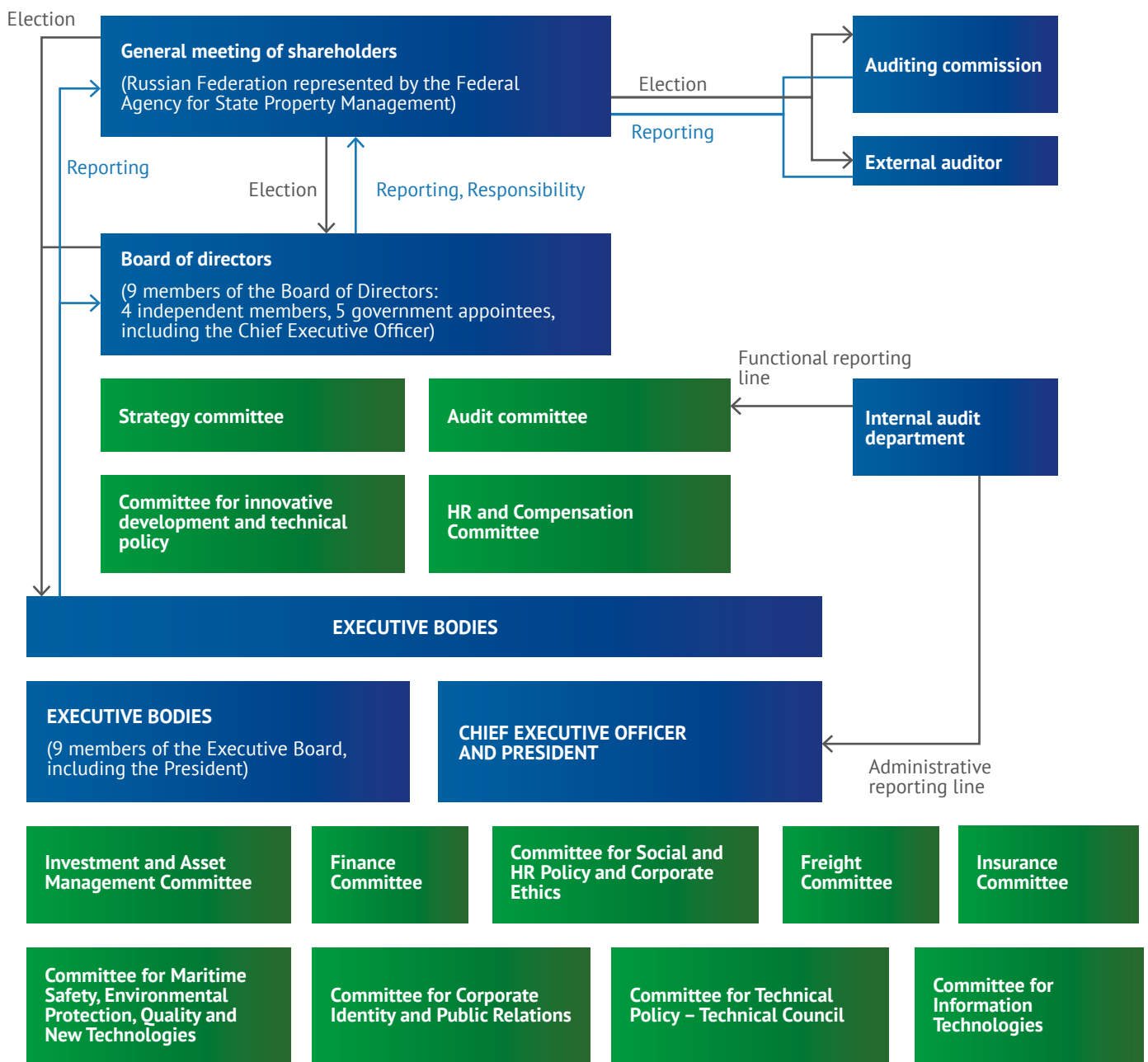


# 4.1. Corporate governance system

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

## Corporate governance system of PAO Sovcomflot



## List of local regulations in the field of corporate governance<sup>1</sup>

- 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**

1. As of 31 December 2018

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.