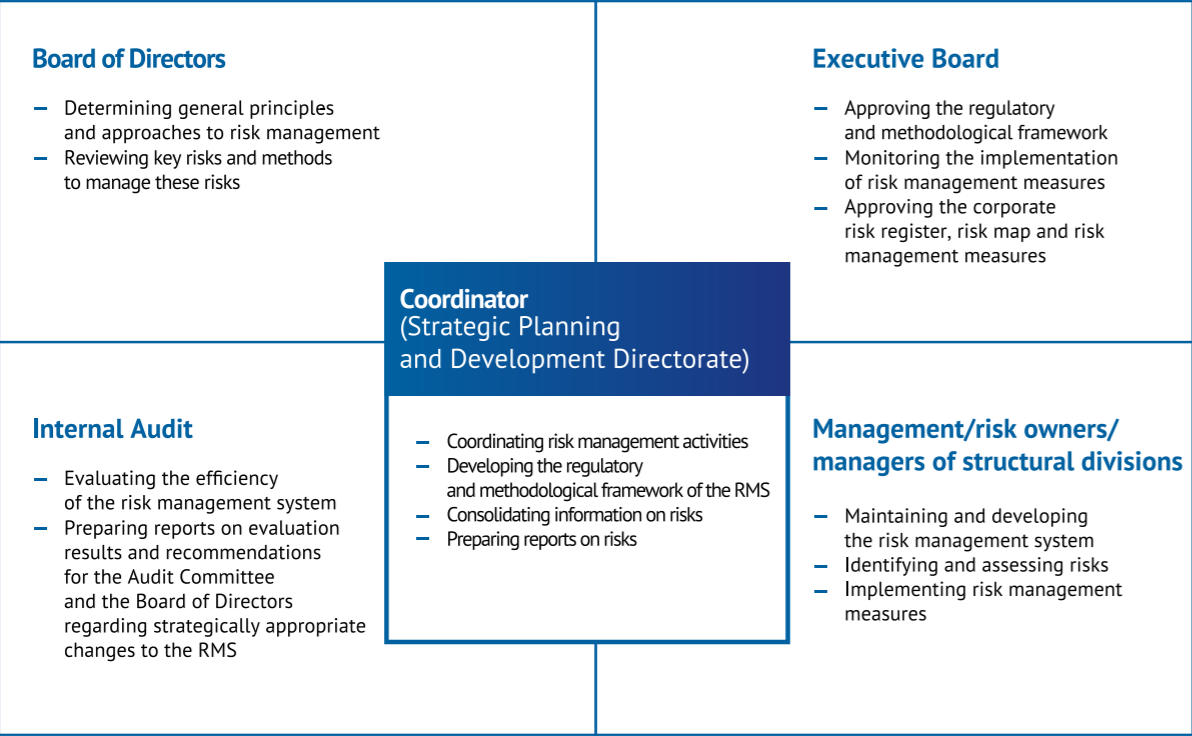
4.8. RISK MANAGEMENT SYSTEM AND INTERNAL CONTROL

4.8.1. Risk management system

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

Risk management is one of the functions of the Audit Committee under the Board of Directors of the Company. 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.

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



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 Federation¹and Guidelines for Preparing 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 results of work carried out at PAO Sovcomflot in 2018 within the risk management system were submitted for consideration to the management of PAO Sovcomflot⁴. The 2018 report on the risk management system is planned to be submitted for consideration to the management and supervisory bodies of PAO Sovcomflot in 2019.

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 No. 54(944) of the Executive Board meeting dated 11-12 December 2018.

In accordance with the RMS Regulations, the Strategic Planning and Development Department 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 31000:2009 Risk management - Principles and guidelines, and ISO 31010:2009 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 is provided in Annex 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.

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

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

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.

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 Company¹.

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 four independent directors.

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

4.9. INTERNAL AND EXTERNAL AUDIT

4.9.1. Internal audit

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.

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. The latest revision of the regulations was approved by the PAO Sovcomflot Board of Directors decision on 26 May 2017 (Minutes No. 163).

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 Audit 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

The accounting (financial) statements of PAO Sovcomflot for 2018 prepared in accordance with Russian accounting laws and the consolidated financial statements prepared in accordance with IFRS were audited by Ernst & Young LLC.

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 Financial 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 according 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 Self-regulated organisation of auditors "Russian Union of Auditors" (Association) located at 8 Petrovsky Per., bldg. 2, Moscow 107031, Russian Federation.

Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.



5

Share capital and 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 PAO Sovcomflot and its capitalisation

5.1. STRUCTURE OF THE SHARE CAPITAL

The authorised share capital of PAO Sovcomflot as at 31 December 2018 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 accordance with the resolution of the Annual General Meeting of Shareholders of PAO Sovcomflot dated 30 June 2014 (Instructions No. 696-r of the Federal Agency for State Property Management dated 30 June 2014), it was decided to increase the authorised capital by placing additional 280,956,743 ordinary registered shares.

As part of implementing this resolution, on 17 December 2014 the PAO Sovcomflot Board of Directors (Minutes No. 141) 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 with the Bank of Russia in 2015 (state registration number of the additional issue: 1-01-10613-A).

Taking into account the time limit for placing the Company's additional share issue (not later than 1 March 2018), by the resolution of the extraordinary meeting of shareholders of PAO Sovcomflot dated 1 March 2018 (Instructions No. 95-r of the Federal Agency for State Property Management dated 1 March 2018) it was decided to cancel the placement of equity securities (1-01-10613-A) and to increase the authorised capital of PAO Sovcomflot by placing additional 280,956,743 ordinary registered uncertified shares on the previous terms.

On 19 March 2018, in accordance with 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 cancel the placement of equity securities (1-01-10613-A), the Bank of Russia passed a decision to recognise the additional issue of securities not to have taken place because no securities had been placed and the state registration of the issue had been cancelled.

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, 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).

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.

5.2. 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 2017 net profit

Area	Amount	Comment
Amount of dividends transferred to the federal budget	RUB 1,696 million	Paid from the 2017 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 1,695 million	Recapitalisation of subsidiaries to finance the vessels under construction (hulls S923, S924 and 2245)

A resolution regarding the allocation of the financial result for the reporting year¹, including the dividend payment for 2018, will be adopted at the Annual General Meeting of Shareholders in 2019.

1. For more information on the income statement, see section 3.4, Financial results.

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 30 May 2018 the Board of Directors recommended that the General Meeting of Shareholders allocate RUB 1,696 million in dividend payments, which equates to 0.86235949 roubles per ordinary registered share of PAO Sovcomflot, based on the 2017 results. This amount of dividends accounted for 50% of the RAS net profit of PAO Sovcomflot.

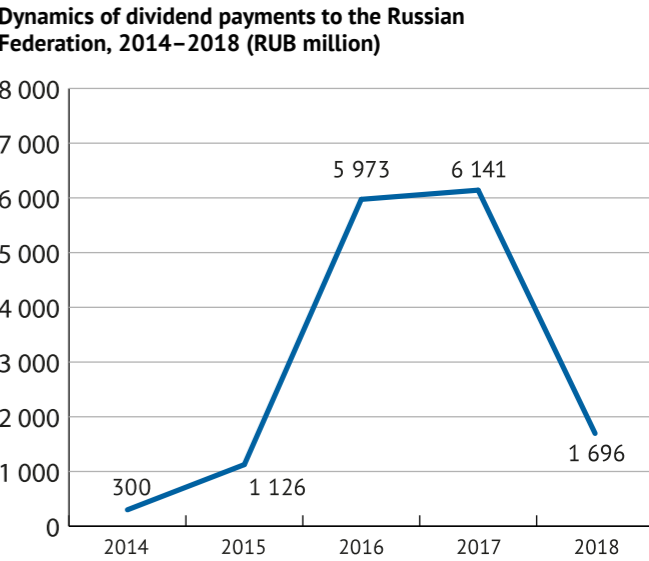
On 29 June 2018 the annual PAO Sovcomflot General Meeting of Shareholders adopted a resolution on the payment of dividends in accordance with recommendations from the Board of Directors¹. The amount of dividends was transferred in full by PAO Sovcomflot on 10 July 2018. Dividends based on the operating results for 2017 were paid in 2018 in full and by the deadlines set by Russian legislation. As at 31 December 2018 PAO Sovcomflot had no outstanding dividend payments.

Considering a positive financial result according to the accounting (financial) statements of PAO Sovcomflot prepared under RAS, it is deemed appropriate to set the amount of recommended dividends based on the performance of PAO Sovcomflot in 2018 at 50% of the RAS profit, or RUB 1,434.8 million.

US\$1,696

MILLION

the amount of dividends for 2017 paid by PAO Sovcomflot in 2018



1. Instructions No. 449-r of the Federal Agency for State Property Management dated 29 June 2018.



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

The system is based on standard methods for ensuring the effective and safe technical operation of vessels and vessel equipment, 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-rank 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.

In 2018 the average number of observations related to navigational safety and quality, made during inspections of SCF vessels by oil majors, was 2.39 per inspection. This, according to OCIMF, is significantly better than the industry average (3.00).

Sovcomflot's good safety practice 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.

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, the Company's specialists regularly participate in meetings of the Maritime Safety Committee of the Russian Chamber of Shipping.

SCF Management Services (Dubai) responsible for the technical management of the entire 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 2018, 14 SCF Group's ships had Green Award certificates (which is warranted 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. For example, the Board of Directors has set up the Committee for Innovative Development and Technical Policy, which conducts a preliminary review, analysis, and elaboration of recommendations on how the safety management system can be improved. 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 mid-positions in rankings compiled by International Association of Independent Tanker Owners (INTERTANKO) in terms of occupational health and safety indicators, which is a good result and confirms quality of management and compliance with high safety standards.

The Lost Time Injury Frequency (LTIF) for the Group's fleet in 2018 was 0.53. The Total Recordable Case Frequency (TRCF) was 1.03. These figures are close to the average for the global tanker fleet.

0.53

the LTIF value (vs. 0.54 in 2017)

1.03

the TRCF value (vs. 1.15 in 2017)

6.2. HUMAN RESOURCES AND SOCIAL PROGRAMMES

6.2.1. Employment policy

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

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 incentive 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 7,800. Due to the nature of the Group's operations, fleet personnel (6,952 people as at 31 December 2018)¹ make up the bulk (about 90 %) of the total Group headcount.

Average number of fleet personnel by category

Category	Number as at 31 December 2018
Officers	3,110
Rank and file staff	3,696
Trainees	95
Seismic exploration group	51
Total	6,952

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 2018 it was about 93.9 % for officers and 90 % for ratings. The retention rate for senior officers in 2018 was 94.8 %. This shows that Sovcomflot Group is viewed as an attractive employer, and is able to retain skilled staff.

305
PEOPLE

were hired by Sovcomflot Group in 2018

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 the 2017 performance appraisal, in 2018 the Group promoted 554 employees, including 103 senior officers, 295 junior officers, and 155 ratings.

The Group has developed a programme to promote the most talented chief 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, 734 fleet officers participated in these seminars.

In 2018, 4,520 people completed 13,705 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.

Main types of cooperation with maritime educational institutions

Type of cooperation	Nature of cooperation	Training results
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 2018, 166 cadets from maritime universities and 21 sailor trainees and motormen received practical training on board the SCF vessels.
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 2018 consisted of 20 people: 8 navigators, 8 ship engineers, and 4 electrical officers. A similar dedicated group of 20 people was formed from third-year cadets at Admiral Nevelskoy Maritime State University.	In 2018 all cadets received practical training on SCF Group vessels. 38 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 2018, 96 cadets from the targeted enrolment groups received practical training on board the SCF Group vessels.

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 9001:2015 ("Quality Management").
- **The Novoship Training Centre in Novorossiysk** , which has been operational for 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 auditors, the Novoship Training Centre occupies 8.47% of the domestic market for specialised training.

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), and Admiral Nevelskoy Maritime State University (Vladivostok) continued to be in effect in 2018.

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.

7,027
SEAFARERS

nreceived training in the SCF in-house training centers in all areas of training in 2018

Sovcomflot Group promotes 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, 17 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.

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

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 command staff of gas carriers	1. Non-material and material incentives for the performance of particularly important assignments
2. Corporate pension programme	2. Corporate pension programme
3. Bonus for successful results of inspections and other control measures	3. Incentives in the form of state, institutional, regional, and corporate awards
4. 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 best masters and chief engineers of the SCF Group's vessels	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 the 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.

About 97 % of the Group's employees are covered by collective bargaining agreements (including 100 % of fleet personnel).

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.

5,016
SHIPBOARD EMPLOYEES
of SCF Group were Pension Programme participants at the end of 2018

Since the beginning of the Programme, 409 seafarers have received pension payments totalling more than 104 million roubles.

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

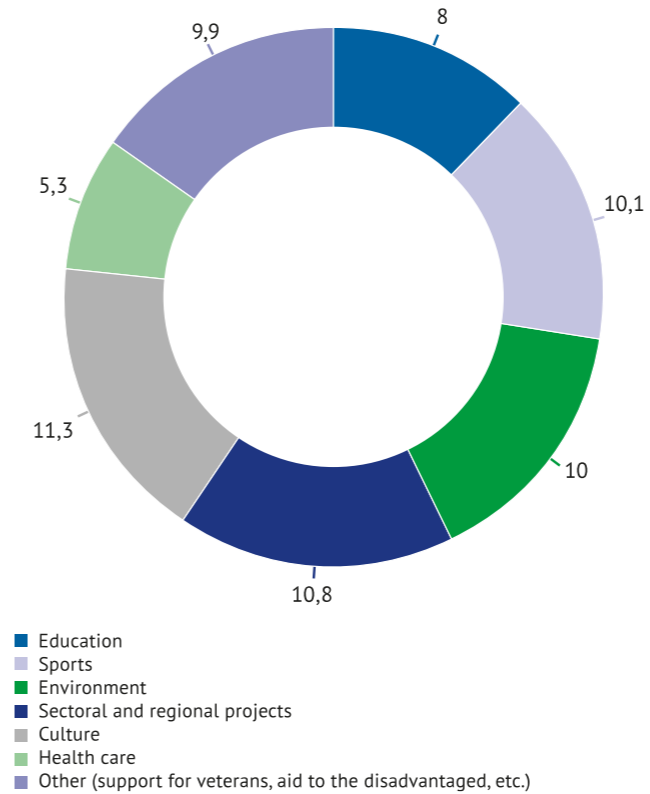
6.3. CHARITY AND SPONSORSHIP

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

Charity and sponsorship work in Sovcomflot Group is carried out in accordance with the Regulations on Charity and Sponsorship 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), as well as in accordance with the budget appropriations for the 2018 financial year.

RUB 65.4
MILLION
(approximately US\$1 million) - the total amount of the Group's sponsorship and charity expenses in 2018. A major part of these expenses was devoted to support for sports and educational projects

Distribution of the Group's sponsorship and charity expenses in 2018 (RUB million)





Key areas of sponsorship and charity



HEALTH CARE

St. Olga's Children's Hospital (Saint Petersburg)

Sovcomflot Group has been allocating funds to equip the intensive care and anaesthesiology ward of the hospital with modern equipment which helps save the lives of new-born babies. In 2018, thanks to SCF's support, the ward received an ultrasound diagnostic apparatus for regional anaesthesia, puncture and catheterisation of blood vessels and evaluating critical conditions, as well as syringe dispensers for general and neonatal intensive care.

EDUCATION

Safonovo Orphanage Boarding School (Smolensk Region)

Sovcomflot has been providing support to the boarding school since 2010, helping its team to prepare children for independent lives and create for them conditions similar to those found in a family. In 2018 the boarding school had 53 children under its care.

In addition to providing material support to equip the classrooms and living quarters with necessary equipment, in 2018 Sovcomflot also assisted in organising trips for school residents to Smolensk, Moscow, St. Petersburg, the Patriot Park, the Alexander Griboedov Museum in Khmelita, the Trinity - St. Gerasim Bolidno Monastery, and also helped them take part in the All-Russian Gathering of Young Sailors in the children's camp Artek.

St. Tikhon Orthodox Humanitarian University (Moscow)

Sovcomflot started cooperation with the university in 2016. With the Company's participation, in 2018 the university continued the implementation of 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.

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 State Maritime University (Vladivostok).

This work is carried out under long-term agreements with universities, which cover a wide range of projects. Sovcomflot provides cadets with the opportunity to receive practical training at sea on the Company's vessels on an annual basis and regularly organises internships for teachers. Targeted training programmes for future officers of the Company's fleet are being successfully implemented, research is being conducted. Thus, the Floating Laboratory, a joint project with Admiral Nevelskoy State Maritime University, is operating onboard the ice-breaking multifunctional vessel Gennadiy Nevelskoy. The goal of the project is to conduct fundamental and applied research in the field of electric propulsion and operational aspects of shipboard equipment in ice navigation conditions.

Sovcomflot is interested in expanding cooperation with maritime universities and intends to maintain and develop existing partnership.



Youth Maritime League

Sovcomflot has been developing cooperation with the public organisation Youth Maritime League for four years. This support enables it to annually conduct major events for children and teenagers, in particular, All-Russian Gathering of Young Sailors (May, Children's Centre «Artek» in Crimea) and the Gathering of Young Sailors from the Urals, Siberia and the Far East (September, Children's Centre «Ocean» in Primorye). A total of over 2,000 people from 42 Russian regions became participants in such gatherings over the period of cooperation.

During gatherings young sailors learn fleet skills, study the history and traditions of the Russian marine fleet, visit places of military glory. Red Sails, a sailing and rowing regatta, was organised for participants in the gathering in the Artek; participants in the gathering in the Ocean embarked on a two-day training voyage on board the frigate Pallada. The winners in both gatherings received the opportunity to take part in the Pacific Regatta (August-September 2018) as sailor boys.

ENVIRONMENT

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

Sovcomflot has been sponsoring the programme aiming to preserve in the wild the rarest leopard subspecies, the Far Eastern Leopard, for five years.

The Company's support helps address a number of key issues faced by the Land of Leopard National Park, such as expanding the predators' habitat and ensuring their forage density. A new bio cluster named «Leopards on Gamov» was created on the Sea of Japan coast in 2018. The cluster covered over 6,000 hectares of taiga not subjected to anthropogenic influence. Work is being carried out to provide facilities for the cluster, equipment has been purchased to maintain the territory and protect it from fires.



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.

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

Sovcomflot has been supporting the project for the study and preservation of the Amur tiger populations in the Far East since 2016. The Amur tiger is the northernmost subspecies of tiger and is listed in the Red Book. The goal of the project is to increase the Amur tiger population in Russia to 700 by 2022 with the simultaneous expansion and consolidation of its habitat.

Sovcomflot's support helps the centre develop its research programme, monitor the tiger population, increase the effectiveness of the tiger's protection outside the specially protected natural reserves, as well as carry out awareness-raising and educational activities and improve the regulatory framework.

CULTURE

Russian America Project (Fort Ross, U.S.)

Since 2012, Sovcomflot, in partnership 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, once in the U.S. and once in Russia.

SUPPORT FOR VETERANS

Victory Day-London project

Sovcomflot has been participating in organising and holding commemorative meetings between Russian and British veterans of the Northern convoys for 10 years. The Company seeks to pay tribute to the memory and respect for the heroism of people who helped ensure the delivery of vital cargoes for our country to Arkhangelsk and Murmansk during the Second World War.

SPORTS



All-Russian Federation of Sailing

Sovcomflot has been providing sponsorship support to the Federation since 2010. The Company's efforts are primarily directed at developing children's and youth sailing: organising new schools and sections in Russian regions, regularly holding major children's competitions, including championships in the Optimist class. In addition, Sovcomflot's support helps the Federation provide training for Russian Paralympic athletes.



Vladimir Salnikov Cup (Saint 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, and in 2018 the Cup was included in a similar calendar of International Swimming Federation (FINA) events.

In 2017 the tournament attracted 264 sportsmen from 15 countries. The winners were Evgeny Rykhlov (Russia) and Sarah Koehler (Germany). Altogether five different records were set during the tournament, including two world junior records.

SCF Far East Tall Ships Regatta 2018



The first international tall ships race in the region's contemporary history took place in August-September 2018 in the Russian Far East. The regatta was held under the patronage of Russian President Vladimir Putin. The organising committee for preparing and holding international tall ships regattas in Russia in 2018-2022 was headed by Russian Minister of Transport Yevgeny Dietrich.



Sovcomflot was the initiator, title sponsor and one of the organisers of the regatta. With the support of the company, the international tall ship regattas are held in Russia on a regular basis. The company is confident that marine sports attract youth's interest in the maritime profession.

Sailing practice has always been and remains the most important element of the professional training system for cadets of maritime universities. International events of such level contribute to increasing youth's interest in the maritime profession and strengthening good neighbourly relations among States and peoples, traditions of mutual respect, mutual understanding and mutual assistance.

The regatta was officially launched in Yeosu (South Korea) and ended in Vladivostok. The arrival of the ships to Vladivostok was timed to coincide with the 4th Eastern Economic Forum. 7 tall ships and 62 yachts from Russia, Indonesia, China, Korea and Japan took part in the competition. Crews of these ships included over 450 young sailors - cadets and sailor boys.

The prize for the first place in the regatta was presented to the captain of the Russian sailing ship Nadezhda. The Japanese Kaiwo Maru was awarded for contribution to the development of sailing traditions and seamanship. The crew of the schooner Koreana from South Korea won the International Marine Brotherhood award. The Friendship Prize for contribution to the development of international cooperation and mutual understanding was presented to the crew of the tall ship Bima Suci (Indonesia).



The awards ceremony for winners of the SCF Far East Tall Ships Regatta held in Vladivostok, Russia, was attended by: Vladimir Putin, President of the Russian Federation; Xi Jinping, President of the People's Republic of China; Shinzo Abe, Japan's Prime Minister; Lee Nak-yeon, Prime Minister of South Korea and Khaltmaagiin Battulga, President of Mongolia.

I'm pleased that this outstanding, interesting project has taken place, has received wide support in our country and abroad, and has become a good international tradition. Wherever your competitions are held, be it in the Baltic, in the Black Sea, or here, in the Pacific Ocean basin, they invariably enjoy popularity. It is important that the Regatta unites people of different ages, who are sincerely committed to the cause they chose and maritime fraternity. Cadets, schoolchildren who take their first steps in the art of ship navigation, are given a great opportunity to learn professional secrets from experienced seafarers, to showcase their talents and the best human qualities required at sea - courage, endurance and team spirit. I am confident that the Regatta will contribute to the development of humanitarian contacts in Asia Pacific.

VLADIMIR PUTIN,
Russian President

6.4. ENVIRONMENTAL PROTECTION

6.4.1. Environmental protection policy

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

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 2018 no 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 ship fuel burned by ship engines;
- 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.

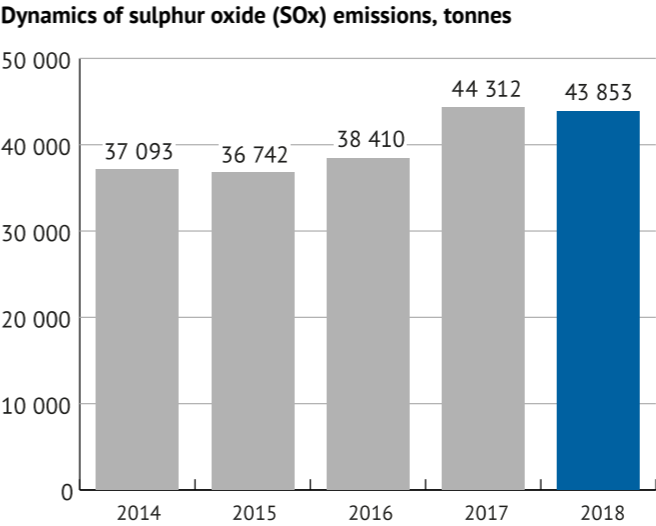
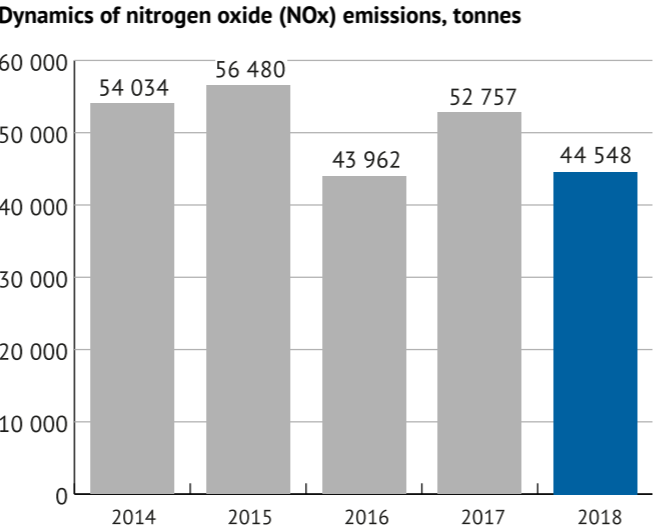
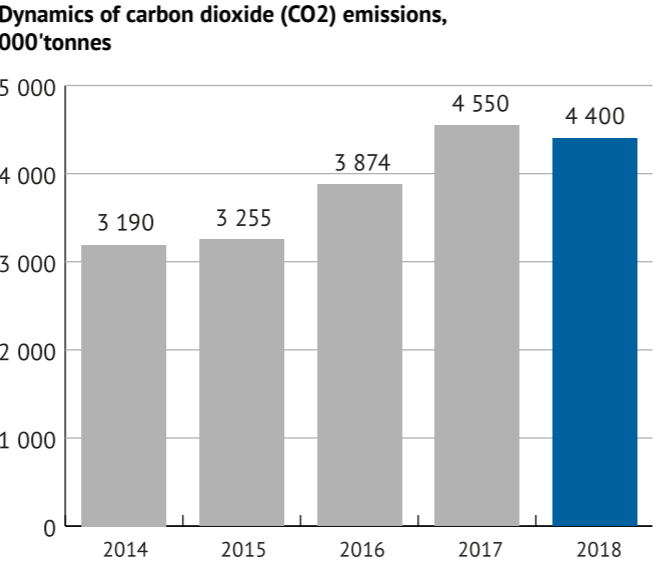
On 12 September 2018, during the 4th Eastern Economic Forum, Sovcomflot Group and the Russian Ministry of Natural Resources and Environment signed an agreement on the development of long-term cooperation in ensuring environmental safety and preserving the natural environment of the Russian Arctic. The agreement, in particular, provides for the development of proposals for the implementation of comprehensive measures to stimulate the use of new environmentally

friendly types of marine fuel, primarily LNG, the development of other "green technologies," as well as information exchange and joint activities to prevent substandard navigation in the Arctic seas.

6.4.2. Atmospheric emissions

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

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



The decrease in CO2 emissions is due to the increase in the use of LNG fuel in 2018 to 12% of the total fuel consumption of the fleet, which generally boosts the energy efficiency of ships.

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.

EEOI index of Sovcomflot Group's ships in 2018, grammes/tonne-mile

Type of vessel	Standard	Actual
Suezmax tankers	≤ 12	8.41
Aframax tankers	≤ 15	11.08
LR2 product carriers	≤ 15	11.56
LR1 product carriers	≤ 16	13.25
MR product carriers	≤ 25	19.53
Handy product carriers	≤ 25	24.59
Panamax bulkers	≤ 12	8.76

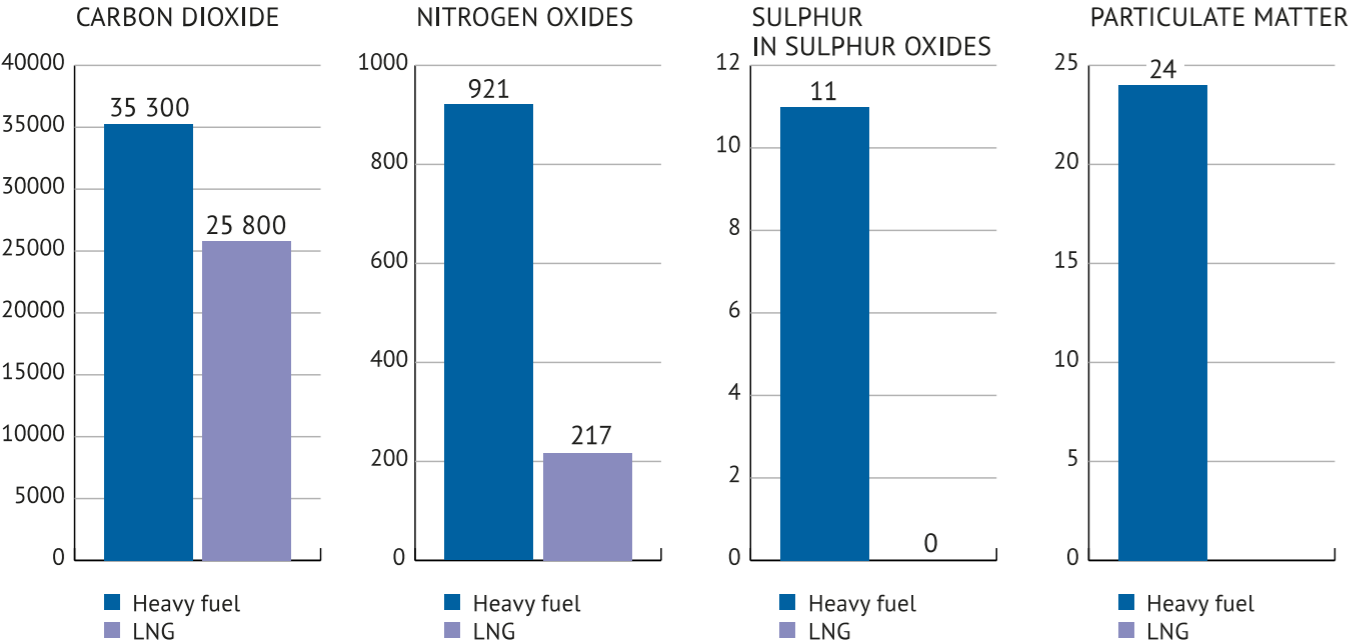
The Group is constantly supplementing the fleet with energy efficient and environmentally sustainable, new generation vessels which incorporate innovative technologies, developing a Ship Energy Efficiency Management Plan (SEEMP) for each ship in order to control emissions of hazardous substances from 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 the 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)¹even when running on diesel fuel.

Advantages of operating on LNG are most evident from figures: the reduction of sulphur oxides and soot emissions reaches 100%, nitrogen oxides emissions decrease by 76%, and carbon dioxide emissions - by 27% as compared with power plants running on conventional heavy fuel.

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

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



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.

At present the Group's ships are equipped with wastewater treatment systems that combine mechanical, 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).

Dynamics of fuel consumption in 2016-2018

Type of fuel	2018		2017		2016	
Fuel oil, tonnes	1,025,791	72 %	943,112	75.6%	943,112	75.6 %
Diesel fuel, tonnes	231,860	16 %	208,690	16.7%	208,690	16.7 %
Gas engine fuel, tonnes	166,741	12 %	96,442	7.7%	96,442	7.7 %
Total	1,424,393	100 %	1,248,244	100%	1,248,244	100 %

6.4.4. Energy consumption and efficiency

Different types of ship fuel are the main types of energy resources consumed during operations of the Group.

Sovcomflot Group is actively engaged in work to implement a state programme for introducing gas engine fuel in the transport sector. In 2018, the share of gas engine fuel amounted to 12 % of the total ship fuel consumption against 7.7 % 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, three dual-fuel Aframax tankers using liquefied natural gas as the primary fuel were brought into service in 2018.

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 pollution by garbage from ships.

27 %
the reduction in the total amount of various types of garbage generated by the Group's vessels during operation in 2018 compared to 2017

12 %
THE SHARE OF GAS ENGINE FUEL
in the total amount of ship fuel consumed (vs. 7.7 % in 2017)

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 reliable 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 environmental performance of ship power plants.

During 2018 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 air 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 characteristics 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 low-friction 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 energy-saving (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 impacts on the environment by introducing innovations, reducing energy consumption, and increasing staff qualifications.

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 2018 Annual Report of PAO Sovcomflot at the meeting held on 11 April 2018.

The Company's corporate governance system is based on Russian statutory requirements and applicable 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 PAO Sovcomflot Board of Directors. These documents were updated to reflect recommendations of the CG Code, as well as the specifics of the Company's operations. The results of the CG Code implementation in accordance with the road map were reviewed by the Company's Board of Directors in 2018.

The form below contains the recommendations of the Corporate Governance Code observed, partially observed or not observed by the Company, with justification of the reasons for non-observance (or partial 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 37 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 related to time limit for holding 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 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
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		

About	Strategy	Group performance	Corporate governance	Share capital and dividend policy	Sustainable development	Annexes
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	
1.1.3	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		<p>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.</p> <p>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.</p> <p>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</p>			
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		<p>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.</p> <p>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</p>			
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			
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		1. The dividend policy of the company clearly indicates financial/economic circumstances in which the company should not pay dividends	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
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
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 quasi-treasury 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. 13 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	

About	Strategy	Group performance	Corporate governance	Share capital and dividend policy	Sustainable development	Annexes
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(ies) 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)	In accordance with Article 12.4 of the Company's Charter approved by the shareholder, members of the Board of Directors, numbering nine, are elected at the general meeting of shareholders. The sole shareholder of PAO Sovcomflot is the Russian Federation
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 met the criteria of independence or 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

About	Strategy	Group performance	Corporate governance	Share capital and dividend policy	Sustainable development	Annexes
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		
2.4.2	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	<p>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.</p> <p>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.</p> <p>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</p>	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	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			
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	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 decision 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			

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	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	
2.6.3	Board members should have sufficient time to perform their duties	<p>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.</p> <p>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</p>	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	<p>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.</p> <p>2. The company has a formalised introductory programme for newly elected board members</p>	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	

About	Strategy	Group performance	Corporate governance	Share capital and dividend policy	Sustainable development	Annexes
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	<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	<p>A majority of the Audit Committee members are independent directors. The Audit Committee held 5 meetings during the reporting period.</p> <p>The Committee is chaired by an independent director.</p> <p>The Regulations on the Audit Committee of the PAO Sovcomflot Board of Directors are in accordance with the recommendations of the CG Code</p>		
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	<p>A majority of the HR and Compensation Committee members are independent directors. An independent director was elected as Chairman of the Committee.</p> <p>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</p>		
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 <4>).</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	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			
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	<p>1. The committees of the board of directors are headed by independent directors.</p> <p>2. Internal documents (policies) of the company include provisions that persons who are not members of the audit committee, nominations committee and remuneration committee may attend their meetings only at the invitation of their chairmen</p>	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			

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
2.9	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	Not observed	A decision to organise an external assessment of the Board of Directors' work will be taken by the Company's Board of Directors and recommended by its HR and Compensation Committee where necessary
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	
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(s) - 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 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	

About	Strategy	Group performance	Corporate governance	Share capital and dividend policy	Sustainable development	Annexes
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 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			
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 does not provide any additional payment 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 any additional payment 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			
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 Incentives 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		

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
4.3.3	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	
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	

About	Strategy	Group performance	Corporate governance	Share capital and dividend policy	Sustainable development	Annexes
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		
6.1.2	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	<p>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.</p> <p>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).</p> <p>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</p>	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		
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	<p>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.</p> <p>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.</p> <p>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</p>	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	<p>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.</p> <p>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</p>	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	<p>1. The company's annual report contains information on the key aspects of its operating activities and financial results.</p> <p>2. The company's annual report contains information about the environmental and social aspects of the company's activities</p>	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
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	
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, as a minimum, reorganisation of the company, acquisition of 30 or more percent 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 Code of Corporate Governance (Article 7) defines material corporate actions. 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	

About	Strategy	Group performance	Corporate governance	Share capital and dividend policy	Sustainable development	Annexes
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	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			
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 the supply of and demand for tonnage	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 vessels of Group companies, 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
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 valid 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 portfolio and areas of activities, 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

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 2018.

Company's name	Country of incorporation	Equity stake	Principal activity
PAO Novoship and its subsidiaries	Russia	89.4563%	Ownership and control of active companies within the Group
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 Pirazlomnoye	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
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%	(inactive company)
Sovchart S.A.	Switzerland	100%	(inactive company)

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 related-party transactions in accordance with the Federal Law “On Joint-Stock Companies”, indicating an interested party (parties) on 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 to conclusion of which the approval procedure of major transactions applies in accordance with the charter of the company, indicating essential terms on each transaction and the company’s management body which passed the decision on approval of the transaction.

PAO Sovcomflot did not conclude major transactions in 2018. During the reporting period the Company made five interested-party transactions. One of them was approved in advance by the Company’s Board of Directors in accordance with statutory requirements.

In accordance with Article 83 of the Federal Law “On Joint-Stock Companies”, the Board of Director adopted the decision dated 21 September 2018 (Minutes No. 175) to approve an interested party-transaction - conclusion of supplementary agreement No. 6 to Contract No. SCF-5/2 dated 29 June 2012 (the “Contract”) between PAO Sovcomflot (the customer) and OOO SCF Arctic (the contractor) that amends the Contract as follows:

- Contract price: the cost of works under the Contract is 5,236,840 (five million two hundred thirty six thousand eight hundred and forty) rubles 00 kopecks, including 18% VAT of 798,840 (seven hundred ninety eight thousand eight hundred and forty) rubles 00 kopecks;
- The supplementary agreement to the Contract shall apply to the relations between the Parties from 1 April 2018;
- The rights and obligations of the parties not modified by the supplementary agreement shall remain unchanged and the parties shall be governed by the provisions of the Contract, subject to the terms of the supplementary agreement.

The supplementary agreement to Contract No. SKF-5/2 dated 29 June 2012 between PAO Sovcomflot and OOO SCF Arctic is an interested party-transaction for the following reasons: Members of PAO Sovcomflot Executive Board (E.N. Ambrosov, N.L. Kolesnikov, A.V. Ostapenko, I.V. Tonkovidov) concurrently act as Members of OOO SCF Arctic Board of Directors. Supplementary agreement No. 6 is concluded on 24 September 2018.

Interested-party transactions made by the company during the reporting period that do not require consent or approval of the company’s management bodies according to the amendments to Federal Law “On Joint-Stock Companies” which entered into force on 1 January 2017:

1. Supplementary Agreement No. 5 dated 26 March 2018 to the Sublease Agreement dated 1 April 2013 between PAO Sovcomflot (the “Lessor”) and OOO SCF Arctic (the “Lessee”), under which the rented area as specified in Clause 1.1 of the Agreement was changed and the Lessor shall, for a consideration, provide to the Lessee for temporary use (sublease) a part of the non-residential building with a total area of 1,616.92 sqm (hereinafter jointly referred to as the “Premises”) located at 3a Moyka River Embankment, Saint Petersburg, for use as an office, and the Lessee shall use the Premises according to the terms of the Agreement and pay the Lessor a rent for this.

In respect of all other obligations not covered by the said supplementary agreement the parties shall continue to be governed by the provisions of the Sublease Agreement.

The supplementary agreement to the Sublease Agreement enters into force on 01 April 2018.

2. Sublease Agreement for Premises dated 30 March 2018 between SCF Management Services (St. Petersburg) Ltd. (the “Lessee”) and PAO Sovcomflot (the “Sublessee”), under which the Lessee shall provide to the Sublessee for temporary use a part of the property, rented under the lease agreement dated 12 March 2018, of the non-residential building with a total area of 12 (twelve) sqm located at 8 Prospekt Ostryakova, 3rd floor, Vladivostok, Primorsky Krai, for use as an office. The Agreement is concluded for a period of 11 (eleven) months and enters into force on 01 April 2018. The size of a monthly rent for the subleased premises is 17,400.00 (seventeen thousand four hundred) rubles, VAT amount (18%) of 3,132.00 rubles, total amount of 20,532.00 (twenty thousand five hundred thirty two) rubles.

3. Supplementary Agreement No. 3 dated 15 May 2018 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 for the period from 01 May 2018 to 31 March 2019 on the previous terms. In all matters not covered by Supplementary Agreement No. 3 parties shall be governed by the terms of the Sublease Agreement and current legislation.

Supplementary agreement No. 3 to the Sublease Agreement dated 10 December 2015 enters into force on 1 May 2018.

4. Supplementary Agreement No. 6 dated 1 October 2018 to the Sublease Agreement dated 1 April 2013 between PAO Sovcomflot (the “Lessor”) and OOO SCF Arctic (the “Lessee”), under which the rented area as specified in Clause 1.1 of the Agreement was changed and the Lessor shall, for a consideration, provide to the Lessee for temporary use (sublease) a part of the non-residential building with a total area of 1,601.57 sqm (hereinafter jointly referred to as the “Premises”) located at 3a Moyka River Embankment, Saint Petersburg, for use as an office, and the Lessee shall use the Premises according to the terms of the Agreement and pay the Lessor a rent for this.

In respect of all other obligations not covered by the said supplementary agreement the parties shall continue to be governed by the provisions of the Sublease Agreement.

The supplementary agreement to the Sublease Agreement entered into force on 1 October 2018.

5. INFORMATION ON LITIGATIONS INVOLVING PAO SOVCOMFLOT

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

In addition, in carrying out its activities the Issuer 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 Issuer to counter fraud and corruption in any form, the Issuer initiated the following litigations between 2005 and 2007:

During 2005 through to 2009, a number of Sovcomflot Group companies filed claims in London against Yuri Nikitin, former Sovcomflot CEO Dmitry Skarga and former Novoship President Tagir Izmaylov for losses arising out of various transactions that had taken place from 2000 through to 2004. The trial of the claims filed commenced at the High Court in London in October 2009 and concluded in mid-2010. Judgment was handed down on 10 December 2010. The Group was successful on a number of claims, and unsuccessful on a number of others. In addition to the awarded damages, the Group recovered over \$200 million from different defendants out of court.

As a result of the Group recovering at trial an amount less than the total amount of the two freezing orders granted against some of the defendants in 2005 and 2007 in the course of the proceedings, in December 2014 these defendants filed a claim for damages said to have been suffered by virtue of the freezing orders.

Following a trial, three judgments were handed down during August-October 2016. In relation to the 2005 freezing order the Court awarded the defendants \$59.8 million in damages and \$11.0 million in interest; a total sum of \$70.8 million.

The Group appealed these judgements in higher courts and was granted a stay of execution pending the Supreme Court’s decision.

The application to the Supreme Court was refused in June 2018, and all the costs due to the defendants in relation to their claim (and the Group’s related appeals) were agreed and paid by the Group in July 2018.

In late 2005 the Group investigated a number of transactions which involved the former management of Novoship (UK) Ltd (“NOUK”). NOUK and other companies of the Group filed claims at the Commercial Court in London in December 2006 and subsequently joined further defendants. The trial for these claims commenced on 16 May 2012 and concluded on 5 July 2012. Judgment was handed down on 14 December 2012. The Group was initially successful on all claims, but after appeal unsuccessful on some claims against certain defendants. 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.

In relation to the successful claims concerning certain transactions involving the former management of NOUK, the Group was awarded \$59.2 million plus interest. After initial recoveries of \$7.9 million, in September 2013 the Group concluded a settlement agreement with some of the defendants. When payment was not received, in breach of the settlement agreement, the Group pursued various enforcement actions and subsequently recovered an additional \$55.6 million, of which \$40.6 million was received in 2015 and another \$15 million in 2016.

On 23 April 2018, the Dorogomilovo Court of Moscow adjudged Yuri Nikitin, Dmitry Skarga and Tagir Izmaylov 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 accused were sentenced to long terms of imprisonment. In addition, the funds held by Yuri Nikitin and companies controlled by him as well as other property of the accused are subject to confiscation.

However, not all wrongdoings by Yuri Nikitin, Dmitry Skarga and Tagir Izmaylov were subjected to judicial review, and the Issuer 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

- orders and decrees of the Russian President;
- orders of the Russian Government.

1. Information regarding the establishment of specialised committees under the Board of Directors (Supervisory Board) of the Company in accordance with Russian Government Order No. VZ-P13-6294 dated 23 July 2009.

In accordance with the PAO Sovcomflot Board of Directors decision dated 5 February 2009 (Minutes No. 95), the following committees of the PAO Sovcomflot Board of Directors have been established: the Strategy Committee, the Audit Committee, and the HR and Compensation Committee.

In accordance with the PAO Sovcomflot Board of Directors decision of 25 February 2011 (Minutes No. 109 dated 28 February 2011), the Committee for Innovative Development and Technical Policy was created at PAO Sovcomflot.

2. On implementing the energy conservation and energy efficiency strategy of the joint-stock company in accordance with Clause 8 of Russian Government Order No. ISh-P9-3772 dated 18 June 2008 on the implementation of Russian Presidential Decree No. 889 dated 4 June 2008 “On Certain Measures to Increase the Energy and Environmental Efficiency of the Russian Economy”.

To implement Russian Presidential Decree No. 889 dated 4 June 2008 “On Certain Measures to Increase the Energy and Environmental Efficiency of the Russian Economy”, the PAO Sovcomflot Board of Directors considered on 17 December 2008 whether it was necessary to draft an energy conservation programme for PAO Sovcomflot. The energy conservation programme was included as an independent section of the PAO Sovcomflot Development strategy.

3. On the sale of non-core assets in accordance with Russian Presidential Decree No. 596 “On the Long-Term State Economic Policy” dated 7 May 2012 and Russian Government Order No. 894-r dated 10 May 2017.

On 19 May 2011 the PAO Sovcomflot Board of Directors approved the Programme for the Sale of Non-Core Assets of Sovcomflot Group (Minutes No. 110). To implement this decision, the Board of Directors and the Executive Board of PAO Novoship (a subsidiary of PAO Sovcomflot) adopted respective decisions on the alienation of non-core assets.

In accordance with the methodological guidelines for identifying and disposing of non-core assets developed by the Federal Agency for State Property Management, the company has developed the following updated and new regulatory documents, which were approved by the PAO Sovcomflot Board of Directors on 11 October 2016 (Minutes No. 157 dated 13 October 2016):

- Non-Core Asset Disposal Programme,
- Regulations on the Sale of Non-Core Assets,
- Non-Core Asset Register.

In pursuance of Russian Government Order No. 894-r dated 10 May 2017, on 31 October 2017 (Minutes No. 167) the PAO Sovcomflot Board of Directors adopted a decision on amending the employment contract with the Company’s Chief Executive Officer to include provisions on personal responsibility for the disclosure of information about sale of non-core assets on the Interdepartmental Portal for State Property Management and a decision on conducting an analysis of the company’s non-core asset disposal programme and register by 1 January 2018.

On 31 January 2018 (Minutes No. 169) the PAO Sovcomflot Board of Directors approved the revised non-core asset disposal programme and the updated non-core asset register.

Information contained in the Non-Core Asset Register is provided in a separate appendix to this annual report.

4. Information about activities aimed at drafting innovative development programmes in joint-stock companies included in the list of organisations that draft innovative development programmes, approved by Russian Government Order No. DM-P36-7563 dated 7 November 2015.

The PAO Sovcomflot Innovative Development Programme for the period 2011–2015 was approved by the PAO Sovcomflot Board of Directors on 19 May 2011 (Minutes No. 110 dated 23 May 2011), and was submitted to and approved by the Russian Ministry of Economic Development. PAO Sovcomflot has been annually submitting a report on the implementation of actions of the Innovative Development Programme to the Russian Transport Ministry, the Ministry of Education and Science of Russia, and the Russian Ministry of Economic Development.

Based on the results of the meeting of the Presidium of the Russian Presidential Council for Economic Modernisation and Innovative Development, PAO Sovcomflot, among other infrastructure and transport sector companies, is not included in the list of organisations that are required to draft innovative development programmes (Minutes No. 2 dated 17 April 2015).

At present the monitoring of the indicator of the company’s innovative development is included in the list of mandatory KPIs of the company, which is approved and assessed by the PAO Sovcomflot Board of Directors on an annual basis and is implemented by the company management.

5. On proposals and recommendations to stimulate the development of environmental liability mechanisms based on international standards, including non-financial reporting and voluntary certification and marking systems subject to an independent audit and assurance, in accordance with Sub-clause m, Clause 1 of the List of Orders of the President of the Russian Federation, No. Pr-1640 dated 6 June 2010.

On 30 May 2012 the PAO Sovcomflot Board of Directors (Minutes No. 119 dated 31 May 2012) adopted a decision to instruct the PAO Sovcomflot Executive Board, in cooperation with the Committee for Innovative Development and Technical Policy of the Board of Directors, to ensure the annual publication of the non-financial reports of PAO Sovcomflot in accordance with the principles of the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI Guidelines), and also with due account of the basic performance indicators developed by the Russian Union of Industrialists and Entrepreneurs recommended for use when preparing corporate non-financial reports, with the mandatory inclusion of the following information:

- Performance indicators related to inputs (raw materials, energy, water);
- Performance indicators related to outputs (emissions, discharges, waste);
- Information on environmental protection actions and expenses;
- A corporate chart of responsibility for environmental aspects of operations;

To implement these decisions, PAO Sovcomflot publishes annual non-financial reports related to sustainable development as one of the sections of the annual report.

6. On the advisability of applying recommendations on managing intellectual property rights in accordance with Russian Government Order No. ISh-P8-5594 dated 25 August 2017.

PAO Sovcomflot specialists participated in preparing and assessing draft recommendations on the management of intellectual property in organisations with state participation at the stage of drafting by the Russian Ministry of Economic Development.

On 30 May 2014 the PAO Sovcomflot Board of Directors (Minutes No. 135) adopted a decision a decision to consider it advisable to apply recommendations on the management of intellectual property rights, taking into account the specifics of PAO Sovcomflot’s operations.

On 31 January 2018 the PAO Sovcomflot Board of Directors (Minutes No. 169) adopted a decision to conduct an analysis of the management of intellectual property rights in the company in accordance with the recommendations on managing intellectual property rights in organisations (the “Recommendations”) approved by Russian Government Order No. ISh-P8-5594; develop a programme (an internal document) for managing intellectual property rights in the company in accordance with the Recommendations and have it approved at a meeting of the Company’s Board of Directors; publish and subsequently update information on the implementation of the programme (internal document) from managing intellectual property rights on the Interdepartmental Portal for State Property Management.

7. On the drafting and approval of the long-term development programme of the Company, and also the audit of the implementation of the long-term development programme (in the event of its implementation in the reporting year) as well as approval of the standard for performing such an audit in accordance with Sub-clauses 32, 33 and 34, Clause 1 of Russian Presidential Order No. Pr-3086 dated 27 December 2013.

The PAO Sovcomflot Board of Directors considered the issue “On the Action Plan to Prepare the Long-Term Development Programme of PAO Sovcomflot, the Standard on Its Audit, and Amending the Internal Regulations on the Compensation of the Sole Executive Body” on 30 September 2014 (Minutes No. 138 dated 3 October 2014).

The Long-Term Development Programme developed by PAO Sovcomflot in 2014 underwent an expert evaluation at the Russian Ministry of Transport and the Federal Agency for State Property Management, was considered and recommended for approval by the Strategy Committee of the PAO Sovcomflot Board of Directors, was reviewed at the meeting held with the participation of representatives of the Government of the Russian Federation, and was recommended for approval by the PAO Sovcomflot Board of Directors (Minutes No. AD-P9-179pr dated 12 November 2014).

Based on the model standard developed by the Russian Ministry of Economic Development, the draft Standard for the Audit of the Implementation of the Long-Term Development Programme of PAO Sovcomflot was prepared, as well as corresponding amendments to the Regulations on the Wages and Material Incentives of the Employees of PAO Sovcomflot ensuring that the compensation of the PAO Sovcomflot sole executive body is linked to the attainment of PAO Sovcomflot performance targets.

The PAO Sovcomflot Board of Directors approved the Long-Term Development Programme and Standard for the Audit of the Implementation of the Long-Term Development Programme of PAO Sovcomflot at the meeting held on 19 November 2014 (Minutes No. 139 dated 24 November 2014).

In 2016 the PAO Sovcomflot Board of Directors reviewed the report and the auditor’s opinion on the implementation of the PAO Sovcomflot Long-Term Development Programme in 2015 (Minutes No. 152).

In 2017 the PAO Sovcomflot Board of Directors reviewed the report and the auditor’s opinion on the implementation of the PAO Sovcomflot Long-Term Development Programme in 2016 (Minutes No. 162).

In 2018 the PAO Sovcomflot Board of Directors reviewed the report and the auditor’s opinion on the implementation of the PAO Sovcomflot Long-Term Development Programme in 2017 (Minutes No. 171).

8. On including the main parameters of requirements for labour resources in the long-term development programme of the Company, including for engineering-technical professions, in accordance with Sub-clause b, Clause 2 of the List of Orders of the President of the Russian Federation, No. Pr-1627 dated 1 July 2014.

On 19 November 2014 the PAO Sovcomflot Board of Directors considered the issue “On Approval of the Long-Term Development Programme of the Company” (Minutes No. 139) and adopted the required decisions for the execution of this Order of the President of the Russian Federation.

9. On including in the Company's Long-Term Development Programme a list of actions aimed at the planned and 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, in accordance with Russian Government Orders No. AD-P9-9176 dated 12 December 2014 and No. ISh-P13-1419 dated 5 March 2015.

On 7 April 2015 the PAO Sovcomflot Board of Directors considered the issue “On Amending the Long-Term Development Programme of the Company” (Minutes No. 143 dated 9 April 2015) and adopted the required decisions for the execution of Russian Government Orders.

10. On improving the system of key performance indicators of the Company in accordance with Clause 5 of the List of Orders of the President of the Russian Federation, No. Pr-1474 dated 5 July 2013.

The system of key performance indicators (KPIs) adopted at PAO Sovcomflot, which are used to assess the annual performance of Executive Board members, was modified in accordance with the requirements arising from the PAO Sovcomflot Long-Term Development Programme (LDP). In particular, the list of KPIs and KPI targets has been brought in line with the LDP. Furthermore, in accordance with Russian Government Order No. ISh-P13-2043 dated 27 March 2014, the PAO Sovcomflot Board of Directors approved amendments to the Regulations on Wages and Material Incentives of Employees of PAO Sovcomflot at its meeting on 19 November 2014 (Minutes No. 139 dated 24 November 2014).

11. On increasing labour productivity in accordance with Clause 6, Section 2 of the action plan to ensure an increase in labour productivity and establish and modernise highly productive working places, approved by Russian Government Order No. 1250-r dated 9 July 2014.

On 10 December 2014 the PAO Sovcomflot Board of Directors considered the issue “On Increasing Labour Productivity at PAO Sovcomflot” (Minutes No. 140 dated 12 December 2014) and adopted the necessary decisions.

12. 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 (by 10 percent in 2016) in accordance with Sub-clause 5, Clause 1 of the List of Orders of the President of the Russian Federation No. Pr-2821 dated 5 December 2014, Clause 4, Section 2 of the minutes of the meeting held by the Prime Minister of the Russian Federation, No. DM-P13-2pr dated 18 January 2016 and Russian Government Order No. ISh-P13-2047 dated 11 April 2016.

The system of key performance indicators (KPIs) adopted at PAO Sovcomflot, which are used to assess the annual performance of Executive Board members, was modified in accordance with the requirements arising from the PAO Sovcomflot Long-Term Development Programme (LDP).

On 19 May 2015 the company's board of directors (Minutes No. 144) made a decision on developing a set of measures aimed at the attainment of the indicator for reduction of operating expenses (expenditures) of at least 2-3 percent annually, and determining the target indicators of implementation of these measures; including the list of measures, indicators of implementation of these measures, and OpEX reduction indicators, starting from its value in 2015, in the Company's long-term development programme, taking into account the provisions of the methodological guidelines on drafting long-term development programmes; including the target OpEX reduction indicator in the list of key performance indicators for management, that must be taken into account when making decisions on staff compensation and HR decisions, and linking the achievement of the OpEX reduction indicator with the amount of compensation of the Company's management team; amending the employment agreement (contract) with the Company's sole executive body so as to include therein an obligation to achieve the OpEX reduction indicator determined in the Company's long-term development programme.

On 25 August 2016 the PAO Sovcomflot Board of Directors (Minutes No. 156 dated 25 August 2016) made a decision on developing a set of measures to reduce operating expenditures by at least 10%, with consideration of this issue at a meeting of the Board of Directions on a quarterly basis and quarterly submission of reports on the implementation of these measures to the Ministry of Transport.

13. On introducing an integral KPI of innovative activities in accordance with Russian Government Orders No. AD-P36-6296 dated 15 September 2015 (Clause 5), No. DM-P36-7563 dated 7 November 2015 and No. AD-P36-8381 dated 10 December 2015 (Clause 1).

On 25 August 2016 the PAO Sovcomflot Board of Directors (Minutes No. 156) made a decision on developing a set of measures to ensure the inclusion of an integral key performance indicator of innovative activities developed in accordance with the recommendations approved by Russian Government Order No. DM-P36-7563 dated 7 November 2015, starting from 2016.

On 6 December 2016 (Minutes No. 158) and on 12 December 2017 (Minutes No. 168) the PAO Sovcomflot Board of Directors approved the lists of target KPIs for the Company's management, which include an integral KPI of innovative activities.

14. On introducing systems of lean manufacturing in accordance with Clause 2.3, Section I of the Minutes of the Russian Government Military-Industrial Commission meeting No. 4 dated 25 April 2014 (this order does not apply to the company).

15. On developing and approving a list of internal regulations governing activities of a joint-stock company and on ensuring that reports on the implementation of long-term development programmes and approval of key performance indicator are provided in accordance with Clauses 2 and 3 of Russian Presidential Order No. Pr-3013 dated 27 December 2014.

On 7 August 2015 the PAO Sovcomflot Board of Directors (Minutes No. 147) made decisions on drafting the following internal documents: Regulations on increasing the investment and operating efficiency and reduction of costs; Regulations on internal audit; Regulations on the quality management system; Regulations on the risk management system; Regulations on the preparation and implementation of the innovative development programme; and submitting information on the implementation of the guidelines concerning key performance indicators (KPIs) and long-term development programmes (LDPs) to the Federal Agency for State Property Management.

The respective internal documents have been drafted and approved by authorised governing bodies. The Company regularly updates information about the implementation of above documents on the Interdepartmental Portal for State Property Management and reports thereon to the Federal Agency for State Property Management and Russian Ministry of Transport.

16. On implementing the Corporate Governance Code at joint-stock companies in accordance with Russian Government Order No. ISh-P13-5859 dated 31 July 2014.

On 7 April 2015 the Company's Board of Directors (Minutes No. 143) considered and approved an action plan (road map) developed by PAO Sovcomflot to implement the Corporate Governance Code.

In accordance with the above plan, in 2017 the company continued work to improve the corporate governance model and practice; in particular, key internal documents that set forth the principles of corporate governance were approved and implemented (in whole or in part), such as the PAO Sovcomflot Charter, Regulations on the PAO Sovcomflot Board of Directors, Regulations on the General Meeting of Shareholders of PAO Sovcomflot, Regulations on the Corporate Secretary of PAO Sovcomflot, Regulations on the Audit Committee of the PAO Sovcomflot Board of Directors, Regulations on the HR and Compensation Committee of the PAO Sovcomflot Board of Directors, and Regulations on the Internal Audit Department of PAO Sovcomflot. These documents have been updated in accordance with the approved road map by taking into account the recommendations of the Corporate Government Code recommended by the Bank of Russia and the specifics of the Company's operations.

17. On establishing a unified treasury at a joint-stock company, its subsidiaries and associates in accordance with Russian Presidential Order No. Pr-1032 dated 7 May 2014.

On 9 September 2014 the PAO Sovcomflot Board of Directors considered the issue “On Establishing a Unified Treasury at PAO Sovcomflot, its Subsidiaries and Associates” (Minutes No. 137 dated 12 September 2014) and adopted the necessary decisions to implement Russian Presidential Order No. Pr-1032 dated 7 May 2014.

On 19 May 2015 the Company's Board of Directors (Minutes No. 144) decided to perform an analysis of the results of creating a unified treasury of the Company, its subsidiaries and associates on an annual basis, submitting a report on the results of the analysis to the Russian Ministry of Finance and the Federal Financial Monitoring Service, and increasing the return on investment of free financial resources.

18. Information about activities aimed at amending the procurement regulations of the company, including taking into account Russian Government Orders No. DM-P9-38pr dated 14 June 2016 and No. DM-P13-1100 dated 01 March 2016, the minutes of the Government Import Substitution Commission meeting No. 2 dated 25 April 2016 “On the drafting and implementation of import substitution plans in the energy sector” (this order does not apply to the company).

19. On amending the procurement policy of a joint-stock company as regards competitive domestic software in accordance with Russian Government Order No. ISh-P13-1872 dated 1 April 2016.

On 25 August 2016 the Company's Board of Directors (Minutes No. 156 dated 25 August 2016) made a decision on making amendments to the Regulations on the Procurement of Goods, Works and Services for the Needs of PAO Sovcomflot concerning implementation of Russian Government Order No. ISh-P13-1872 dated 1 April 2016.

20. On amending the procurement policy of a joint-stock company as regards innovative building materials in accordance with Clause 7 of the Minutes of the meeting held by Prime Minister of the Russian Federation No. DM-P9-38pr dated 14 June 2016.

On 6 December 2016 the Company's Board of Directors (Minutes No. 158 dated 9 September 2016) made a decision on making amendments to the Regulations on the Procurement of Goods, Works and Services for the Needs of PAO Sovcomflot concerning implementation of Russian Prime Minister Order No. DM-P9-38pr dated 14 June 2016.

21. On expanding the practice of using factoring when performing agreements for the supply of goods (performance of work, rendering of services) in accordance with Russian Government Order No. DM-P13-1100 dated 1 March 2016 (Clause 89 of the Russian Government's action plan aimed at ensuring sustainable socio-economic development of the Russian Federation in 2016).

On 6 December 2016 the Company's Board of Directors (Minutes No. 158 dated 9 December 2016) made a decision on making amendments to the Regulations on the Procurement of Goods, Works and Services for the Needs of PAO Sovcomflot concerning implementation of Russian Government Order No. DM-P13-1100 dated 1 March 2016.

22. On developing and approving regulations to ensure rationing of procurement and introduction of procurement norms in joint-stock companies in accordance with Clause 2 of the List of Russian Government Orders No. DM-P9-8413 dated 12 December 2015.

On 31 May 2016 the Company's Board of Directors (Minutes No. 153 dated 31 May 2016) made a decision on developing norms for procurement of goods, works and services providing for ceiling prices on such goods, works and services and/or requirements for their quantity, consumer properties and other characteristics ensuring that the customers' needs are met and preventing the procurement of goods, works and services with excessive consumer properties; posting them on the company's website; their mandatory application; monitoring them on an annual basis; and ensuring that they are updated each year.

An internal document, "Norms for Procurement of Certain Goods, Works and Services by PAO Sovcomflot", was approved by the PAO Sovcomflot Executive Board on 5 July 2017.

23. On monitoring the results of procurement activities of joint-stock companies, including as regards compliance with the approved procurement plan and relevant norms for procurement of goods, works and services for the needs of joint-stock companies and as to whether the intended use of goods, works and services procured by joint-stock companies corresponds to their chartered activities, and also on adjusting (updating) norms for procurement of goods, works and services for the needs of joint-stock companies.

On 31 May 2016 the Company's Board of Directors (Minutes No. 153 dated 31 May 2016) made a decision on developing norms for procurement of goods, works and services providing for ceiling prices on such goods, works and services and/or requirements for their quantity, consumer properties and other characteristics ensuring that the customers' needs are met and preventing the procurement of goods, works and services with excessive consumer properties; posting them on the company's website; their mandatory application; monitoring them on an annual basis; and ensuring that they are updated each year.

An internal document, "Norms for Procurement of Certain Goods, Works and Services by PAO Sovcomflot", was approved by the PAO Sovcomflot Executive Board on 5 July 2017.

24. Information on the implementation of occupational standards in joint-stock companies in accordance with Clause 3, Section I of the Minutes of the Russian Government meeting No. 9 dated 24 March 2016, taking into account the provisions of Federal Law No. 122-FZ dated 2 May 2015 "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" regarding the mandatory application of requirements for employee qualifications needed to perform a specific job.

On 25 August 2016 the Company's Board of Directors (Minutes No. 156 dated 25 August 2016) made a decision on developing a set of measures to ensure that occupational standards are implemented in PAO Sovcomflot with due regard for the provisions of Federal Law No. 122-FZ dated 2 May 2015 "On Amendments to the Labour Code of the Russian Federation" and Article 73 of the Federal Law "On Education in the Russian Federation" through approval and implementation of the relevant plans and taking into consideration the work on implementation of occupational standards in assessing and rewarding HR management at PAO Sovcomflot.

The company reports on the implementation of professional standards via the Interdepartmental Portal for State Property Management.

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 2018, 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 guidelines 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 Programme on the Sale of PAO Sovcomflot Non-Core Assets was approved and the register of PAO Sovcomflot non-core assets, which also includes the non-core assets of its subsidiary PAO Novoship, was updated.

The Programme on the Sale of PAO Sovcomflot Non-Core Assets 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.

Non-core asset register (as of 31 December 2018)

No.	Asset	Means for identifying a non-core asset	Activity using the non-core asset	Residual (net book) value of the non-core asset, RUB	Planned method of disposing of the non-core asset
Non-core assets of PAO Sovcomflot					
1	0.3% interest in the National Reserve Bank (NRB)	State registration number: 101021170B	Banking	5,116,000	Sale, public electronic auction
2	2% interest in the St. Petersburg International Commodity Exchange	Registration number: 1-02-80100-N	Organisation of exchange trades	8,700,000	Sale, public electronic auction
Non-core assets of PAO Novoship					
3	Recreation Centre Moryak	Sukhaya Shchel, Novorossiysk (cadastral number of the land plot: 23:47:0116009:8)	Health resort facilities (territory) in operation	134,472,625	Sale, tender
4	Territory located at 1st Railroad Loop St., Novorossiysk	1st Railroad Loop St., Novorossiysk (cadastral numbers of the land plots: 23:47:0109008:505; 23:47:0109008:506; 23:47:0109008:753; 23:47:0109008:168)	Production and warehousing facilities (territory) in operation	32,674,747.93	Sale, tender
5	Territory located at 120 Sukhumi Highway, Novorossiysk	120 Sukhumi Highway, Novorossiysk (cadastral number of the land plot: 23:47:0208016:7)	Administrative and production facilities (territory) in operation	9,477,718.03	Sale, tender

PAO Sovcomflot and PAO Novoship did not make any disposals of non-core assets in 2018.

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 (roubles)	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) shares
Number of ordinary shares	1,966,697,210 (one billion, nine hundred sixty-six million, six hundred ninety-seven thousand, two hundred and ten) shares
Nominal value of ordinary shares (roubles)	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) shares
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) shares
Share of the Russian Federation in the authorised capital (ordinary shares and preferred shares), percent	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").
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. Law firm "JURINFLOT-Saint-Petersburg", Russia Pepelyaev Group LLC, Russia Shchekin & Partners LLC, Russia

Main lines of business	<div><div><div><div><div></div><div>–</div><div>Consultancy services, including:</div></div><div><div><div><div>></div><div>- Planning and organising the transport of cargo and passengers</div></div><div><div><div>></div><div>- Advising on the current status and development outlook of different segments of the shipping market</div></div><div><div><div>></div><div>- Developing promising projects in the shipping sector</div></div><div><div><div>></div><div>- Advising on vessel purchase and sale transactions</div></div><div><div><div>></div><div>- Marketing, studying the state of the market and working with cargo owners</div></div><div><div><div>></div><div>- Advising on insurance issues and arranging insurance coverage</div></div><div><div><div>></div><div>- Participation in negotiations to achieve operational goals and preparing corresponding draft documents and agreements; preparing draft corporate and contractual documents</div></div><div><div><div>></div><div>- Reviewing draft documentation regarding different types of contracts, transactions, including vessel purchase and sale financing, ordering vessels from shipyards, refinancing, etc.</div></div><div><div><div>></div><div>- Conducting legal analysis of issues in dispute</div></div><div><div><div>></div><div>- Organising audit</div></div><div><div><div>></div><div>- Managing payments and advising on financial issues</div></div><div><div><div>></div><div>- Representing the client at conferences and seminars dedicated to the shipping industry and transport systems</div></div><div><div><div>></div><div>- Other business development activities</div></div></div></div></div><div><div><div>–</div><div>Participation in other organisations.</div></div></div></div></div></div></div></div></div></div></div></div></div></div></div></div></div>
Code of the Issuer's principal economic activity according to OKVED (Russian Classification of Economic Activities)	70.22
Company headcount	99 people ¹
Operating period of the Company in the respective sector	30 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, and amortisation
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; profit/loss on sale of subsidiaries; foreign exchange gain/loss; gain/loss on sale of equity investments; other operating income and expenses
Adjusted operating profit	Net profit/(loss) adjusted for impairment of vessels and non-operating income and expenses
LTIF	Lost Time Injury Frequency
TRCF	Total Recordable Cases Frequency
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
NCAs	Non-core assets
PAO	Public Joint-Stock Company
SUR	Seafarers' Union of Russia
RAS	Russian accounting standards
RSPP	Russian Union of Industrialists and Entrepreneurs
RF	Russian Federation
LNG	Liquefied natural gas
LPG	Liquefied petroleum gas
CBR	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 prices 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