



**SCF**  
Sovcomflot

# EXPANDING HORIZONS

ANNUAL REPORT  
2020

# ABOUT THE REPORT

The Annual Report of Sovcomflot (PAO Sovcomflot, the Company) for 2020 includes the operating results of PAO Sovcomflot and its subsidiaries, collectively referred to as Sovcomflot Group (SCF Group). It discloses the operational and financial results, and certain aspects of the activity and figures in the field 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 No. 454-P dated 30 December 2014, by taking into account a model structure of the annual report of a joint-stock company whose shares are in federal ownership, as approved by Russian Government resolution No. 1214 dated 31 December 2010, and also by taking into account the recommendations of the Corporate Governance Code of the Bank of Russia.

The report is based on an analysis of the operational data and figures from the financial statements of PAO Sovcomflot for 2020 prepared in accordance with International Financial Reporting Standards. The industry overview is based on information provided by Clarksons Research Services Limited. Perimeter of the information disclosed in the report coincides with the consolidation perimeter for the purposes of preparing financial statements under IFRS. The report may contain discrepancies in the calculation of shares, percentages, amounts due to rounding of estimates.

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

The report contains forward-looking statements related to operating, financial, economic and social indicators characterising the Company's future development. The implementation of plans and intentions depends on the political, economic, social and legal situation in the Russian Federation and around the world. Therefore, the actual results of the Company's operations in the future may differ from those projected.

On 14 April 2021 the 2020 annual report of PAO Sovcomflot was preliminarily approved by the Company's Board of Directors (Minutes No. 206 of 14 April 2021) 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.



View this report  
online

[www.scf-group.com/](http://www.scf-group.com/)

# SOVCOMFLOT GROUP

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

## LEADERSHIP POSITION

One of the World's largest fleets<sup>1</sup>

# No 1

by number of ice-class shuttle tankers

by number of ice-class oil tankers

by number of Aframax crude oil tankers

by number of icebreaking supply vessels

by number of ice-class LNG carriers\*

Main charterers: major international and Russian oil & gas companies and traders, including Gazprom, Sakhalin Energy, LUKOIL, Exxon Neftegas, Royal Dutch Shell, Trafigura, NOVATEK, ExxonMobil, Vitol, Total, Chevron, Phillips 66, BP, ST Shipping, PetroChina, SIBUR.

1. According to data from Clarksons as of 31 December 2020.

2. Including vessels within joint ventures (four LNG carriers and nine LR I product tankers).

\* including vessels in the Group's orderbook

## GROWTH FACTORS



AS OF 31 DECEMBER 2020  
THE GROUP'S FLEET

**145** vessels

with a total deadweight of 12.63 million tonnes<sup>2</sup>

**2** new vessels

were added to the fleet in 2020

**11.6** years

the average vessel age within the fleet

The orderbook includes

**26** vessels

with a total deadweight of 2.46 million tonnes

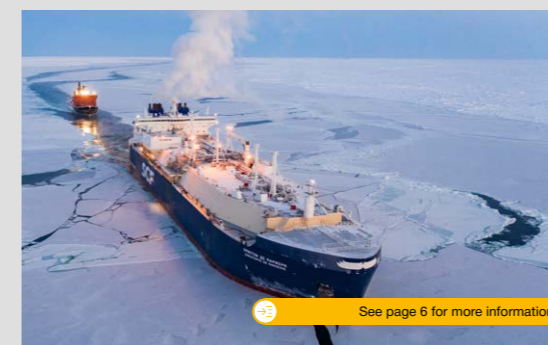


THE WORLD'S LEADING OPERATOR AND THE LARGEST OWNER OF ICE-CLASS VESSELS DESIGNED TO OPERATE IN ULTRA-HARSH ENVIRONMENTS AND CHALLENGING ICE CONDITIONS:

**82** ice-class vessels

rated from ICE 1C to Arc7 and Ice-breaker ICE-15

### Unlocking the Northern Sea Route's potential



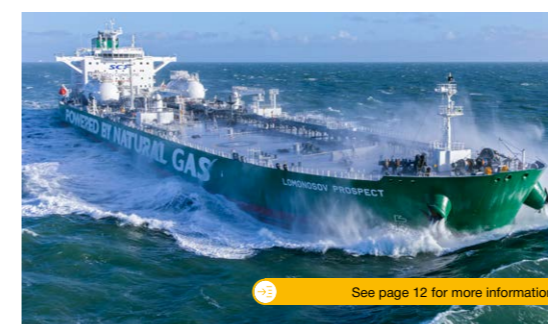
See page 6 for more information

### Expanding the long-term industrial business portfolio



See page 10 for more information

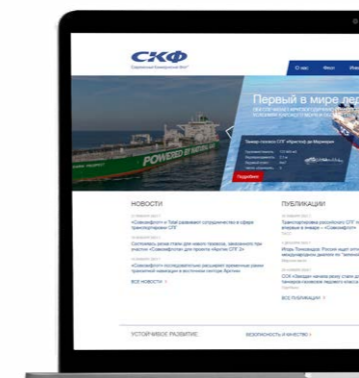
### Keeping course towards sustainable development



See page 12 for more information



Visit our web-site



## Contents

### 2020 – KEY EVENTS AND ACHIEVEMENTS

Unlocking the Northern Sea Route's potential.....	6
Increasing the number of high-tech vessels in the fleet .....	8
Expanding the long-term industrial business portfolio .....	10
Keeping course towards sustainable development .....	12

### STRATEGIC REPORT

Message from the Chairman of the Board of Directors.....	17
Message from the President and Chief Executive Officer .....	19
Company's profile .....	20
Key competitive strengths .....	22
Geographical scope of operations.....	24
Industry overview .....	26
Development strategy of Sovcomflot Group .....	35
Long-Term Development Programme of Sovcomflot Group .....	38

### OPERATING RESULTS

Production activities.....	42
Investment activities.....	45
Innovative activities and R&D .....	49
Financial results .....	54

### SHARE CAPITAL AND PROFIT DISTRIBUTION

Structure of the share capital .....	62
Distribution of profit.....	63
Dividend policy .....	64
Interaction with investors.....	65

### CORPORATE GOVERNANCE

Case: Initial public offering.....	68
Corporate governance system .....	70
General Meeting of Shareholders .....	75
Board of Directors of PAO Sovcomflot.....	76
Chief Executive Officer and Executive Board of PAO Sovcomflot .....	84
Auditing Commission .....	87
Compensation system for members of management bodies.....	88
Stakeholder communications .....	90
Risk management system and internal control.....	93
Internal and external audit .....	96

### SUSTAINABLE DEVELOPMENT

Sustainable development policy .....	100
Occupational health and safety .....	104
Human resources and social programmes.....	106
Charity and sponsorship .....	110
Environmental protection.....	114

### ANNEXES

# KEY EVENTS AND ACHIEVEMENTS 2020

FEBRUARY



The naming ceremony took place for SCF Group's new LNG carrier, *SCF La Perouse*, intended to operate under a long-term time charter agreement with Total. The tanker is named after Jean-François de la Pérouse, a prominent seafarer and explorer.

SMART LNG, LLC, a joint venture between Sovcomflot and NOVATEK, and VEB.RF Group entered into lease financing agreements to finance the construction of four Arc7 LNG carriers for the Arctic LNG 2 project. The vessels are being built at the Zvezda Shipbuilding Complex (Primorsky Krai, Russia).

The tanker *SCF Angara*, whilst en-route from the Port of Ust-Luga to Copenhagen, rescued seven fishermen from the Russian fishing trawler *Pongoma* in distress.

APRIL



Sovcomflot Group received the Project Financing Deal of the Year Award from Marine Money, an international maritime finance publication.

MAY



The Arctic shuttle tanker *Mikhail Ulyanov* loaded the milestone 200th crude oil cargo produced at the Prirazlomnaya offshore platform in the Pechora Sea. Crude oil shipments from the first offshore project in the Russian Arctic have been made since 2014.

JUNE



The LNG carrier *Christophe de Margerie* successfully completed a commercial voyage along the Northern Sea Route, delivering a cargo of LNG from the port of Sabetta (Russia) to the port of Jiangsu (China). For the first time ever, a voyage along the Northern Sea Route was completed two months before transits traditionally begin.

The crew of the product carrier *NS Power* rescued two people in distress on a raft drifting in the Andaman Sea.

SEPTEMBER



Sovcomflot took delivery of a new gas carrier *SCF Barents*. The vessel commenced a long-term time charter with Shell.

SMART LNG, LLC, a joint venture between Sovcomflot and NOVATEK, signed a package of agreements with VEB.RF Group and the Zvezda shipyard for the construction of ten Arc7 gas carriers. Taking into account the previously ordered vessels, SMART LNG will have 15 Arctic gas carriers in operation for the Arctic LNG 2 project.

OCTOBER



PAO Sovcomflot held an initial public offering (IPO) on the Moscow Exchange. Trading in the Company's ordinary shares commenced on 7 October 2020 under the FLOT ticker and ISIN RU000A0JXNU8 reference. The shares are included in the first-level quotation list. 17.2% of the shares were placed as part the IPO, with the government retaining an 82.8% stake.

Sovcomflot Group and Arctic LNG 2 concluded 30-year time charter contracts for three new ice-breaking LNG carriers. The shipbuilding contracts for these vessels were concluded by SCF with the DSME shipyard (Republic of Korea) in October 2020, following a tender held by the project's operator. The vessels are to be delivered in 2023.

NOVEMBER



Sovcomflot Group received the award for 'Shipping Company of the Year' at the Seatrade Maritime Awards International 2020.

Joint venture companies belonging to Sovcomflot Group, NYK Line and Samudera Shipping Line operating two LNG carriers within the *Tangguh* LNG project (Indonesia) entered into a US\$155 million credit facility agreement to refinance two LNG carriers, *Tangguh Towuti* and *Tangguh Batur*.

A steel cutting ceremony took place for the pilot vessel in a series of Arctic LNG carriers ordered by SCF Group from Zvezda Shipbuilding Complex (Primorsky Krai, Russia) to serve the Arctic LNG 2 project.

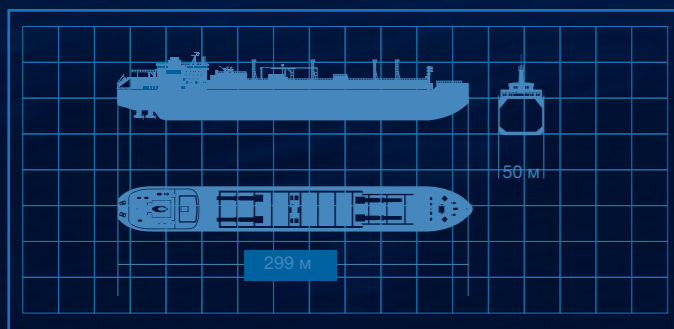
# 2020

# UNLOCKING THE NORTHERN SEA ROUTE'S POTENTIAL

For many years Sovcomflot has been consistently implementing increasingly complex transport projects in the Arctic, working in partnership with Atomflot, Russian oil and gas companies, and research institutions.

## Goal:

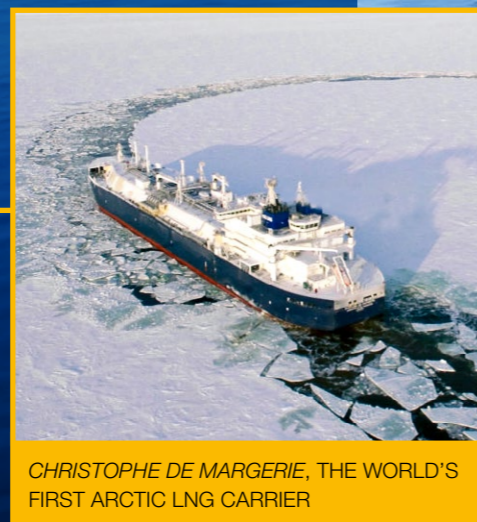
Results of the voyages confirm that it is possible to increase the period of commercial cargo shipping in the Eastern part of the Russian Arctic. It enables a further step toward safe year-round navigation along the entire Northern Sea Route.



**172,600**  
cubic metres  
Capacity

**Arc 7**  
Ice class

Winner of the award for Engineering Project of the Year at S&P Global Platts Global Energy Awards.



“Year-round navigation in the Eastern part of the Russian Arctic has been a centuries-old dream of Russia’s pioneering seafarers, and now we are one step closer to it. This will result in more efficient use of the Northern Sea Route for the Russian economy, whilst contributing to the success of large-scale industrial projects at the Ob River estuary and across the entire Russian Arctic.”

**Igor Tonkovidov**  
President and CEO  
of PAO Sovcomflot

**2010**  
Experimental voyage of **SCF Baltica** along the NSR

The voyage proved that it is technically feasible and economically viable to use this route for large-capacity transportation of hydrocarbons when navigation traditionally commences.

**2011**  
Experimental transit voyage of the tanker **Vladimir Tikhonov**

A brand new deep-water route running north of the New Siberian Islands archipelago was opened for commercial navigation.

**2017**  
A new time record for an NSR transit was set

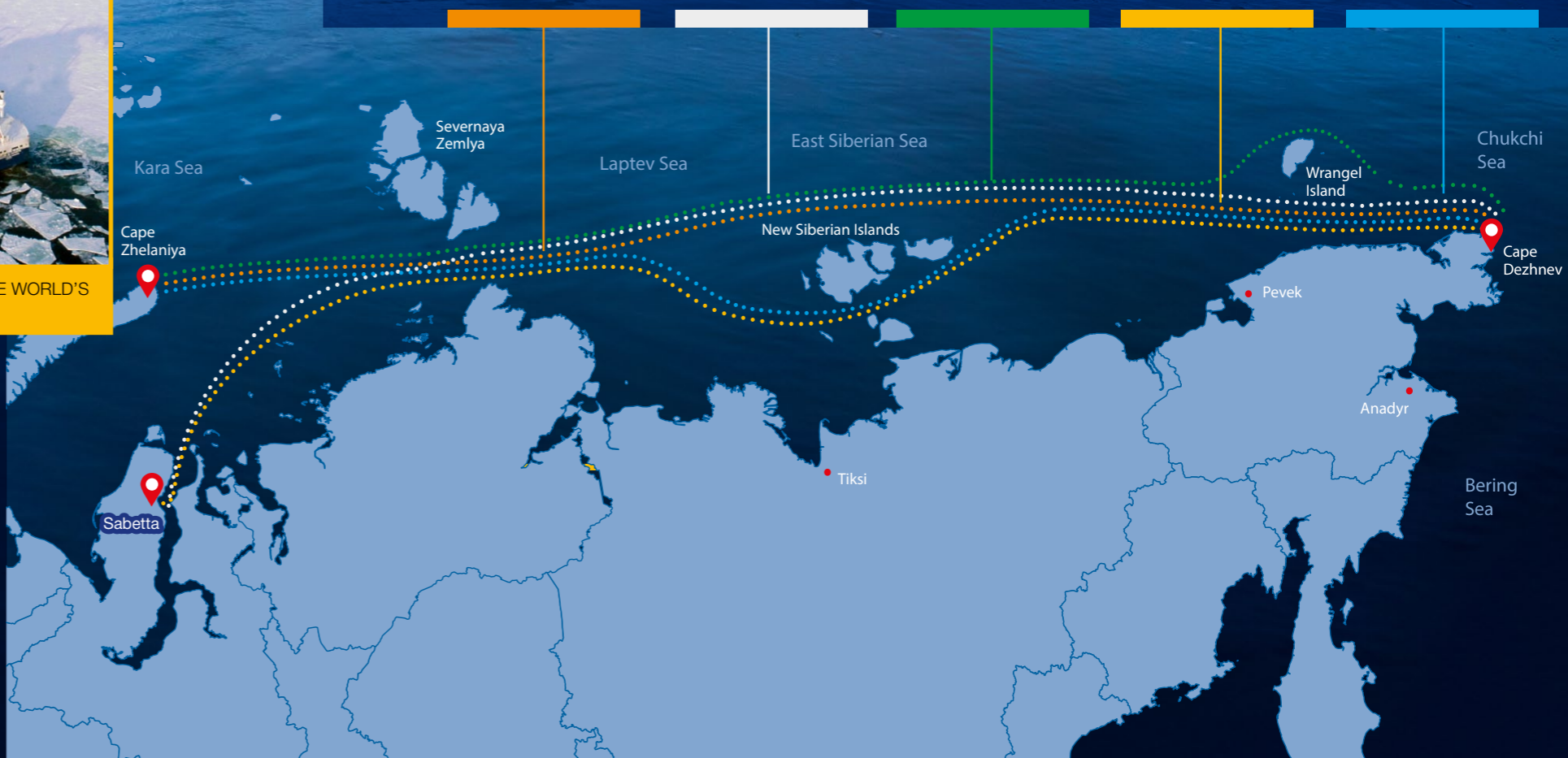
The LNG carrier **Christophe de Margerie** completed a transit passage in 6 days, 12 hours and 15 minutes during the summer navigation period.

**2019**  
“Green” voyage of **Korolev Prospect**

A large-capacity oil tanker made a voyage via the Northern Sea Route using exclusively environmentally friendly LNG fuel along the whole route for the first time ever.

**2020**  
Very early transit voyage of **Christophe de Margerie**

For the first time in history, a large-capacity cargo vessel passed through the NSR eastwards in May, two months earlier than when navigation traditionally commences.

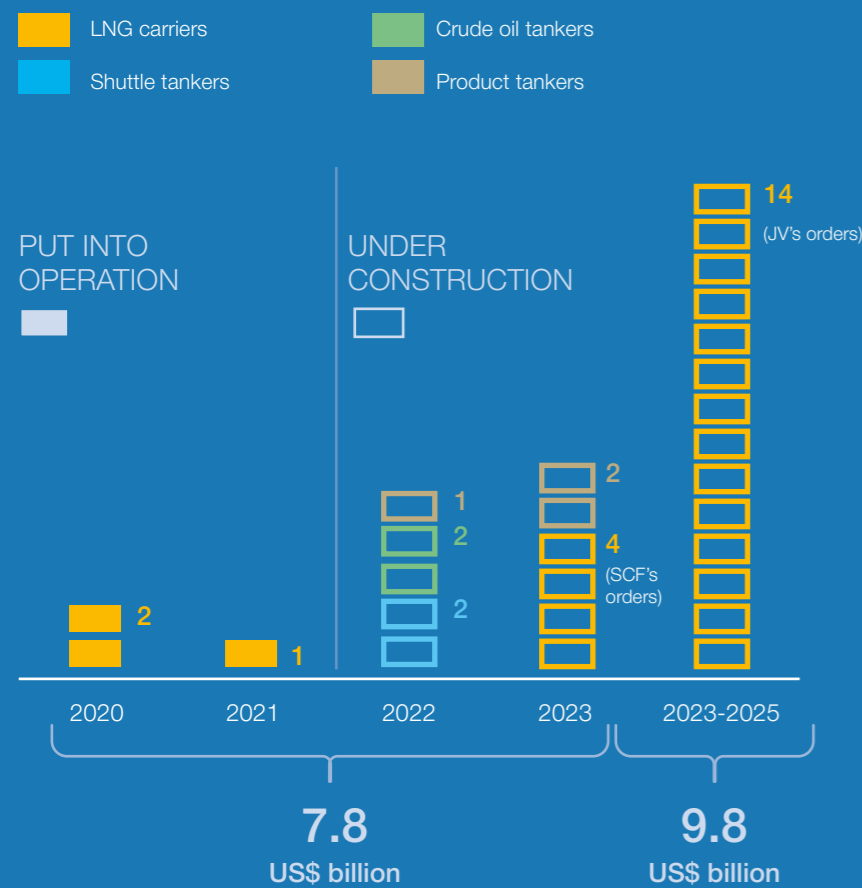


# INCREASING THE NUMBER OF HIGH-TECH VESSELS IN THE FLEET

In 2020, Sovcomflot Group's shipbuilding programme included 28 vessels of five different types, including those intended for the Sakhalin-1 and Arctic LNG 2 projects.

Two new vessels with a total deadweight of 186,000 tonnes - fifth-generation Atlanticmax carriers intended for transportation of liquefied natural gas - were added to the SCF fleet in 2020.

## Structure of SCF Group's order portfolio in 2020



<sup>1</sup> Contracted revenue is the total amount receivable by the Group under current time charter contracts, including amounts attributable to interests in joint ventures. It is presented for the entire term of the contracts, excluding ex-tension options



## FIFTH-GENERATION ATLANTICMAX LNG CARRIERS

During 2020 SCF Group took delivery of two new-generation Atlanticmax gas carriers, *SCF La Perouse* and *SCF Barents*. Both vessels are chartered to major oil and gas companies (Total and Shell, respectively) under long-term time charter contracts. In January 2021, the Group took delivery of the third gas carrier in the series, *SCF Timmerman*, which is also chartered to Shell.

Capacity: 174,000 cubic metres

Length: 299 m

Breadth: 46.4 m

Loaded draft: 11.5 m

Service speed: 19.5 knots

## Advantages of SCF La Perouse-class vessels:

- An upgraded MARK III Flex cargo system
- Two low-speed dual-fuel X-DF engines
- The vessels 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 enables the charterer to significantly reduce cargo losses during long voyages and waiting time
- The fourth carrier in the series will be also fitted with a hull air flow system which, combined with two shaft power generators with frequency-to-current converters, will deliver an even more significant reduction in fuel consumption

The LNG carrier *SCF Timmerman* was delivered on 15 January 2021.

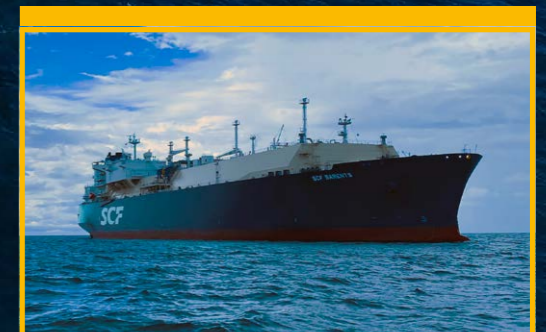
# 26 vessels

a total deadweight of 2,455,000 tonnes - Sovcomflot Group's order portfolio, as at 31 December 2020

For more details on the implementation of Sovcomflot Group's shipbuilding programme, see the Investment activities section.



The LNG carrier *SCF La Perouse* was delivered on 10 February 2020

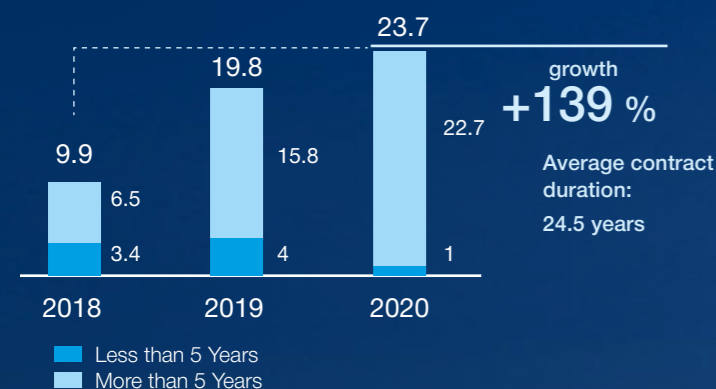


The LNG carrier *SCF Barents* was delivered on 15 September 2020.

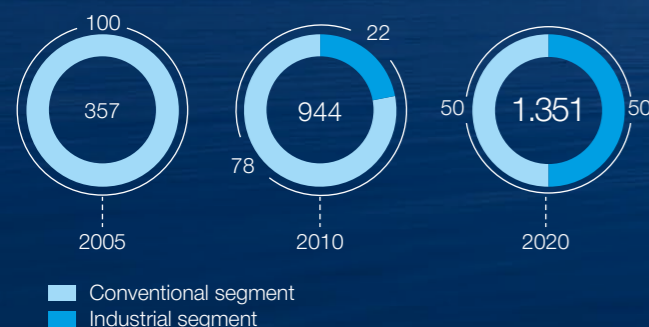
# EXPANDING THE LONG-TERM INDUSTRIAL BUSINESS PORTFOLIO

Sovcomflot's vessels are an important constituent element of large long-term oil and gas projects, many of which are implemented in challenging high-latitude climate and ice conditions. SCF Group is involved in servicing oil and gas projects in Russia and beyond, including: Yamal LNG; Arctic LNG 2; Sakhalin-1; Sakhalin-2; Varandey; Prirazlomnoye; Novy Port and Tangguh (Indonesia).

Increase in the share of contracted revenue from long-term contracts (US\$ billion)



Increase in the share of the industrial segment in time charter equivalent revenue (US\$ million)



<sup>1</sup> The industrial segment includes offshore services and gas transportation. The conventional segment includes transportation of crude oil and oil products and other services

311.3 million tonnes

of crude oil and

100 million cubic metres of LNG

were transported by SCF's tankers within industrial projects as at the end of 2020

70 %

the expected share of the industrial segment in time charter equivalent revenue by 2025

## UNIQUE EXPERIENCE OF PARTICIPATION IN LARGE-SCALE PROJECTS IN CHALLENGING CLIMATE CONDITIONS

### SAKHALIN-1 (Sea of Okhotsk, Russia)

Annual capacity: 13 million tonnes of crude oil and gas condensate  
6 shuttle tankers and 2 multifunctional ice-breaking vessels are engaged in the project  
138 million tonnes of crude oil have been transported within the project

### SAKHALIN-2 (Sea of Okhotsk, Russia)

Annual capacity: 4.8 million tonnes of crude oil and 9.6 million tonnes (21.3 million cubic metres) of LNG  
3 shuttle tankers, 2 LNG carriers and 7 multifunctional ice-breaking vessels are engaged in the project  
65.5 million tonnes of crude oil and 53.6 million cubic metres of LNG have been transported within the project

### VARANDEY (Barents Sea, Russia)

Annual capacity: 12 million tonnes  
3 shuttle tankers are engaged in the project  
77.3 million tonnes of crude oil have been transported within the project

### PRIRAZLOMNOYE (Pechora Sea, Russia)

Annual capacity: 5.5 million tonnes of crude oil  
2 shuttle tankers and 1 multifunctional ice-breaking vessel are engaged in the project  
15.6 million tonnes of crude oil have been transported within the project

### NOVY PORT (Gulf of Ob, Kara Sea, Russia)

Annual capacity: 8 million tonnes of crude oil  
4 shuttle tankers are engaged in the project  
14.9 million tonnes of crude oil have been transported within the project

### YAMAL LNG (Gulf of Ob, Kara Sea, Russia)

Annual capacity: 17.4 million tonnes (38.7 million cubic metres) of LNG  
3 LNG carriers are engaged in the project  
11.3 million cubic metres of LNG have been transported within the project

### ARCTIC LNG 2 (Gulf of Ob, Kara Sea, Russia)

the project will launch in 2023  
Annual capacity: 19.8 million tonnes (44 million cubic metres) of LNG  
18 LNG carriers (under construction) will be engaged in the project  
The vessels are scheduled to enter service in 2023-2025

### TANGGUH LNG (Bintuni Bay, Indonesia)

Annual capacity: 7.6 million tonnes (16.9 million cubic metres) of LNG  
2 LNG carriers are engaged in the project  
35.1 million cubic metres of LNG have been transported within the project

### FSRU in the Kaliningrad Region

SCF provides technical management for the Marshal Vasilevsky Floating Storage and Regasification Unit (FSRU) owned by Gazprom  
FSRU deadweight: 93,300 tonnes

### BAFFINLAND (Baffin Bay, Milne Inlet, Canada)

Annual capacity: 18 million tonnes of iron ore  
2 bulkers are engaged in the project  
425,000 tonnes of iron ore have been transported within the project

<sup>1</sup> Crude oil and gas condensate production in 2019 (data from public sources)

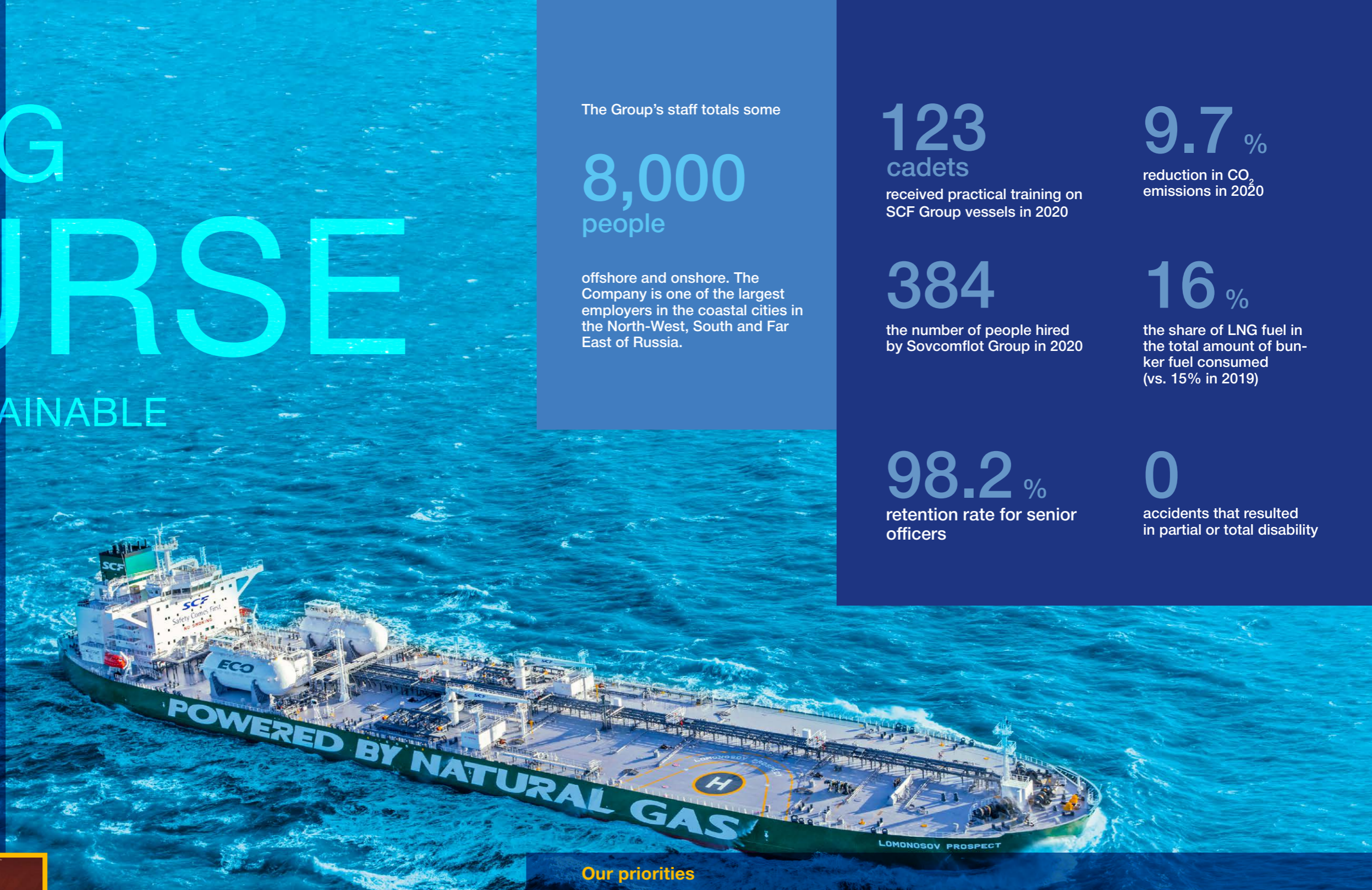
<sup>2</sup> Shipped in 2020 (SCF Group data).

# KEEPING COURSE

## TOWARDS SUSTAINABLE DEVELOPMENT

The Sovcomflot Group's activities are based on the principles of sustainable development

- The geography and scale of SCF's business require that the Group complies with the strict international environmental requirements and meets the expectations of its clients, the largest oil and gas companies.
- The Company's public status and the trading of its securities on the Moscow Exchange included in the Level One list, require a highly developed level of the corporate governance system.
- A critical factor in the competition for skilled maritime personnel is the high standards of working conditions and social guarantees provided by the employer.



The Group's staff totals some

**8,000**  
people

offshore and onshore. The Company is one of the largest employers in the coastal cities in the North-West, South and Far East of Russia.

**123**  
cadets

received practical training on SCF Group vessels in 2020

**9.7 %**

reduction in CO<sub>2</sub> emissions in 2020

**384**

the number of people hired by Sovcomflot Group in 2020

**16 %**

the share of LNG fuel in the total amount of bunker fuel consumed (vs. 15% in 2019)

**98.2 %**

retention rate for senior officers

**0**

accidents that resulted in partial or total disability



The Sovcomflot Group's Green Charter is a declaration of commitments on sustainable development. The document pays special attention to measures to fight climate change by using innovative technologies and raising the awareness of personnel regarding environmental protection.

### Our priorities



Environmental protection: energy conservation; the sustainable management of ballast water; the reduction of GHG and other polluting emissions; competent waste disposal; compliance with environmental laws.



Workplace relations and employment, the development of HR potential, occupational safety and health, staff training and development.



Corporate governance and business ethics, financial stability and production efficiency, stakeholder communications, anti-corruption measures, tax transparency.



An integrated safety management system approved as conforming to the requirements of the International Safety Management Code and the international standards ISO 9001:2015 "Quality Management System" and ISO 14001:2015 "Environmental Management System" and meeting the best industry practices.

Read more on page 114

Read more on page 106

Read more on page 70

Read more on page 104



# 01

## Strategic report



«The Board of Directors notes with satisfaction that despite the unprecedented difficult conditions for fleet operations throughout 2020 arising from the serious restrictions due to the COVID-19 pandemic, Sovcomflot has fulfilled its obligations towards its customers. Record results were achieved on a number of key operating and financial indicators. The Company continued to consistently implement its strategic development plans and significantly strengthened its position in the key business segments, primarily the LNG shipping segment.»

**Sergey Frank,**  
Chairman of the PAO Sovcomflot  
Board of Directors



The Arctic tanker *Kirill Lavrov* at anchorage  
in the port of Murmansk, Kola Bay

## Message from the Chairman of the Board of Directors

PAO Sovcomflot management, shore-based employees, ship captains and crews ensured that all of the Company's obligations to its customers were fully met in this reporting period despite the unprecedented challenging conditions faced by the shipping industry as a result of the COVID-19 Pandemic restrictions.

The PAO Sovcomflot Board of Directors notes with satisfaction that the hardships occasioned by the global economy did not deviate the Company from its strategic course. Moreover, it achieved record results on a number of key operating and financial indicators. The Company continued to consistently implement its Development Strategy to 2025. This has significantly strengthened its position in LNG shipping, one of the most promising business segments.

The past year was marked by a very important event for the Company's institutional development. In accordance with a decision of our shareholders, in October 2020 Sovcomflot entered the stock market with an IPO on the Moscow Exchange. Total proceeds of the IPO amounted to RUB 43 billion. Access to equity capital provided the Company with additional resources for the continued development of its long-term strategy.

In 2020, PAO Sovcomflot posted a net profit of USD 266.9 million, up 18.4 percent from 2019. The Board of Directors has recommended that RUB 15.8 billion (vs. RUB 7.18 billion in 2020) be allocated to dividend payment, which is in line with the forecast in Sovcomflot's investment memorandum published in the run-up to the IPO.

Excellent operating results were achieved while continuously paying attention to sustainable development issues, including a significant programme to reduce our carbon footprint, improve the energy efficiency of the fleet and protect the environment.

Results achieved by the Company over the last 10 years show a reduction of 32% against the CO<sub>2</sub> emissions intensity index over the 2010-2020 period. SCF's 'Green Charter', the primary document laying down the

Company's sustainable development policy, took account of the Paris Agreement on Climate Change, the International Maritime Organisation's emissions reduction targets for the year 2050 and other regulations at the international, regional and national levels.

In the reporting period, the Board of Directors paid particular attention to improving the corporate governance system and to the augmentation and continuous development of its human capital, the Company's most valuable asset.

The results achieved would not have been possible without the support of our customers and business partners. On behalf of Sovcomflot's Board of Directors, I wish to express our sincere gratitude to them for their trust and support and would like to assure them that the Company will do everything in its power to provide them with a first-class service in every respect.

The Pandemic caused the closure of borders and difficulties with crew changes, supplies to ships and fleet maintenance. Sovcomflot's seagoing personnel demonstrated the very best qualities of the Russian seafarer - excellent skills, organisation and loyalty to the Company and their profession.

The Board of Directors wishes to express their deep gratitude to Sovcomflot's crews and shore-based employees whose dedicated work made it possible to ensure uninterrupted fleet operations.

With wishes for health and good luck,



**Sergey Frank**  
Chairman of the PAO Sovcomflot  
Board of Directors



The PAO Sovcomflot Board of Directors notes with satisfaction that the hardships occasioned by the global economy did not deviate the Company from its strategic course. Moreover, it achieved record results on a number of key operating and financial indicators.

## Message from the President and Chief Executive Officer

2020 was a year of great challenge for the world tanker industry, with the energy shipping market experiencing unprecedented volatility during the Global Pandemic, accompanied by a significant reduction in demand for crude oil and oil products.

Despite the difficult market conditions, the Sovcomflot Group managed to take full advantage of the market opportunities available. This, in combination with the stable operation of our fleet in the industrial business segment, ensured the achievement of key operating and financial indicators. Net TCE revenue increased by 6.7% to US\$1.35 billion. Adjusted EBITDA was up 9.8% to US\$903.4 million. Net profit was recorded at US\$266.9 million.

SCF's Strategy 2025, which the Company continued to implement consistently in the reporting period, contemplates the expansion of participation of the Company's fleet in long-term industrial projects, with a special emphasis on operation in difficult climatic and ice conditions.

An initial public offering of PAO Sovcomflot securities on the Moscow Exchange, which took place in the fourth quarter of the reporting period, provided the Company with additional resources for faster development in accordance with the approved strategy.

In 2020 the Company significantly expanded its business portfolio in the segment of liquefied natural gas transportation by concluding long-term time charter contracts for 17 new Arctic LNG carriers for the Arctic LNG 2 project. As a result, the total contracted deferred revenue doubled to US\$24 billion. This transaction, which greatly strengthened the Company's position in industrial business, became the largest in the Company's history.

2020 saw the SCF fleet continue to grow through the acquisition of two state-of-the-art gas carriers meeting the highest environmental compatibility and energy efficiency requirements. SCF La Perouse and SCF Barents are operating under long-term contracts with Total and Shell. A third vessel in this series, SCF Timmerman, joined the SCF fleet in early 2021.

For many years Sovcomflot has been the flagship of Arctic commercial shipping. The successful transit of the Northern Sea Route by the LNG carrier Christophe de Margerie in May 2020 enabled the ship to complete a round-trip voyage along the high-latitude route in January-February 2021. Without doubt, these voyages will remain forever in the annals of world shipping: the navigation period in the Eastern part of the Russian Arctic was almost doubled, bringing year-round navigation along the entire Northern Sea Route significantly closer.

Once again SCF outperformed the industries operating indicators during the year, making significant advances in the area of environmental safety and energy efficiency, together with the introduction of new technologies and advanced engineering. Our achievements were again recognised by the global shipping community where Sovcomflot was named the 'Shipping Company of the Year' by the prestigious Seatrade publication. The Company was further recognised by the Marine Money magazine with its green finance award.

In the past year all our employees were required to call upon their courage, responsibility and professionalism to meet the exceptional demands brought about by the Pandemic and industry volatility. We thank our captains and crews, together with our onshore personnel for their steadfast commitment to the success of the Group. Despite the Pandemic restrictions, the fleet and on-shore operations never stopped for a minute. We are grateful to each member of our team for their dedication at such a difficult time.

We are also sincerely grateful to our customers and partners for their collaboration during this challenging year.

**Igor Tonkovidov**  
President and Chief Executive Officer  
of PAO Sovcomflot



Despite the difficult market conditions, the Sovcomflot Group managed to take full advantage of the market opportunities available. This, in combination with the stable operation of our fleet in the industrial business segment, ensured the achievement of key operating and financial indicators.

# Company's 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.

## Structure of the SCF Group fleet includes five operating segments<sup>2</sup>

OFFSHORE	
Supply and servicing of off-shore platforms, management of terminals, shuttle transportation	10 Aframax shuttle tankers (and 2 more under construction) 5 Panamax shuttle tankers 4 MR shuttle tankers 10 multifunctional ice-breaking vessels
GAS TRANSPORTATION	
Transportation of liquefied natural and petroleum gas (LNG and LPG)	11 <sup>3</sup> LNG carriers (and 19 under construction) 4 LPG carriers <sup>4</sup>
CRUDE OIL	
Crude oil transportation	2 VLCC tankers 13 Suezmax tankers 38 Aframax tankers (and 2 more under construction)
OIL PRODUCTS	
Oil products transportation	7 LR II tankers 9 <sup>5</sup> LR I tankers 25 MR tankers (and 3 under construction) 4 Handysize tankers
OTHERS	
Offshore seismic exploration, bulk cargo transportation	1 seismic research vessel 2 Panamax bulkers

More detailed information can be found in the **Composition of the fleet** and **Investment activities** sections of this Annual Report and on the SCF website in the **List of vessels** section.

Sovcomflot Group operates vessels in segments which are in demand by leading Russian and international oil and gas companies. SCF Group is involved in servicing large energy projects in Russia, including Yamal LNG, Arctic LNG 2, Sakhalin-1, Sakhalin-2, Varandey, Prirazlomnoye, Novy Port, and abroad: Tangguh (Indonesia), and Baffinland (Canada).

Our in-house capabilities and set of advanced technologies, especially related to operations in ultra-harsh environments and challenging ice conditions are unique and enable the Group to

satisfy 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. This results in a balanced customer base structure, with the 10 largest customers accounting for less than 80% of revenue.

SCF's own and chartered fleet includes

**145<sup>1</sup>**  
vessels

with a total deadweight of

**12.63**  
million tonnes

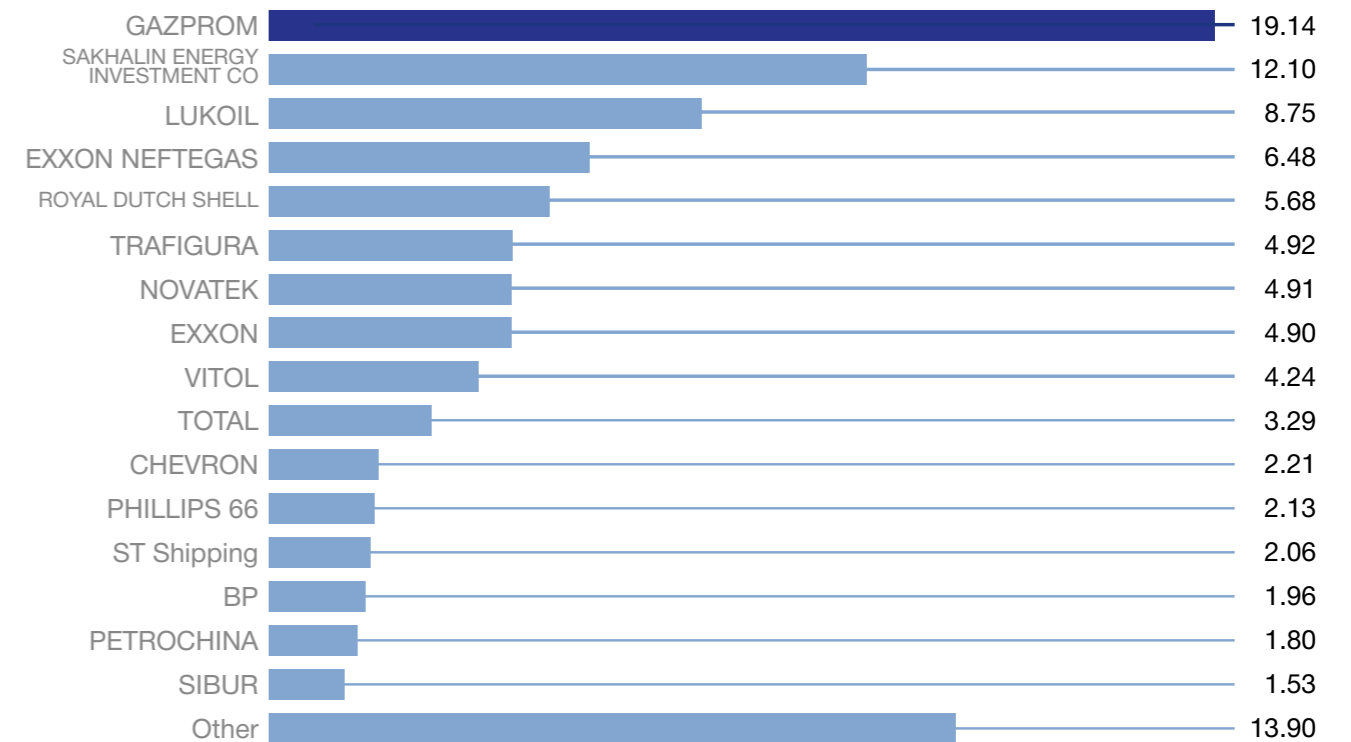
and an average age of

**11.6**  
years

**82**  
vessels

have an ice class

## Share of TCE revenue accounted for by first tier oil and gas and trading companies, (%)



## Major charterers of Sovcomflot Group vessels by share of TCE revenue



<sup>1</sup> Including the fleet of joint ventures (4 LNG carriers and 9 LR I product tankers).  
<sup>2</sup> The breakdown into operating segments is provided in accordance with the IFRS financial statements.  
<sup>3</sup> Including the fleet of joint ventures: 4 LNG carriers.

<sup>4</sup> Including 15 vessels, one of which is being built to order from SCF Group and 14 to order from SMART LNG, LLC, a joint venture between Sovcomflot Group and NOVATEK. The construction of these 15 vessels is financed with the participation of VEB.RF. The number also includes the LNG carrier SCF Timmerman commissioned on 15 January 2021.  
<sup>5</sup> The fleet of joint ventures.

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.

In 2020 the Group carried 64 million tonnes of Russian export and transit cargo exported through Russia, which is 2.6% more than in 2019.

## Key competitive strengths

Sovcomflot Group has a number of competitive strengths that have enabled it to expand significantly the business horizons over the last several years and provided the foundation for strategic directions of its further development.

### Global leadership across industrial marine transportation

SCF Group is the world's leading diversified energy shipping company that provides services to its customers in different market segments around the world that meet quality requirements of its blue-chip clients, including Russian and international oil and gas companies, and has ongoing or completed long-term projects in Russia, Canada, Indonesia, Brazil and Argentina. The Group is a leader in crude oil, oil products and liquefied gas transportation as well as support services for offshore oil and gas production and has particular expertise in challenging ice-water conditions. The Group's reputation as a first-class service provider, together with the scale, quality and complexity of its operations, enables Sovcomflot to strengthen its market positions.

### A diversified business integrated into the energy value chain, with significant expertise in large-scale, harsh environment projects

SCF Group's business is diversified across industrial projects (offshore services and gas transportation), conventional shipping (crude oil transportation and oil products transportation) and other marine services. A diversified business portfolio provides the Group with additional opportunities to expand its existing client relationships. For example, in the offshore services segment the Group operates a specialised fleet consisting of high

ice-class vessels for which no alternatives exist. Accordingly, charter contracts for these vessels tend to be for longer durations with fewer termination-for-cause provisions than contracts for conventional vessels. The skills and experience accumulated by SCF crews and shore-based personnel represent a compelling argument for customers along with the high-tech fleet.

### Predictable, long-term and growing infrastructure cash flows through industrial projects

The Group actively manages its vessel employment mix with a strong focus on increasing time charter equivalent revenues from long-term fixed rate contracts within industrial projects. This approach makes the Group's cash flows highly predictable. Most gas carriers, supply vessels and shuttle tankers are employed on long-term time charter contracts. Participation of the Company's fleet in industrial projects enhances business potential and ensures business stability going forward, in particular owing to their long term nature and potential for time charter extension in case of project expansion.

### Long-established relationships with leading "blue-chip" international and national energy companies

SCF Group has developed partner relationships with a broad group of blue-chip clients, including

major Russian, national and international oil, energy and utility companies, such as BP, Chevron, ExxonMobil, Gazprom, Lukoil, Novatek, Rosneft, Petrochina, Shell, Repsol, Total and ENI. The Group's clients appreciate the high quality of its services, its ability to handle problems of any complexity on a guaranteed basis, its unique subject matter expertise, and financial stability.

### Strong financial profile built on high standards of doing business, resilient financial performance, appropriate profitability level and business portfolio development

The Group has been operationally resilient during the COVID-19 pandemic, as demonstrated by the lack of delays to existing projects and a high fleet utilisation rate, which was 95% in 2020. The resilience of the Group's business to external factors was further demonstrated by the Group's operating profit of US\$491.4 million for 2020 compared to US\$436.4 million for 2019 and time charter equivalent revenues of US\$1,350.6 million for 2020 compared to US\$ 1,265.5 million for 2019. The Group's strong cash flow generation, high liquidity and relatively low leverage ratio provide it with strategic flexibility to allocate capital for future growth and pay dividends. See the **Financial results section** for additional information.

### Resilient business model with high upside potential in industrial segments and stable tanker market outlook

The Group's growth stems from the expansion of its fleet employed on long-term industrial oil and gas projects and additional advantages gained by developing energy projects in harsh environments. Given the Russian Federation's commitment to maintaining its leading role in the global oil and gas industry and the IEA's expectations that crude oil production will remain stable, the Group is well positioned to maintain its leading position in servicing seaborne trade in Russian hydrocarbons.

### Culture of safety, environmental responsibility and innovation

The Group, on its own and in collaboration with its partners, consistently develops and implements advanced engineering solutions and masters new technologies to enhance the safety of navigation, improve working conditions for the crews, increase the energy efficiency, and comply with environmental standards. In addition to investing in innovative technology, the Group pays continuous attention to training, developing and retaining personnel with extensive seafaring experience, including expertise in navigating in ice water conditions. As a result of a strong culture of innovation and a careful attitude to

human capital, the Group is an industry leader in safety management. The diversity of the Group's fleet, combined with its broad technological and operational expertise, enables the Group to offer customers a comprehensive range of tailored, high quality and safe energy transportation services at a competitive cost.

### Highly regarded management team and strong governance

Sovcomflot adheres to strong corporate governance standards (for more details see the **Corporate governance** section of this report). The Company is led by a highly skilled management team that focus on high standards of doing business and emphasise safe, quality and cost-effective operations, with senior management ensuring direct control over the key processes in the commercial and technical management of the Group's fleet.

# GEOGRAPHICAL SCOPE OF OPERATIONS

Worldwide presence and the diversified fleet structure allow us to successfully accomplish customer tasks.

During 2020 SCF vessels made calls to **580** different ports in 111 countries around the world

See the **Investment activities** section of this Report for more information about the implementation of the shipbuilding programme.



# Industry overview

## Global market conditions

SCF Group is an integral link in the global energy value chain as an end-to-end solution provider involved in each step from exploration and production to distribution of products to end-users.

The Group is principally engaged in providing seaborne transportation services to the global energy industry, encompassing the following marine transportation sectors: crude oil, oil products, LNG, and LPG. In 2020, global marine transportation trade of energy commodities totaled an estimated 4.4 billion tonnes, equivalent to 38% of all seaborne trade. In addition to these sectors, SCF Group provides infrastructure and logistical services to the oil and gas industry using its shuttle tankers, icebreaking supply vessels and seismic vessels.

The freight and hire rates in the international marine transportation industry depend on a variety of supply and demand factors and while

there is significant overlap between the sectors in which the Group operates, each sector has its own supply and demand drivers and underlying fundamentals. Generally, the primary determinants for freight and hire rates in the sectors in which the Group operates include:

- demand for cargo transportation;
- supply of appropriate vessels that are available to ship specified cargoes;
- seasonality in the demand for cargo transportation services, particularly within hydrocarbon industries;
- geopolitical factors;
- short-term influences, such as those caused by weather patterns.

### Global energy trends

Trends in global energy consumption are broadly impacted by developments in the global economy, along with changes in population and demographics, energy efficiency developments and changes in technology. In 2020, the COVID-19 pandemic caused significant disruption to the energy sector, resulting in a sharp downturn in global energy demand. The IEA World Energy Outlook 2020 estimates that global energy consumption fell by 5% in 2020. Over the past few decades, slowing population growth and improvements in energy efficiency have led to a significant slowdown in energy consumption growth in developed economies, while urbanisation and faster population growth in developing countries have led to them becoming the key driver behind expansion in global energy demand.

Traditionally, global energy demand has been met largely by fossil fuels, namely oil, coal, and natural gas. While nuclear and renewables have also played a meaningful role for a number of decades, the share of fossil fuels remains relatively steady and dominant. The combined share of oil and gas in the global energy mix has remained relatively stable at

approximately 54% between 2010 and 2019, with oil demand growing at a CAGR of 1.1% and gas demand at a CAGR of 2.2% over the 10-year period. Meanwhile, growth in coal consumption has slowed notably as environmental concerns have grown, with closures of coal-fired power plants in Europe and the U.S., new policies such as the Emissions Trading Scheme in the EU and air pollution measures in China all impacting consumption. These measures along with other initiatives to increase the share of cleaner fuels in the global energy mix, including fuel efficiency regulations, have encouraged expansion in natural gas and renewable energy consumption. Natural gas is typically seen as a relatively cleaner source of primary energy compared to coal, and is often referred to as a “transition fuel” to replace coal in ongoing decarbonisation efforts. Gas consumption has risen from an approximately 21% share in 2010 to approximately 23% in 2019. Greater supply availability and increasing LNG export capacity is expanding the accessibility of gas, which is likely to keep prices low and increase the cost competitiveness of gas in power generation. Meanwhile, the share of renewable energy (mainly hydro, solar and wind) has risen from approximately 13% to approximately 14%.

The COVID-19 pandemic is expected to leave a significant and lasting impact on the trajectory of energy demand going forward. In the short term, oil and coal demand have been the most heavily impacted, falling by approximately 8% and approximately 7% y-o-y in 2020, respectively, largely due to restrictions on mobility, declines in electricity demand and industrial production. The impact on gas consumption has been more moderate, with natural gas demand currently estimated to have fallen by 3% in 2020. Assuming that the worst impacts of the COVID-19 pandemic are overcome, global energy demand is expected to improve from the trough seen last year and resume year-on-year growth over the next decade, although the reduction in total global GDP as a result of impacts from the pandemic may put some limits on the magnitude of its recovery. Non-OECD countries are expected to be the key area of the growth in energy demand going forward, given these countries are expected to account for most of the growth in population, urbanisation and economic development in the foreseeable future. Meanwhile, developed nations in the OECD are focusing more on energy efficiency and low-carbon technologies.

### The Russian oil and gas sector

Russia is a leading global producer of oil and gas. According to the 2020 BP Statistical Review of World Energy, Russia's proven natural gas reserves stood at approximately 38 trillion cbm at the start of 2020 accounting for 19.1% of total global reserves. Meanwhile, Russia's proven oil reserves stood at approximately 107 billion bbls, accounting for 6.2% of the global total. There may also be further unproven oil and gas resources in areas such as the Arctic.

In 2020, Russia's total marketed natural gas production stood at an estimated 654 billion cbm, according to Clarksons Research, accounting for approximately 17% of global marketed natural gas production, making the country the world's second largest producer of natural gas after the U.S.

According to the OPEC World Oil Outlook 2020, global primary energy demand is forecast to resume growth in the medium and long-term, with an average growth rate of 0.9% anticipated in the period 2019-2045. Natural gas is expected to be the fastest-growing fossil fuel over this period as a result of rising levels of urbanisation, growth in industrial demand and greater competitiveness in the power generation and fuel transportation sectors. Oil demand is expected to expand moderately over the next decade, retaining the largest share of the global energy mix, although the rate of expansion in global oil demand is expected to be limited by improvements in fuel efficiency and uptake of electric vehicles going forward and a more accelerated transition towards decarbonisation could moderate this further. While oil is projected to gradually lose market share, it is expected to remain a material part of global energy consumption (over 25%), with oil and gas together accounting for at least half of the global energy mix. Renewable energy sources are expected to remain the fastest growing source of energy over the outlook period.

Russia has significantly expanded its natural gas export capacity via LNG projects since the launch of the country's first LNG export terminal at Sakhalin in 2009. At the beginning of March 2021, Russia's LNG liquefaction capacity stood at an estimated 28mtpa, having more than doubled since 2009. A further 22mtpa of liquefaction capacity is currently under construction in Russia including 20mtpa at Arctic LNG 2, comprised of 3 liquefaction trains scheduled to start up between 2023 and 2026.

Russia exports significant volumes of crude oil and refined oil products. Approximately 80% of crude exported in 2020 was seaborne. In 2020 Russian seaborne exports registered an estimated decline of approximately 15% to 3.2m bpd (approximately 9% of global seaborne crude trade) as a result of the significant production cuts under the OPEC+ agreement. Nonetheless,

**Key ice-class shipping region**

As a number of Russian ports and oil and gas projects are located in areas where sea ice is often present, either during winter months or all year round, there is a significant demand for ice-class marine transportation in Russia, including oil tankers and offshore support vessels. To operate in ice affected waters, vessels require specialised features including strengthened hulls, enhanced propulsion and “winterization” features. In addition, operational experience is required. By virtue of their additional specifications, ice-class vessels are more expensive to build and operate than equivalent non-ice-class vessels.

Export facilities in the Russian East, at Sakhalin, require ice-class vessels, as do oil and product

**Offshore support**

**Shuttle tankers**

Shuttle tankers are specialised vessels designed to transport crude oil and condensates from offshore oil field installations to onshore terminals and refineries, and are equipped with sophisticated loading and dynamic positioning systems that allow vessels to load cargo safely and reliably from offshore oil field installations. Shuttle tankers are an integral part of the marine infrastructure for the upstream projects, and therefore the majority of vessels are chartered under long-term contracts for the entire useful life of offshore fields.

Most of the world’s shuttle tankers are serving offshore fields in the Arctic, Brazil, Canada, North Sea and Sakhalin. If a shuttle tanker is operating in cold weather conditions for extended periods of time it may be necessary for a shuttle tanker to have ice-class capabilities. As of March 1, 2021 there were 31 ice-class shuttle tankers in the world fleet and on order.

According to Clarksons Research, as at the beginning of March 2021, the global shuttle tanker fleet consisted of 123 ships with a total deadweight of 14.3 million tons. SCF Group was the third leading shuttle tanker owner in terms of the number of vessels (21 including vessels on order). Since all of these tankers are ice-class, Sovcomflot confidently holds first place in the world by the number of ice-class shuttle tankers . Knutsen NYK KNOT Offshore, Altera

Russia retained its position as the second largest seaborne crude oil exporting country after Saudi Arabia in 2020. However, in terms of estimated volumes transported on Aframax tankers, Russia stood as the largest exporter globally, with Aframaxes taking an approximate 75% share of Russian seaborne crude exports.

liftings from Primorsk, Vysostsk, and Ust-Luga and potentially, Portovaya. In addition, highly specialised ice-class offshore support vessels are required to support production fields in the Arctic and sub-Arctic regions, such as Sakhalin. Oil and gas export projects in the Arctic require even further ice-class specialisation in terms of vessels and their operation. Projects such as Varandey, Prirazlomnoye, Novy Port and Yamal LNG and new projects such as Arctic LNG 2 require the construction of project-specific vessels adapted uniquely to the geography of operations and are typically utilised for the entire lifecycle of the project.

Infrastructure and Viken MOL AS are among SCF Group’s biggest competitors in this segment.

**Support vessels**

Platform Supply Vessels (the “PSVs”) are part of the Offshore Support Vessels fleet. Their primary function is to support offshore rigs and platforms through delivery of supplies. The PSV fleet is typically differentiated by capacity, either in DWT or deck area. The largest PSVs are commonly employed in ‘harsh’ environments such as the North Sea or deepwater areas such as the Gulf of Mexico.

Ice-breaking supply vessels (the “IBSVs”) are specialised vessels which provide logistical and ice breaking support services to offshore oil and gas platforms which operate in the most challenging weather conditions. Support can include supply services, crew transportation, early stage firefighting and rescue operations and provision of standby services to offshore installations. These vessels are designed and built to suit the particular needs of a field and are typically utilised for the entire lifecycle of the project.

**LNG shipping**

Growth of seaborne LNG trade is a key underlying factor expected to facilitate the increasing share of gas in the global energy mix. Global LNG tonne-mile trade growth is estimated to have grown by 7.7 % in 2020 despite substantial COVID-19 related impacts on global demand for natural gas and LNG, with growing long-haul exports from the U.S. to the Asia-Pacific region helping to support vessel demand. Current projections for 2021 suggest further LNG trade growth of approximately 9% y-o-y.

In the longer term, the outlook for LNG demand appears encouraging, with LNG expected to play a key role in facilitating the growing share of natural gas in the global energy mix. LNG demand is also supported by global

environmental agenda and shift away from coal and heavy fuel oil in favour of ‘clean’ burning natural gas. Within the marine transportation industry itself, LNG is gaining traction as a marine fuel and is often seen as a ‘bridging solution’ as shipowners consider means to achieve the IMO 2050 CO<sub>2</sub> emissions target.

The following charts set forth development of LNG carrier fleet and orderbook (vessels on order at yards or presently under construction):

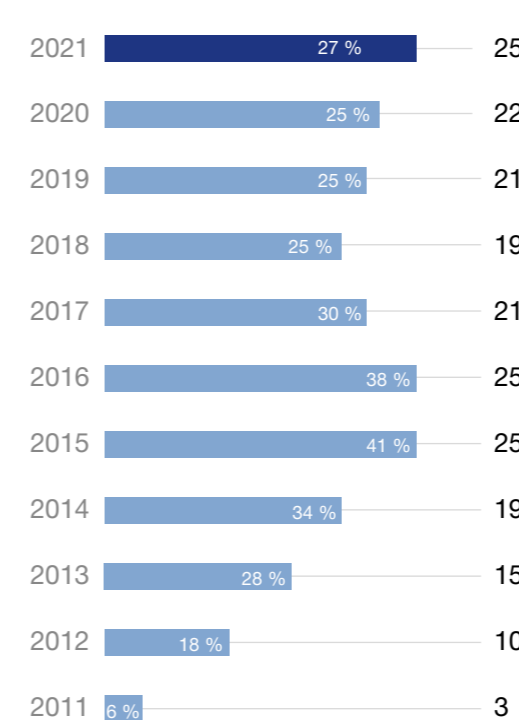
SCF Group is

No. 1

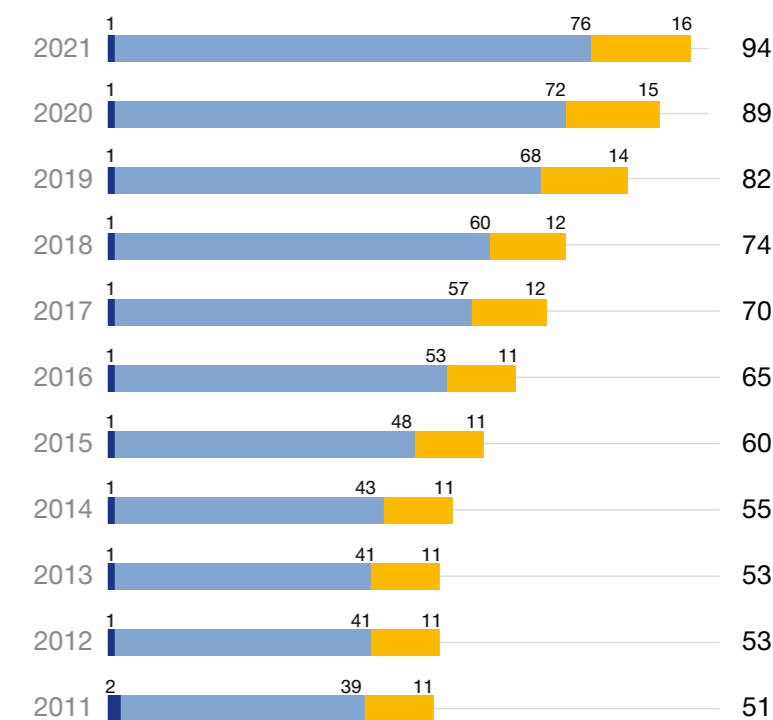
ice-breaking supply vessels owner

**LNG carrier orderbook development**

Source: Clarksons Research, data as of beginning of March 2021.



**LNG carrier fleet development**



X % Share of the total number of LNG carriers in operation

Legend:  
 ■ <100,000 cbm  
 ■ 100,000 – 174,999 cbm  
 ■ 175,000 cbm & above

SCF Group is

No. 1  
ice-class shuttle tanker owner<sup>1</sup>

SCF Group is

No. 3  
shuttle tanker owner

<sup>1</sup> "Ice-class" includes all vessels with ice-class 1C and above basis Finnish-Swedish ice-class equivalent.



Construction of a newbuilding LNG carrier typically takes between 18 months and 3 years from contract signing to delivery of the vessel by shipyard, depending on schedule of the relevant shipyard's orderbook. Number of shipyards that are capable and willing to construct LNG carriers is limited, restricting the ability to have an LNG carrier built within a short time frame.

### Ice-class LNG carriers

Ice-class LNG carriers represent a relatively small proportion of the total LNG fleet and historically have often been purpose-built to facilitate exports from particular LNG liquefaction terminals. As at the end of the reporting period there were seven ice-class LNG carriers in the Group's fleet, equivalent to approximately 10% of the global ice-class LNG fleet. As of March 1, 2021, there were a total of 26 ice-class LNG

carriers on order, equivalent to approximately 17% of vessels on the LNG carrier orderbook.

According to Clarksons Research, as at 1 March 2021, the global fleet of ice-class LNG carriers, as well as the order portfolio, included a total of 76 vessels with a total cargo capacity of 10.9 million cubic meters. The SCF fleet in this segment, including the 14 vessels under construction ordered through joint ventures, includes a total of 25 vessels. As a result, the group is number one in the list of leading owners of ice-class LNG carriers. Major companies that own and operate fleets in the LNG shipping segment include Maran Gas, Mitsui O.S.K. Lines, GaslogGolar LNG, MISC, NYK Line, Qatar Gas Transport (Nakilat) and Teekay LNG, with only the latter listed as a leading owner of ice-class gas carriers.

SCF Group is  
**No 1**  
owner of ice-class LNG carriers

### LPG shipping

LPG carriers are employed in transportation of liquefied propane and butane as well as other hydrocarbon gases. Propane and butane are often used as petrochemical feedstocks, which is a fast-growing part of demand for LPG, particularly in Asia, and demand for their use as such is often dependent on the pricing compared to naphtha. The LPG fleet can be categorised

by the vessel's method of containment, with approximately 30% of LPG carriers in the world fleet having fully refrigerated tanks (in numerical terms) as of March 1, 2021. Clarksons Research estimates that between 2009 and 2019, seaborne LPG trade (liquefied propane and butane) grew at a CAGR of 6.9% per year.

### Crude oil shipping

The international tanker market is cyclical in nature and is characterised by strong volatility due to strong fluctuations of freight rates, driven by often-unforeseen changes in tonnage demand and supply. Demand for tanker tonnage is affected by a number of factors, including supply and demand for crude oil and oil products, the availability of refining capacity and storages, 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, and changes in industry regulation.

According to Clarksons Research, as at 1 March 2021 there were 717 Aframax crude tankers in the global fleet, including vessels on order and under construction. Forty of them belong to SCF Group, and in this segment the company is number one on the list of leading tanker owners. Besides, Sovcomflot is the world leader by the number of ice-class crude tankers. SCF's main competitors in the crude marine transportation services market are Frontline Ltd, Euronav N.V., Nordic American Tankers, MISC (AET), Minerva Marine Inc, Thenamaris and Teekay Tankers,

which operate tankers of various types and sizes, including VLCC.

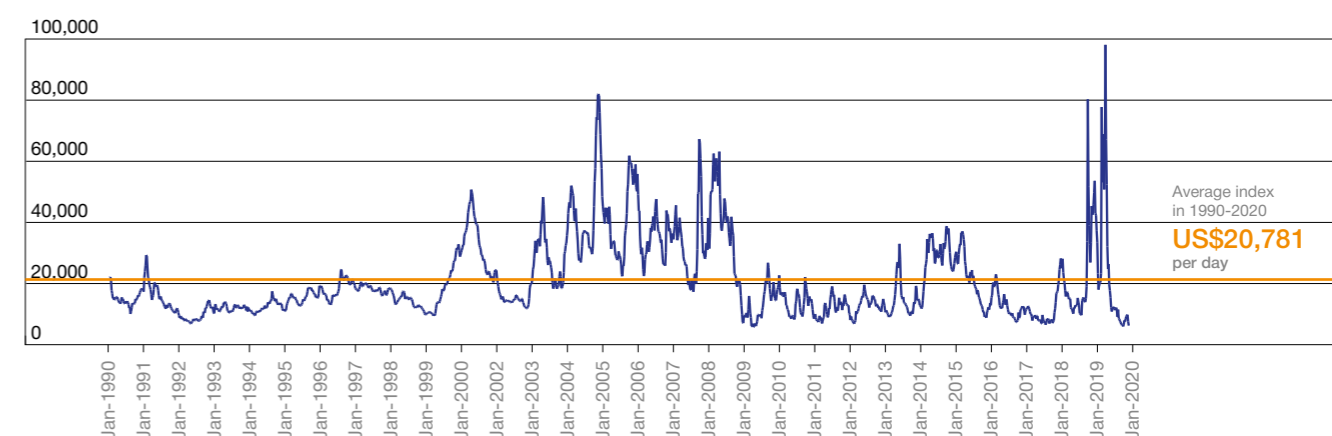
2020 was characterised by a high market volatility in the situation of negative influence of a drop in oil and oil products demand and quarantine restrictions due to the Covid-19 pandemic. Failed OPEC+ talks on cutting oil production in March 2020 increased cargo surplus and speculative demand for shipping and storage of cheap oil that led to a surge of spot freight rates in all oil tanker sizes. The agreements reached by OPEC+ in April to cut oil production generated a moderate growth in prices of crude oil and oil products, reduction in demand for transportation and tonnage surplus in the second quarter of 2020. That adversely affected the freight rates which reached a minimum return level by the end of a half year. In Q3 and Q4 the freight market situation was still weak amid the reduction in demand for oil products (in comparison to 2019 level), which led to a stagnation of the freight rates till the end of the reporting period.

On the back of peak values in March-April 2020, in the reporting year the ClarkSea Index averaged US\$24,249 per day, exceeding the average value for 30 years (US\$ 20,781 per day).

SCF Group is  
**No 1**  
Aframax crude tanker owner

SCF Group is  
**No 1**  
ice-class crude tanker owner

### ClarkSea Index dynamics for the period from 5 January 1990 to 8 January 2021, (US\$ per day)

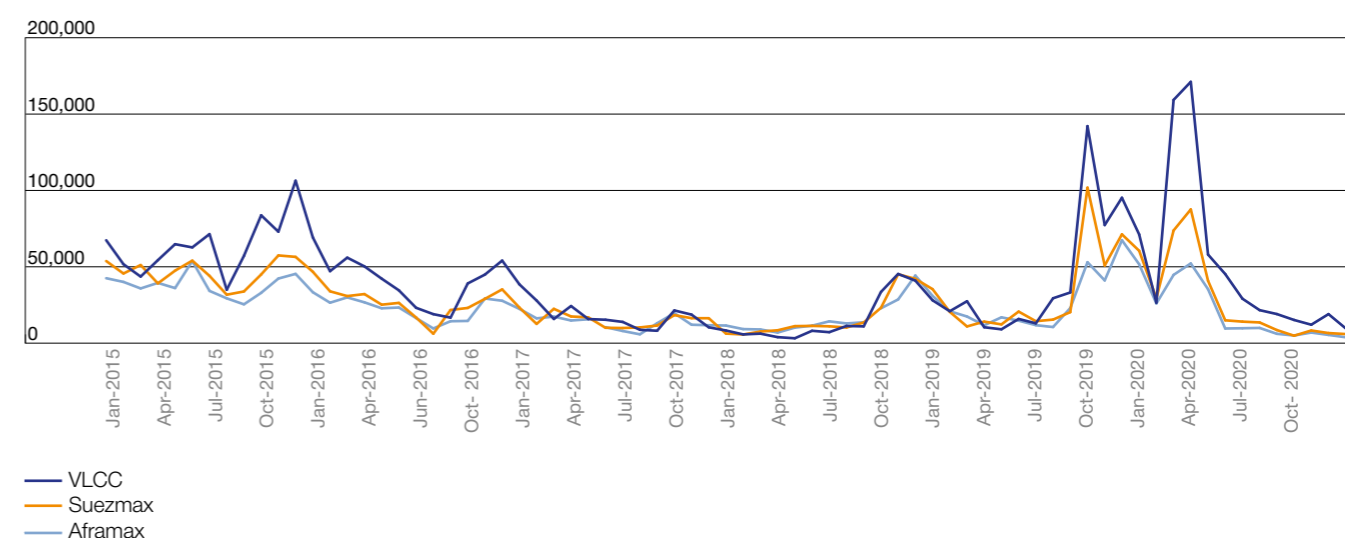


### Weighted average spot TCE, (US\$ per day)

Vessel size category	2020	2019	Change, %
VLCC tankers	53,145	41,364	28.48
Suezmax tankers	30,240	31,560	-4.18
Aframax tankers	22,161	26,225	-15.50

Source: Clarksons

### Dynamics of spot tanker freight rates in VLCC, Suezmax and Aframax segments, (US\$ per day)



Source: Clarksons

<sup>1</sup> Including vessels in the Group's orderbook

<sup>2</sup> "Ice-class" includes all vessels with ice-class 1C and above basis Finnish-Swedish ice-class equivalent.

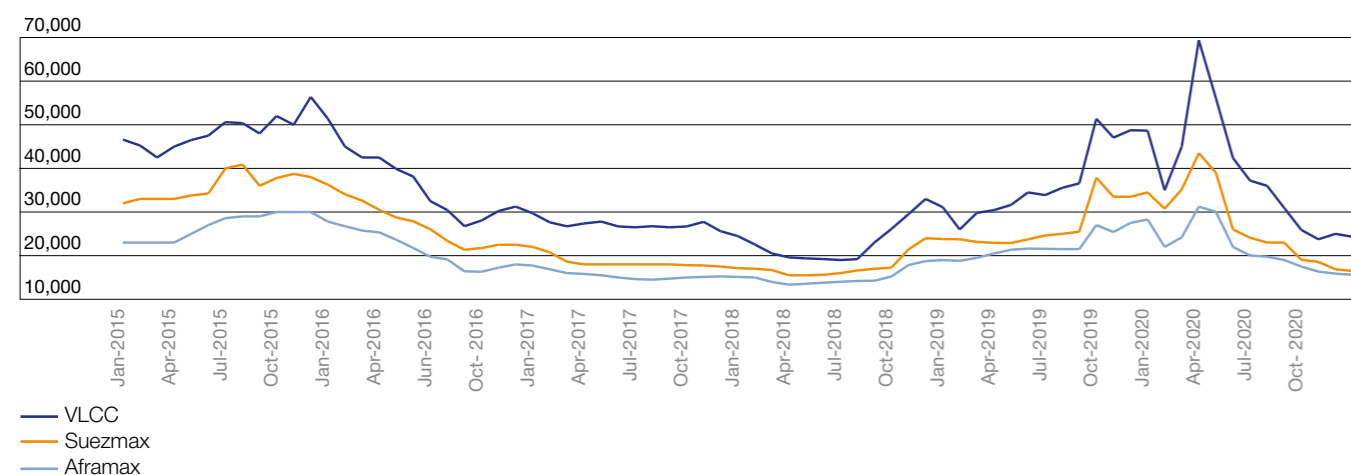
<sup>1</sup> See the Glossary.

### Weighted average one-year time charter rates, (US\$ per day)

Vessel size category	2020	2019	Change, %
VLCC tankers	39,788	36,358	9.43
Suezmax tankers	27,899	26,649	4.69
Aframax tankers	22,329	22,091	1.08

Источник: Clarksons

### Dynamics of time charter tanker freight rates in VLCC, Suezmax and Aframax segments, (US\$ per day)



Source: Clarksons

### Oil products shipping

Conditions in the oil products shipping market have been closely correlated with those in the crude oil shipping market. This is partly associated with the fact that some crude and product tankers have the potential to act as 'swing tonnage' between the crude, dirty and clean markets.

According to Clarksons Research, as at 1 March 2021, the global fleet included 358 high ice-class product carriers, taking into account the vessels ordered. Sovcomflot Group ranks third in terms of the number of such vessels, behind Tsakos and Scorpio.

SCF Group owns product carriers of various sizes: Handysize, MR, LR I and LR II, and ranks eighth in the world in terms of the number of MR product tankers. Other leading product carrier

owners and operators include BW Pacific, China COSCO Shipping, Ardmore Shipping, Scorpio Tankers and Torm A/S.

In the first quarter of 2020, the dynamics of freight rates in the product carriers segment were characterized by short-term spikes caused by the demand for floating storage. As the oil products market reached a balance between supply and demand, demand for oil products tonnage subsided amid the reduction in transportation volume due to seasonal factors and consequences of the COVID-19 pandemic, and the freight rates dropped to the lowest return level for shipowner by the end of half a year and remained at a low level during the third and fourth quarters of 2020.

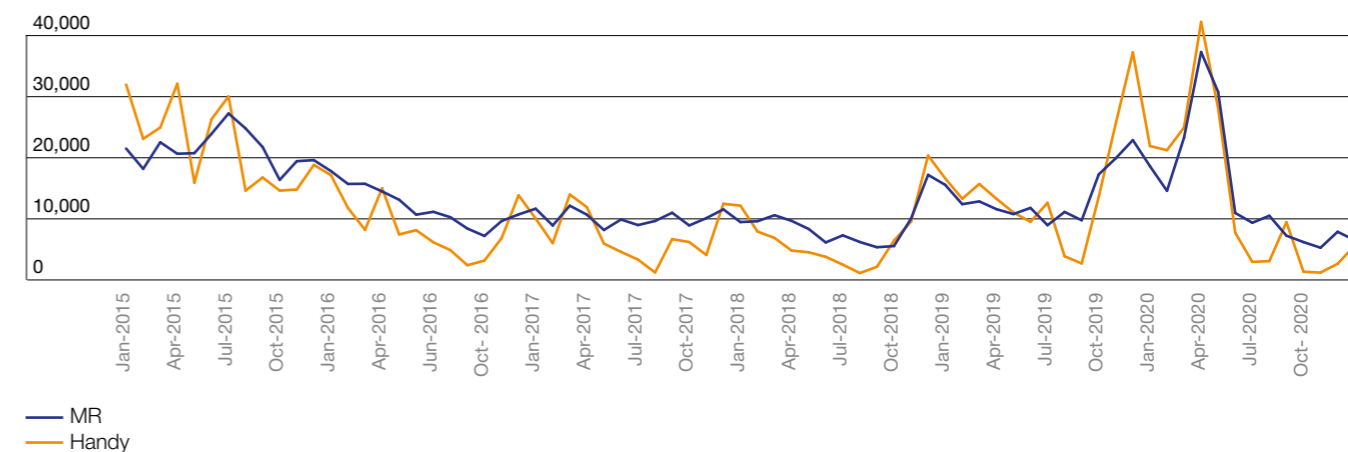
### Weighted average spot TCE, (US\$ per day)

Vessel size category	2020	2019	Change, %
MR product carriers	15,251	13,740	11.00
Handysize product tankers	13,881	14,560	-4.66

Source: Clarksons

<sup>1</sup> Vessels with Finnish-Swedish ice class equivalent of 1B and above only

### Dynamics of spot tanker freight rates in MR and Handysize segments, (US\$ per day)



SCF Group is

No **3**  
Ice-class product  
tanker owner

SCF Group

No **8**  
MR product tanker  
owner

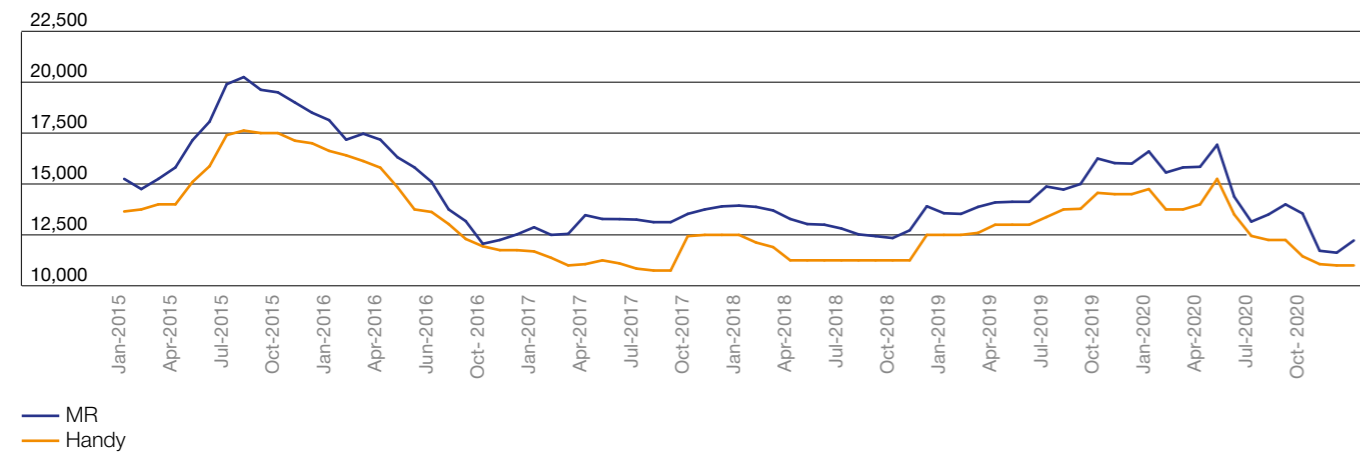
The MR product tanker SCF Anadyr in the area of Texel Island (the Netherlands)

Weighted average one-year time charter rates, (US\$ per day)

Vessel size category	2020	2019	Change, %
MR product carriers	14,440	14,683	-1.65
Handysize product tankers	12,995	13,425	-3.20

Source: Clarksons

Dynamics of spot time charter tanker freight rates in MR and Handysize segments, (US\$ per day)



The global conventional tanker freight market is considerably fragmented and is characterised by high competition and the absence of serious barriers for entry. The SCF Group's share of the freight market in conventional segments does not exceed 1%. Any change in this indicator over

the past three years is considered immaterial (less than 0.01%) due to the continued presence of a significant number of fleet owners and operators, estimated in total at about 3,200 (including approximately 200 companies with a fleet of ten or more tankers).

Dynamics of new ship orders

Ratio between global new ship orders and the existing fleet by total deadweight, (%)



Source: Clarksons

Global new ship orders have fallen to historical lows, accounting for 8.35% of global deadweight capacity at the end of March 2021.

Sovcomflot positively evaluates prospects for industry cycle recovery upon an increase in oil products output as well as recovery of previous crude oil production and transportation levels.

# Development strategy of Sovcomflot Group

In May 2019 the PAO Sovcomflot Board of Directors approved the Group Strategy for 2019-2025 (Strategy 2025). The document reflects the next stage of the strategic planning cycle of PAO Sovcomflot and takes into account the results of implementation of the Group Strategy in effect from 2011 to 2018, as well as changes in the external business environment and market dynamics.

The goal of Strategy 2025 is to maintain the Company's global leadership and ensure its sustainable growth by further expanding the industrial portfolio with a focus on major Russian oil and gas projects.

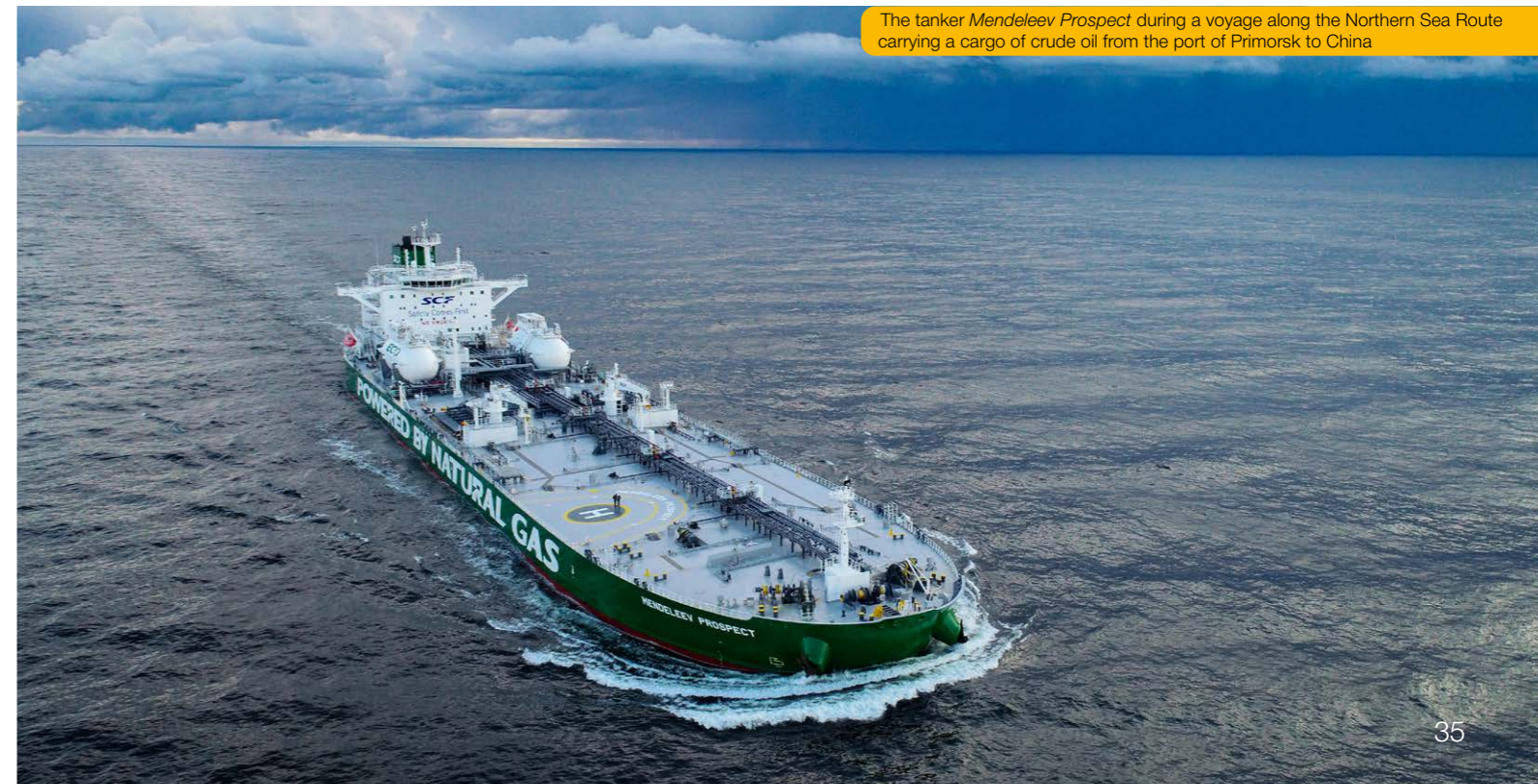
Under the base case scenario underlying Strategy 2025, by 2025 the share of the fleet serving industrial projects under long-term charter contracts may reach 40-50%, with revenues from these vessels accounting for up to one-third of the Company's total revenue.

In addition, Strategy 2025 outlines the main directions of the Group's development:

- Maintaining the focus on energy shipping (crude oil, petroleum products and liquefied natural gas) and servicing of offshore hydrocarbon production;
- Further expanding the share of industrial business while focusing on the most profitable conventional business segments;
- Strengthening leadership in a number of key global market segments with an emphasis on serving major national projects in difficult climatic and ice conditions, as well transportation of liquefied gas for international projects of leading oil&gas companies.

Strategy 2025 also sets forth the Sovcomflot Group's priorities in sustainable development: ensuring navigation safety, reducing adverse environmental impacts, implementing innovative technical and technological solutions, and continuously investing in human capital.

<sup>1</sup>. Minutes of the Board of Directors No. 182 dated 27 May 2019.  
<sup>2</sup>. The Group Strategy up to 2017 was approved by the Board of Directors in September 2011 (Minutes of the Board of Directors No. 113 dated 12 September 2011). The strategy parameters were updated in 2013 with the planning horizon extended to 2018 (Minutes of the Board of Directors No. 127 dated 20 March 2013).



### Strategy 2025 outlines the main directions of the Group's development:

- Maintain the Group's leading position in the export of Russian hydrocarbons.** Given that Sovcomflot is included in the list of strategic enterprises and joint-stock companies, the Group has an important role in the development of Russia's energy sector. SCF estimates that the Group carried approximately 18% of the total oil and gas turnover at Russian seaports in 2020, including a significant portion of the crude oil produced from offshore production platforms along the Russian coasts. The Group's strategy is to leverage its leading position to increase its market share in servicing Russian offshore upstream projects and exporting Russian hydrocarbons. Moreover, the Company intends to continue to develop the Group's fleet to meet the particular needs of exports from Russia, such as increasing the number of specialist ice class vessels in the Group's fleet.
- Expand the industrial business of the Group.** Sovcomflot intends to grow the percentage of its revenues which are derived from its industrial business, which has historically benefited from higher margins (see the Operating results section). The Group targets time charter equivalent revenue contribution by the industrial business of 70% by 2025. The segments making up the industrial business accounted for US\$681.1 million, US\$639.1 million and US\$614.3 million, respectively, of the Group's time charter equivalent revenues for 2020, 2019 and 2018. By investing in the industrial business, the Group will increasingly benefit from the long term and predictable cash flows from comprehensive service

projects for major clients and an increase in demand for such service on new projects. In addition, SCF is also focusing on the further "industrialization" of the conventional business, with a view to benefiting from the long-term fixed-rate time charters typically entered into as part of its industrial business

- Develop as an integrated offshore upstream services provider with a specific focus on operating in harsh environments and the ice water conditions of the Arctic and sub Arctic regions.** The Group currently operates a technologically advanced fleet that is able to serve large scale integrated industrial projects, primarily in the Arctic and sub Arctic regions. These projects require highly specialised vessels and specifically trained crew, which provide significant barriers to entry to potential competitors, as well as premium charter rates compared to traditional tanker and offshore market segments. Further, the Group's vessels servicing integrated industrial projects operate under long term contracts, typically for 10 years or more, which contributes to predictability of the Group's cash flows. In addition, switching providers for such specialist services may entail additional costs, risks and delays for the charterer. As the largest owner worldwide of ice class tankers and a provider of diversified energy shipping services, the Company aims to leverage its integrated expertise to increase its share of the Russian market for offshore oil and gas services and to provide its highly specialised transportation services on large scale industrial projects.

<sup>1</sup> Russian Presidential Decree No. 1009 "On Approval of the List of Strategic Enterprises and Strategic Joint-Stock Companies" dated 4 August 2004.

- Maintain the Group's status as a 'preferred carrier' for leading international and national energy companies by focusing on a diverse and high quality service offering while maintaining strong brand recognition associated with quality and safety.** The Group was the third largest oil tanker owner in the world by number of vessels, as of March 1, 2021, according to Clarksons Research, and the Company aims to maintain the Group's status as a preferred carrier for both Russian and international energy companies. The Group's large, modern and technologically advanced fleet, together with its integrated services offering, enable it to meet the varying and complex needs of international oil and gas companies. Moreover, the Group's integrated services across the energy value chain enable it to expand its existing relationships with Russian and international oil and gas companies, becoming a single service provider for many of their energy transportation needs. The Company strives to enhance its reputation as a leader in safety management, which also increases the Group's attractiveness to Russian and international charterers.
- Strengthen the Group's market positions by renewing and expanding its fleet.** Sovcomflot intends to expand the number and types of vessels the Group operates in its core segments over the next several years. The development of the Group's ice class fleet will allow the Group to retain its leading position in the Russian energy export market. Moreover, the Company plans to invest in additional highly specialised shuttle tankers, LNG carriers and supply vessels designed to operate in the harsh environment and ice water conditions of the Arctic and Far Eastern regions of Russia to provide integrated offshore services. In addition, it plans to selectively invest in the renewal of the Group's tanker fleet.
- Focus the Group's investment policy on the needs of core Russian and international oil and gas clients.** The Group's investment programme has been designed to focus on the needs of the Group's core customers, with a particular emphasis on long term industrial projects that can deliver predictable cash flows, particularly in the Baltic, Arctic and Far Eastern regions of Russia, where the Group has competitive advantages due to its expertise in operating in harsh environments. The Company intends to remain consistent as regards the size of its annual investments in the coming years, with a particular focus on the growth of the industrial fleet. At the same time, it expects to make periodic capital expenditures in the renewal of the crude and product tanker fleet.
- Increase the reliability and environmental sustainability of the Group's fleet.** The Group's environmental protection policy is an integral component of its overall safety management system established in accordance with the International Management Code for the Safe Operation of Ships and for Pollution Prevention (the "ISM Code"), which lays down the principles, goals, objectives and key areas of the Company's environmental safety activities, and encompasses the activity of all employees of the Group, from ships' crews to top management. In March 2019 the SCF Group's Green Charter, a declaration of commitments on sustainable development, was approved. (For more details, see the Sustainable development section of this report). The Group is dedicated to reducing the carbon footprint of its fleet without eroding returns. The Group also intends to continue implementing energy saving technologies and to use transparent energy consumption calculation methods

In 2020, the Arctic shuttle tanker *Mikhail Ulyanov* loaded the milestone 200th crude oil cargo produced at the Prirazlomnaya platform in the Pechora Sea



## Long-Term Development Programme of Sovcomflot Group

The PAO Sovcomflot Long-Term Development Programme (LDP) intended for the period up to 2025 was approved by the Company's Board of Directors in March 2021 after coordination with relevant agencies and review at a meeting held with the participation of representatives of the Government of the Russian Federation. Basic goals and objectives of the PAO Sovcomflot LDP for the period up to 2025 correspond to the goals and objectives of Strategy 2025, as the document was developed to specify the current development strategy of Sovcomflot Group.

Main activities carried out to implement the Company's LDP in the reporting year:

- commissioning of new vessels (see the **Implementation of the shipbuilding programme** section);
- repair and modernisation of vessels to comply with international environmental protection standards.

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.

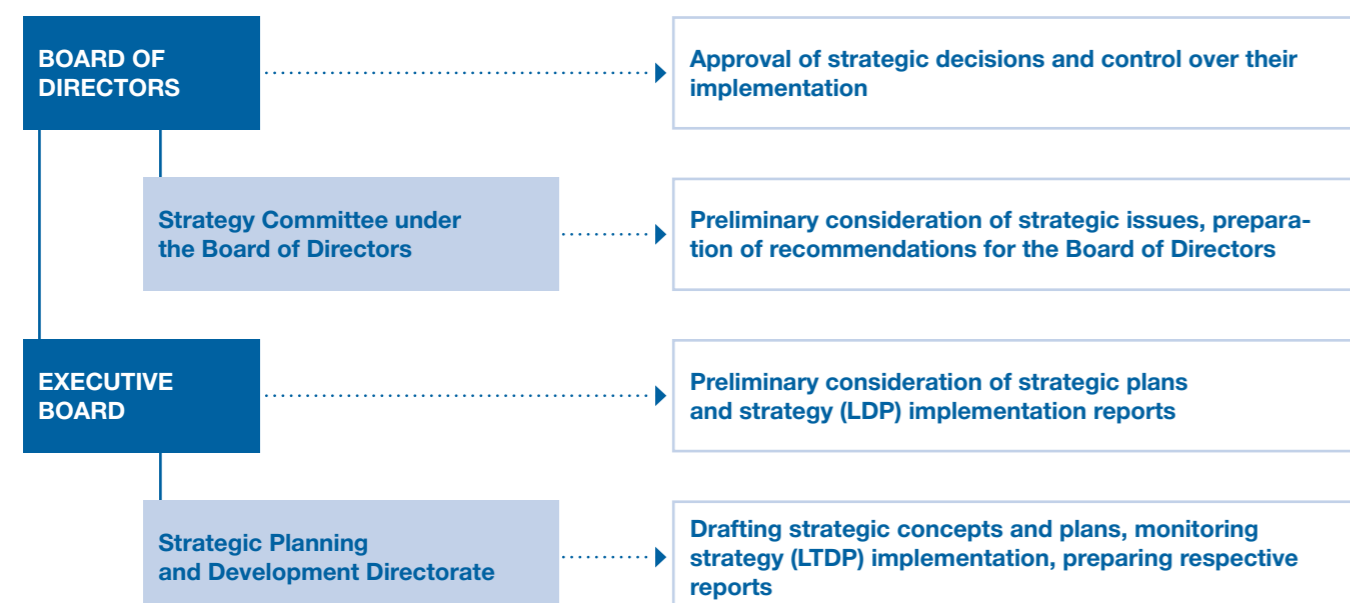
The results of implementation of the Sovcomflot Group LDP are subject to independent review. Information on the main conclusions contained in the report on the review shall be disclosed in the Annual Report.

LDP 2020 results were reviewed by AO KPMG. The report containing a positive opinion was received on 7 April 2021. According to it, the report on the implementation of LDP is prepared, in all material respects, in conformity with the applicable regulations, and is free from material misstatement.

## Strategic decision-making structure

Organisational and strategic decision-making structure is shown in the diagram 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. The Strategic Planning and Development Directorate is monitoring the implementation of Group Strategy, preparing relevant reports and executive summaries.

## Key performance indicators of the Long-Term Development Programme

The table below shows the attainment of targets set under the approved PAO Sovcomflot LDP up to 2025 by approved KPIs for 2020.

### Attainment of KPI targets set by the LDP in 2020<sup>1</sup>

No	KPI	Low scenario	Target value (base case scenario)	High scenario	Actual for 2020	Comment
1	Net revenue, US\$ million	1,210	1,420	1,610	1,421.24	Attained
2	Net profit, US\$ million	-10	270	460	266.87	Deviation of less than 1.5%
3	EBITDA margin, %	60	64	68	66.19	Attained
4	EBITDA, US\$ million (for reference)	720	910	1,100	940.71	Attained
5	Dividend for the year, US\$ million (for reference)	0	130	230	225	Attained <sup>2</sup>
6	Return on Invested Capital (ROIC), %	2.8	7.0	9.8	7.40	Attained
7	Return on Equity (ROE), %	-0.4	7.8	13.3	7.61	Deviation of less than 0.2%
8	Net Debt / EBITDA	≤8	≤6	≤6	2.72	Attained
9	Fixed assets (fleet) utilisation efficiency, %	≥96	≥96	≥96	95.09	Deviation of less than 1%
	Fixed assets (fleet) utilisation efficiency excluding the impact of COVID-19	≥96 %	≥96 %	≥96 %	95.86	Deviation of less than 0.2%
10	Indicator of innovative development, %	≥100 %	≥100 %	≥100 %	166.66	Attained

### Attainment of targets set by the PAO Sovcomflot LDP by individual KPIs for 2020 compared to 2019

No	KPI	Actual for 2020	Actual for 2019
1	Net revenue, US\$ million	1,421.24	1,337.51
2	Net profit, US\$ million	266.87	225.38
3	Return on Invested Capital (ROIC), %	7.40	6.11
4	Return on Equity (ROE), %	7.61	6.73
5	Fixed assets (fleet) utilisation efficiency, %	95.09 (for reference: 95.86 excluding the impact of COVID-19)	96.82

<sup>1</sup> Except for items 5, 9 and 10, target and actual KPI values are calculated using proportional consolidation of the results of joint venture operations.  
<sup>2</sup> Following the adoption of the resolution on dividend payment by the General Meeting of Shareholders of PAO Sovcomflot.

# 02

## Operating results



«2020 proved to be a challenging year without precedence for the shipping industry in terms of operational restrictions. The COVID-19 pandemic has changed sanitary rules and closed borders in many areas of our fleet's operation but we have met these challenges and we have sustained the efficiency of fleet operations and provided uninterrupted services to our customers. With swings in global oil demand causing extreme volatility across energy markets, SCF Group demonstrated resilience to such turbulence and has produced further increase in its key operational and financial metrics. The Company continued to implement activities aimed at improving environmental compliance and energy efficiency of the fleet which are contemplated by the Green Charter focusing on new technologies and advanced engineering solutions.»

**Igor Tonkovidov,**  
President and Chief Executive Officer  
of PAO Sovcomflot



The Arctic shuttle tanker *Mikhail Ulyanov* near the Prirazlomnaya platform in the Pechora Sea

# Production activities

## Composition of the fleet

### Composition of the Sovcomflot Group fleet<sup>1,2</sup>

Vessels by type	Number of vessels			Total deadweight, '000 tonnes		
	31/12/20	31/12/19	31/12/18	31/12/20	31/12/19	31/12/18
Crude oil tankers	53	56	53	6,999	7,424	7,006
Product tankers	45	45 <sup>3</sup>	48	2,814	2,814	3,071
Shuttle tankers	19 <sup>3</sup>	19	16	1,552	1,552	1,301
LNG and LPG carriers	15	13	13	1,073	887	870
Dry bulk carriers	2	2	2	149	149	150
Multifunctional icebreaking vessels	10	10	10	41	42	38
Seismic exploration vessels, chartered vessels	1	2	2	2	6	7
<b>Total</b>	<b>145</b>	<b>147</b>	<b>144</b>	<b>12,630</b>	<b>12,874<sup>4</sup></b>	<b>12,443</b>

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

In 2020 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 two vessels delivered by shipyards under previously concluded shipbuilding contracts (for more details see the [Implementation of the shipbuilding programme](#) section of this Annual Report).

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). In 2020

Sovcomflot Group sold two Suezmax crude oil tankers and one Aframax tanker aged above 15 years each in the second-hand vessel market. One chartered vessel was redelivered to the owner due to the termination of the bareboat charter.

Therefore, in 2020 the number of vessels in the Group's fleet decreased by 1.4%. The total deadweight of the fleet increased by 244,000 tonnes or by 1.9%.

The average age of the Group's fleet at the end of 2020 was 11.6 years, which is 10.8% less than the average for leading tanker companies (according to Clarksons).

As of 31 December 2020, the Group's fleet included

**145**  
vessels  
with a total  
deadweight of  
**12.63**  
million tonnes

**2**  
new vessels

were added to the SCF fleet in 2020

**11.6**  
years

the average age of the SCF Group fleet

### Age characteristic of the Group's fleet as of 31 December 2020

Vessels by type	Average age in years
Crude oil tankers	12.3
Product tankers	12.7
Shuttle tankers	11.1
LNG and LPG carriers	8.2
Dry bulk carriers	8.0
Multifunctional ice-breaking vessels	8.8
Research vessels and chartered vessels	9.4
<b>SCF Group fleet</b>	<b>11.6</b>

## Operation of the fleet

Technical operation of SCF Group's own and chartered fleet is carried out by 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 the companies belonging to the SCF Management Services system: 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.

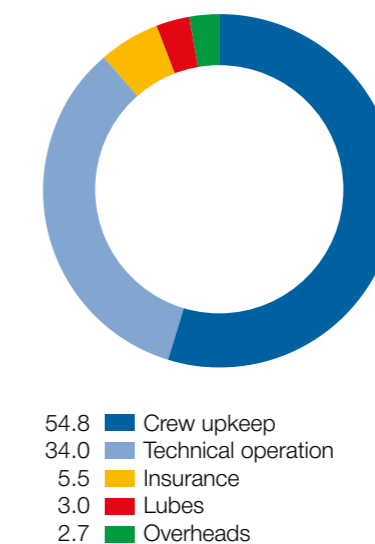
SCF Group manages the operation of the fleet based on the provisions of the Technical Policy. This policy is a set of measures and actions that enable the Group to achieve operational advantages in the maritime transportation and service market sectors.

In accordance with the ISMS, Sovcomflot 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 2018-2020, ('000 US\$)



### Structure of operating expenses in 2020, (%)



**366.9**  
US\$

the amount of actual operating expenses in 2020, which is

**2.5%**

below the approved 2020 budget

<sup>1</sup> Including the fleet of joint ventures: nine LRI product tankers and four LNG carriers.

<sup>2</sup> Taking into account reclassification of Zaliv Baikal and Zaliv Vostok from the product tanker category to the shuttle tanker category.

<sup>3</sup> Governor Farkhutdinov is included in the shuttle tanker category according to the information disclosed in the consolidated financial statements of PAO Sovcomflot for 2020 prepared in accordance with IFRS.

<sup>4</sup> Data for 2019 as of 31 December 2019 were updated in comparison with similar data as of 31 December 2018.

Within the structure of operating expenses the majority are attributable to crew upkeep (54.8%), while technical operation and modernisation account for 34%, insurance for 5.5%. Lubes account for 3.0%, and other fleet operating costs for 2.7%.

**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 SCF Group's Technical Policy stipulates:

- Compliance with all applicable regulatory requirements;
- 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.

According to the Technical Policy the following actions are taken to ensure the high quality of maintenance and repair work on vessels and their equipment:

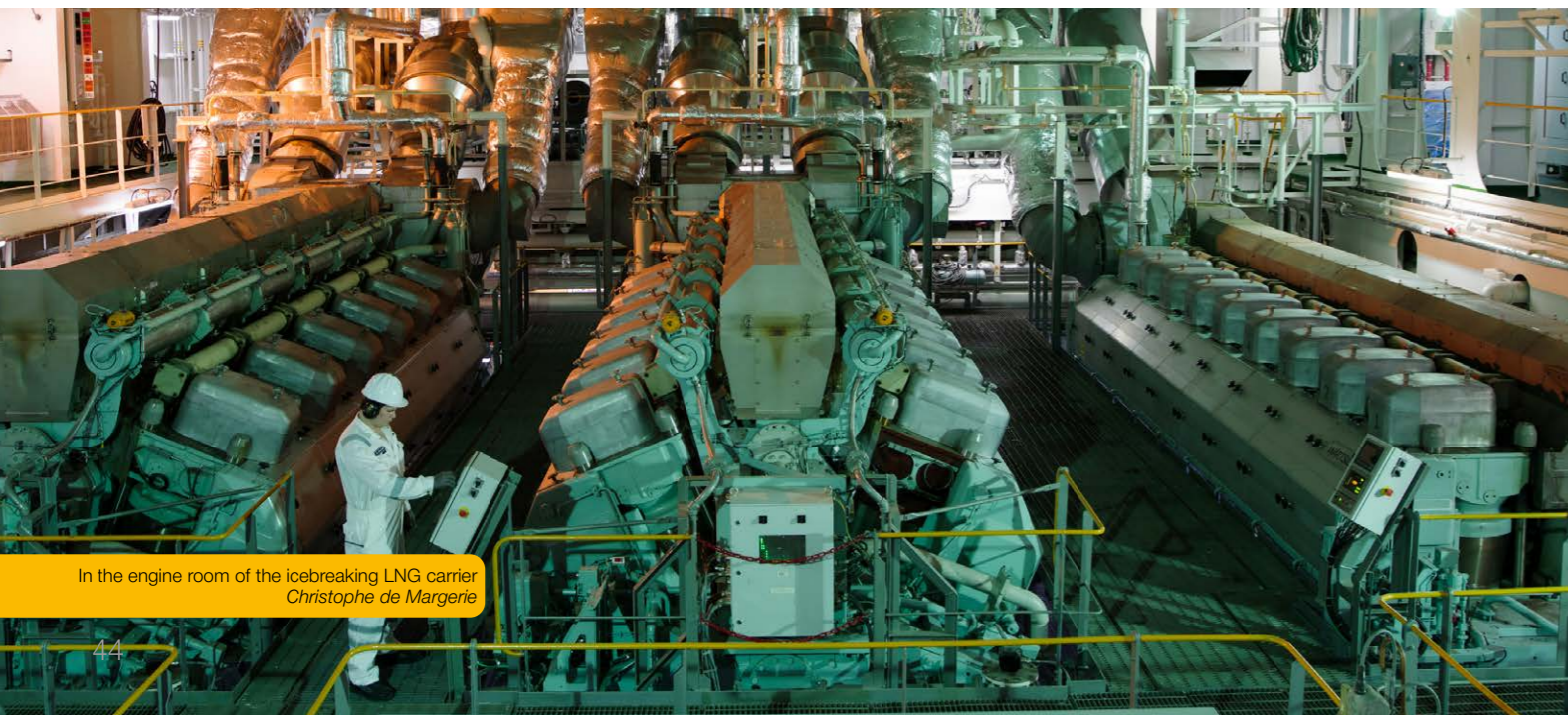
- Competitive selection of the most effective and qualified shipyards;
- Using certified spare parts from original manufacturers when replacing worn-out or faulty components of equipment;
- Inspection of ships by classification societies, which ensures a high degree of supervision over the technical 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, 2018-2020

Indicator	2020	2019	2018
Dry dock repairs (number of vessels)	30	32	24
In-water inspections (number of vessels)	17	15	30
Actual expenses for dry docking and repair of vessels ('000 US\$)	76,069	64,129	51,519

In 2020, 30 vessels were dry docked and repaired (vs. 32 vessels a year earlier). One of the goals of SCF Group under the Technical Policy is to increase the inter-docking period. In 2020, the intermediate survey for 17 vessels was carried out afloat - without dry-docking.

During the reporting period there were nine operational accidents, which resulted in damage to hull structures and vessel equipment, and required the decommissioning of vessels for repairs. SCF Group works to reduce the number of accidents, and performs detailed analyses of them to prevent any repeats of incidents.



In the engine room of the icebreaking LNG carrier  
Christophe de Margerie

## Investment activities

### Dynamics of investments

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

With due regard for SCF Group's strategic priorities, the Investment Programme chiefly focuses on the implementation of high-yield industrial projects in the field of liquefied gas transportation and the servicing of offshore hydrocarbon fields. In 2020 most investments were directed to these segments. Investments were also made in the repair and modernisation of the existing fleet of the Group.

#### Dynamics of SCF Group investments, 2018-2020, ('000' US\$)<sup>1</sup>



#### Investment projects of Sovcomflot Group in 2020

Client / project	Target	Number of vessels	Implementation stage (as of 31 December 2020)
<b>PAO NOVATEK</b>	Construction of dual-fuel MR tankers	3	The vessels are under construction <sup>2</sup>
<b>Exxon Neftegas Limited / Sakhalin-1</b>	Construction of Aframax shuttle tankers	2	The vessels are under construction
<b>PAO NK Rosneft</b>	Construction of dual-fuel Aframax tankers	2	The vessels are under construction <sup>3</sup>
<b>PAO NOVATEK / Arctic LNG 2</b>	Construction of Yamalmax Arctic LNG carriers	15	The vessels are under construction <sup>4</sup>
<b>Shell</b>	Construction of Atlanticmax LNG carriers	2	One vessel has been put into service, the second one is under construction <sup>5</sup>
<b>Total</b>	Construction of an Atlanticmax LNG carrier	1	The vessel has been put into service <sup>6</sup>
<b>PAO NOVATEK / Arctic LNG 2</b>	Construction of Yamalmax Arctic LNG carriers	3	The vessels are under construction

**353**  
US\$ million

the volume of investment projects financing in 2020 (comparable to the 2019 level)

<sup>1</sup> These are the costs of vessel construction in progress as reported in the cash flow statement in the consolidated financial statements of PAO Sovcomflot prepared under IFRS.  
<sup>2</sup> 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.  
<sup>3</sup> 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.  
<sup>4</sup> One vessel is being built to order from SCF Group and 14 to order from SMART LNG, LLC, a joint venture between Sovcomflot Group and NOVATEK. The construction of these 15 vessels is financed with the participation of VEB.RF.  
<sup>5</sup> LNG carriers SCF Barents and SCF Timmerman were commissioned on 15 September 2020 and 15 January 2021, respectively.  
<sup>6</sup> The LNG carrier SCF La Perouse was accepted for operation on 10 February 2020.



## Implementation of investment projects - Key results

### Dual-fuel Aframax and MR tankers

Serial construction of «green» tankers was started at Russian shipbuilding facilities, at the Zvezda Shipbuilding Complex (Primorsky Krai, Russia), as part of cooperation between Rosneft and Sovcomflot. In 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 contracts. During 2020 the vessels were being built in accordance with the approved schedule. The steel cutting took place for both hulls and the keel of the first vessel scheduled to enter service in 2022 was laid.

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 in 2019. The tankers are designed to transport petroleum products and gas condensate and have been chartered to NOVATEK under long-term time charters. The vessels are also being built in accordance with the approved schedule, the steel cutting took place for all ordered vessels.

SCF Group was one of the first in the shipping industry to start operating large-capacity LNG-fuelled tankers. In 2018-2019, six Aframax crude oil tankers specially designed to use LNG as



the primary fuel were added to the SCF fleet. SCF's 'Green Funnel' tanker series 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 conventional fuel.

### Fifth-generation Atlanticmax LNG carriers

In 2020 the construction of two fifth-generation Atlanticmax LNG carriers was completed. The LNG carrier *SCF La Perouse* was put into operation on 10 February 2020 and commenced a long-term charter with Total. *SCF Barents* joined the fleet on 15 September 2020 and operates under an agreement with Shell.

Another vessel of this series, *SCF Timmerman*, was put into operation on 15 January 2021. Besides, a shipbuilding contract with the shipyard and a time charter with Total for the fourth vessel of the series were signed in January 2021. These contracts include options for one or two similar vessels. The ordered LNG carrier is scheduled to be delivered in 2023.

These LNG carriers with a capacity of 174,000 cubic metres are fitted with an upgraded Mark III Flex cargo containment system and dual-fuel diesel 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 maximally reduce cargo losses during long voyages and waiting time, giving vessels of this type a competitive advantage. The fourth carrier of the series will be also fitted with a hull air flow system, which in combination with two shaft power generators with frequency-to-current converters will deliver an even more significant decrease in fuel consumption.

### Yamalmax Arctic LNG carriers

In 2019 Sovcomflot Group and PAO NOVATEK set up a joint venture, SMART LNG, LLC (SMART LNG). This was a result of long-term cooperation started in 2010 when Sovcomflot proceeded to designing a logistic scheme for eastbound hydrocarbon shipments via the Northern Sea Route. Sovcomflot directly participated in developing the transport component of the successfully implemented Yamal LNG project, and today it operates the world's first Arctic LNG carrier, *Christophe de Margerie*.

The main task of the joint venture is to provide year-round LNG transportation from the Arctic LNG 2 and other current and prospective projects of NOVATEK.

The Arctic LNG 2 project involves the construction of 21 new-generation Arctic LNG carriers with ice class Arc7.



Shipbuilding contracts for 15 vessels for the Arctic LNG 2 project were concluded in 2019-2020. One of the vessels is being built to order from SCF Group and 14 to order from SMART LNG, LLC. The construction of these 15 vessels is financed with the participation of VEB.RF. Three similar vessels were ordered by SCF Group from a South Korean shipyard in 2020.

### Aframax shuttle tankers for the Sakhalin-1 project

In 2019 Sovcomflot Group entered into shipbuilding contracts for two Aframax shuttle tankers with ice class 1C and a deadweight of 105,000 tonnes each. The vessels are intended to operate under long-term charter contracts with Exxon Neftegas Limited, the operator of the Sakhalin-1 project (development of oil and gas reserves in the Sea of Okhotsk, on the north-eastern shelf of Sakhalin Island). The new vessels were ordered to renew the SCF Group fleet serving the De Kastri export terminal. They are scheduled to be put into service in 2022.



## Implementation of the shipbuilding programme

In 2020 Sovcomflot Group's shipbuilding programme included 28 vessels of five different types, including vessels intended for the Sakhalin-1 and Arctic LNG 2 projects.

During the reporting period Sovcomflot Group put into service two new vessels, fifth-generation Atlanticmax LNG carriers, with a total deadweight of 186,000 tonnes.

### Shipbuilding portfolio of the Group as at 31 December 2020<sup>1</sup>

Item No.	Hull number	Type of vessel	Deadweight, tonnes	Ice class
1.	8008	Atlanticmax LNG carrier	93,000	–
2.	036	LNG-fuelled MR tanker	51,000	1B
3.	037	LNG-fuelled MR tanker	51,000	1B
4.	038	LNG-fuelled MR tanker	51,000	1B
5.	041	Yamalmax Arctic LNG carrier	98,500	Arc7
6.	042	Yamalmax Arctic LNG carrier	98,500	Arc7
7.	043	Yamalmax Arctic LNG carrier	98,500	Arc7
8.	044	Yamalmax Arctic LNG carrier	98,500	Arc7
9.	045	Yamalmax Arctic LNG carrier	98,500	Arc7
10.	046	Yamalmax Arctic LNG carrier	98,500	Arc7
11.	047	Yamalmax Arctic LNG carrier	98,500	Arc7
12.	048	Yamalmax Arctic LNG carrier	98,500	Arc7
13.	049	Yamalmax Arctic LNG carrier	98,500	Arc7
14.	050	Yamalmax Arctic LNG carrier	98,500	Arc7
15.	051	Yamalmax Arctic LNG carrier	98,500	Arc7
16.	052	Yamalmax Arctic LNG carrier	98,500	Arc7
17.	053	Yamalmax Arctic LNG carrier	98,500	Arc7
18.	054	Yamalmax Arctic LNG carrier	98,500	Arc7
19.	055	Yamalmax Arctic LNG carrier	98,500	Arc7
20.	131110	LNG-fuelled Aframax tanker	114,000	1B
21.	131120	LNG-fuelled Aframax tanker	114,000	1B
22.	2367	Aframax shuttle tanker	105,000	1C
23.	2368	Aframax shuttle tanker	105,000	1C
24.	2514	Yamalmax Arctic LNG carrier	97,700	Arc7
25.	2515	Yamalmax Arctic LNG carrier	97,700	Arc7
26.	2516	Yamalmax Arctic LNG carrier	97,700	Arc7

# 26

vessels

with a total deadweight of

# 2,455,000

tonnes  
Sovcomflot Group's order portfolio as at 31 December 2020

## Innovative activities and R&D

### Areas of innovative activities

Sovcomflot is a world leader in developing and implementing innovations in the field of maritime transport. The Group 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 Innovative 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 2011.

Sovcomflot is developing its own engineering school. SCF's engineering, operations and training centres have been integrated at the St. Petersburg headquarter, creating a unique blend of knowledge and practical experience accumulated by the company and giving an additional impulse to the development of unique industrial projects with an ice component.

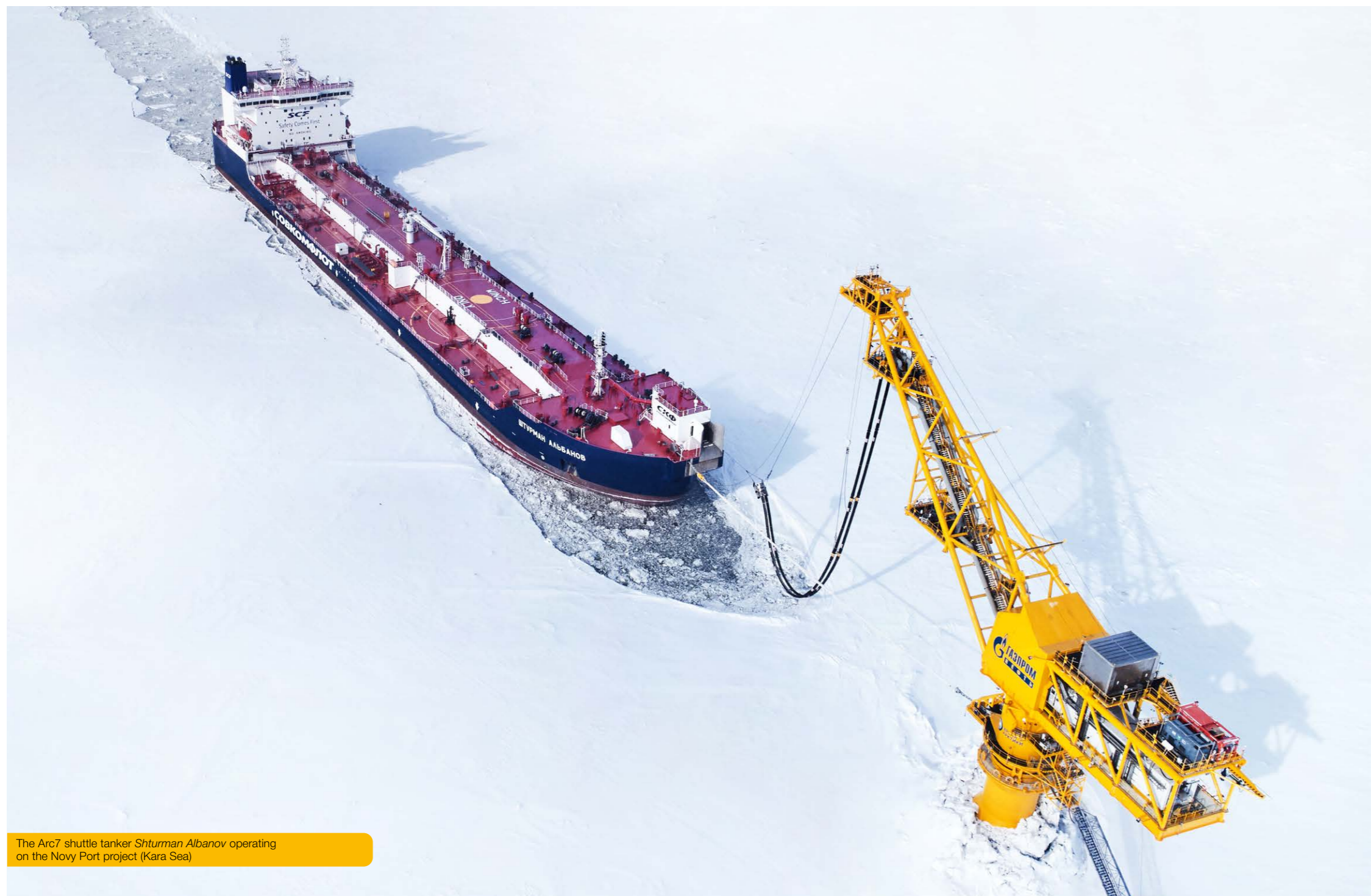
The main areas of innovative activities and scientific, R&D and technological projects of Sovcomflot Group in 2020 were as follows:

- Exploring opportunities for improving energy efficiency and reducing carbon, sulphur and nitrogen oxides emissions:
  - using a boil-off gas reliquefaction system to return boil-off gas to the cargo tanks or use it as a fuel for the ship power plant on gas carriers (implemented as part of the construction of *SCF La Perouse*-class vessels);
  - using a hull air bubble lubrication system to reduce the resistance and increase the speed of the ship for *SCF La Perouse*-class LNG carriers (implemented as part of the construction of the fourth vessel of the series);
  - installing direct-drive permanent magnet shaft generators (the generator rotor
- Working on projects for new types of LNG-fuelled vessels - Aframax and VLCC tankers, bulk and dry-cargo carriers.
- Preliminary assessment of prospects for using alternative low-carbon and zero-carbon fuels on vessels ordered by the Group.
- Preliminary working-through of innovative technical solutions from the viewpoint of prospects for using them on the company's vessels (for example, stabilisers of different types).
- Participating in the development of automated and remote control technologies for large-capacity commercial vessels, which involves creating and validating technical tools and drafting requirements to be incorporated into Russian and international legal and technical regulations that create conditions for operating unmanned vessels. In 2020 SCF Group masters participated as part of an expert council in preparations for the first stage of pilot operation, which includes the testing of the basic automated and remote control algorithms on shore test-bed based on the array of data received from vessels.
- Participation of SCF Group employees in research, conducting calculations and experiments to select optimal parameters for ship power plants in terms of compliance with conventional requirements.
- In the reporting period specialists of the SCF training centre in St. Petersburg participated in the modelling of vessel marine operations in the port water area and on the approaches to the port to determine critical hydrometeorological conditions in the area of marine transshipment centres in the Murmansk Region (Kildin Strait, Gulf of Ura) and to identify opportunities and conditions (constraints) for the safe manoeuvring of vessels in the transshipment centre water area in the Kamchatka Krai.
- Employees from the SCF training centre continued to take part in the research work on the development of regulations for bunkering ships with LNG, which involves the development of national level standards

is integrated in the shaft line) to reduce fuel consumption for power generation for LNG carriers (implemented as part of the construction of the fourth *SCF La Perouse*-class vessel);

- fitting rotor sails to LNG-fuelled Aframax vessels (the solution has not been implemented at this stage, has been preliminarily worked through and is being considered in the context of future projects).

<sup>1</sup> The vessels with hull numbers 036, 037, 038, 131110 and 131120 were ordered by VEB Leasing Group and are to be subsequently transferred to SCF Group for operation after completion of construction. The vessel with hull number 041 is being built to order from SCF Group, the vessels with hull numbers 042-055 are being built to order from SMART LNG, LLC, a joint venture between Sovcomflot Group and NOVATEK. The construction of these 15 vessels is financed with the participation of VEB.RF.



The Arc7 shuttle tanker *Shturman Albanov* operating on the Novy Port project (Kara Sea)

that set uniform requirements for all participants in the open market for LNG bunkering services.

9. During 2020 the SCF training centre developed and introduced a set of tasks for the software system designed to test the knowledge of vessel crew members on LNG bunkering in accordance with requirements of the Seafarers Training, Certification, and Watchkeeping Code (the STCW Code), as well as a new cybersecurity training programme.

Sovcomflot stimulates professional development among its staff and encourages employees to pursue additional education in order to gain in-depth knowledge of modern technologies in fleet management. SCF's engineering staff have very high scientific capabilities: currently, 15 seafarers, who have 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.

#### SCF operational centre for vessel tracking

The operational centre for real-time vessel tracking, which was opened at the Sovcomflot headquarters in St. Petersburg in 2018, was actively developing during 2020. The first steps were made to integrate SCF and Atomflot operational centres, Gazprom Neft analytical centre and the Arctic and Antarctic Research Institute. The project partners began to receive data on ice conditions from Ice Observer, a mobile application which is part of the

Ice Portal, as well as vessels' movement parameters and photos of ice conditions from vessel cameras.

The main challenge in 2020 was preparing and providing information support for three experimental transit voyages of the LNG carrier *Christophe de Margerie* along the Northern Sea Route. This task was successfully accomplished through many years of work on analysing ice conditions and accumulating the experience gained by SCF crews in the Arctic and the satellite data analysis methodologies developed over the years. All this knowledge was applied in the Ice Portal developed through joint efforts of SCF and Scanex.

The centre's equipment allows for the following tasks to be performed:

- controlling and analysing navigation safety data;
- optimising ship routes taking into account ice conditions, 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);
- special Arctic navigation control capabilities: analysis of ice conditions and movements of ships, identification of dangerous ice formations and areas with complex 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

- The LNG carrier *Christophe de Margerie* became the first ever large-capacity cargo vessel to complete an eastward passage through the Northern Sea Route (NSR) in May 2020, two months earlier than when summer navigation in the eastern part of the Russian Arctic traditionally commences. Thus, the NSR transit window has been significantly extended, as navigation in this part of the NSR commences traditionally only in July. The voyage took 21 days, the travelled distance was 6,047 nautical miles, average speed was 11.7 knots. During the voyage a massive dataset regarding ice conditions in the eastern part of the NSR was collected, which will be taken into account while planning the logistics of future Arctic projects and designing next generations of Arctic vessels, including icebreakers and high ice-class vessels.
- The accumulated experience in vessel operations in the extreme conditions of the Gulf of Ob and the Kara Sea in 2020 formed the basis for two new training manuals, which continued the series of books containing practical recommendations by SCF Group captains for steering vessels in ice conditions. Practical Recommendations

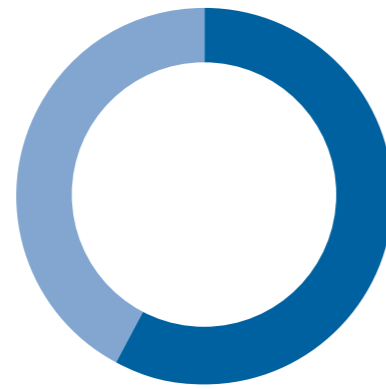
for Steering a Vessel with three Azipod Propulsion Units in Ice Conditions in Relation to the Yamal LNG Project were published. The training manual summarizes the experience in steering icebreaking vessels with a powerful power plant accumulated in the Yamal LNG project. Special attention was paid to navigation in the most difficult area - the outlet of the Ob River to the Kara Sea, where large-capacity vessels have to sail along the long and narrow Sea Channel in conditions of constant ice drift. The second training manual is a joint publication of SCF and Scanex dedicated to the analysis of ice conditions based on satellite data. Both manuals were distributed to the SCF fleet and cadets of Russian maritime universities with which Sovcomflot cooperates.

- The use of gas engine fuel (LNG) as the primary fuel for six green tankers of the *Gagarin Prospect* series made it possible to significantly reduce carbon dioxide emissions (by 33,257 tonnes or 19.5%) in 2020 compared to similar tankers running on diesel fuel.
- In 2020, Sovcomflot Group received the award for 'Shipping Company of the Year' at Seatrade Maritime Awards International. An independent jury, which included representatives of industry associations, financial and research institutions, and classification societies, paid particular attention to the SCF efforts to improve environmental safety and energy efficiency of the fleet, implement advanced technologies and engineering solutions, develop navigation in difficult climatic conditions, and ensure an uninterrupted operation of the company amid the pandemic.
- A credit facility agreement concluded by Sovcomflot with three international banks to refinance LNG tankers *Grand Aniva* and *Grand Elena*, which was one of the first in the shipping industry to incorporate the Poseidon Principles<sup>1</sup> (an international environmental initiative to reduce carbon footprint from ships), was named 'Project Financing Deal of the Year' by the jury at Marine Money Awards.

### Financing of innovative activities

The financing of R&D, engineering activities, professional training, retraining and skill improvement of PAO Sovcomflot personnel in 2020 amounted to US\$2.7 million.

#### Structure of R&D expenses, (%)



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

## Assessment of the innovative development performance

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

The integral key performance indicator of innovative development includes four elements:

- **The ratio of R&D financing to net revenue.** According to regulations and the specifics of the industry in which PAO Sovcomflot operates, R&D expenditure includes the cost of scientific and technical activities (including shipbuilding supervision costs) and the costs of personnel training, retraining and skill improvement.  
Target value: no less than 0.1%. (The target value was determined taking into account Letter No. 6657-EN/D17 from the Russian Ministry of Economic Development dated 26 April 2010, Ap-pendix 2 (the Industrial Transportation section) and the specifics of the industry in which PAO Sovcomflot operates).
- **The level of compliance with safety requirements of the Company's customers and international environmental legislation, an estimated coefficient (the less the better).**

The target is no higher than the industry average for each past year. Industry average is determined annually based on INTERTANKO<sup>1</sup> and OCIMF<sup>2</sup> reports or from other sources.

- **The level of operating expenses per vessel as a percentage of industry average (based on data from independent analytical sources).**

The target is less than 100%.

- **Increase in labour productivity of at least 5% annually, according to Russian Government Directives No. 12153p-P13 dated 25 December 2019.**

The target is no less than 5% annually. The calculation methodology was approved by Order No. 659 of the Russian Ministry of Economic Development dated 15 October 2019 «On Amending the Methodology for Calculating the Labor Productivity Indicators of an Enterprise, Industry, Subject of the Russian Federation, approved by Order of the Ministry of Economic Development of Russia No. 748 dated December 28, 2018».

# 166.66 %

the value of the integral performance indicator of innovative development of PAO Sovcomflot in 2020

<sup>1</sup> INTERTANKO stands for International Association of Independent Tanker Owners.  
<sup>2</sup> OCIMF stands for Oil Companies International Marine Forum.



The crew of the multifunctional icebreaking vessel Fedor Ushakov

<sup>1</sup> For more detailed information about the Poseidon Principles, see the Sustainable development section of this Annual Report

# Financial results

## Key financial results for 2020



### TIME CHARTER EQUIVALENT REVENUES

SCF Group's time-charter equivalent (TCE) revenue for 2020 rose by 6.7 per cent year-on-year to

**1,350.6**  
US\$ million

- Industrial business segments contributed US\$681.1 million to 12M 2020 TCE revenue (6.6% up from 2019). The key factor for the growth in TCE revenue in industrial segments was the commissioning of two new LNG carriers chartered out under long-term contracts with international oil and gas companies Total and Shell in February and September 2020, respectively.
- 2020 TCE revenue in conventional segments increased by 9.9% compared to 2019 and amounted to US\$626.4 million<sup>1</sup>. The increase in revenue was primarily due to the positive dynamics of freight rates in the first half of 2020.



### CONTRACT BACKLOG

As at 31 December 2020, the contract backlog stood at about

**24**  
US\$ billion

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



### EBITDA

EBITDA was up 9.8% compared to 2019 and amounted to

**903.4**  
US\$ million

EBITDA<sup>2</sup> margin improved by 1.9 bps to

**66.9 %**

due to an increase in the profitability of the conventional segment.



### PROFIT

Net profit increased by 18.4% compared to 2019 and amounted to

**266.9**  
US\$ million

Net profit margin increased by 2.6 bps year-on-year to

**16.1 %**



### NET CASH FLOWS FROM OPERATING ACTIVITIES

Net cash flow from operating activities increased by 16.8% to

**927.4** US\$ million

as a result of a rise in revenues.

In October 2020, PAO Sovcomflot conducted an initial public offering on the Moscow Ex-change. The total net proceeds of the IPO, after expenses and stabilisation-related buy-back, were

**37.4** RUB billion

(equivalent to US\$480.8 million as of the date of issue).

As of 31 December 2020, net debt stood at

**2,392.0** US\$ million

as compared to US\$3,082.3 million as of 31 December 2019. The decrease in net debt was due to a partial repayment of debt, including through funds raised during the initial public offering. The net debt to EBITDA ratio decreased to 2.6.

<sup>1</sup> Conventional segments include transportation of crude oil and oil products  
<sup>2</sup> The figure indicated in this report refers to adjusted EBITDA – see the definition in the glossary.

# Income statement

## Key income statement indicators, (US\$ million)

Indicator	2020	2019	Change, %
Revenue	1,652.5	1,665.2	-0.8
<b>TCE revenue</b>	<b>1,350.6</b>	<b>1,265.5</b>	<b>6.7</b>
Operating expenses	-366.9	-356.3	3.0
Earnings from vessels' trading	983.7	909.2	8.2
Net other operating income <sup>3</sup>	9.2	25.2	-63.4
Depreciation, amortisation and impairment	-421.3	-411.8	2.3
General and administrative expenses	-90.7	-108.0	-16.0
<b>EBITDA</b>	<b>903.4</b>	<b>823.0</b>	<b>9.8</b>
EBITDA margin, %	66.9	65.0	1.9
<b>Operating profit</b>	<b>491.4</b>	<b>436.4</b>	<b>12.6</b>
Operating margin, %	29.7	26.2	3.5
Financing costs	-190.5	-206.2	-7.6
Profit before tax	295.5	254.4	16.1
Profit tax	-28.6	-29.0	-1.4
<b>Net profit for the period</b>	<b>266.9</b>	<b>225.4</b>	<b>18.4</b>
Net margin, %	16.1	13.5	2.6

The positive situation in the tanker market in the first half of 2020 and the growing industrial portfolio had a positive impact on the Group's operating results in 2020. In the reporting year SCF Group continued to implement consistently its industrial development strategy aimed at expanding the offshore and gas business segments.

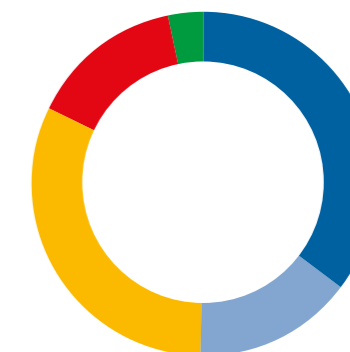
TCE revenue in industrial segments (liquefied gas transportation and the servicing of offshore projects) for 2020 was US\$681.1 million, making it possible to increase the total TCE revenue by 6.6% compared to the previous year. The share of TCE revenue from industrial segments in 2020 reached 50% of the total TCE revenue. The key factor for the growth in revenue in industrial segments was the commissioning of two new LNG carriers chartered out under long-term contracts with international oil and gas companies Total and Shell in February and September 2020, respectively.

2020 TCE revenue in conventional segments increased by 9.9% compared to 2019 and amounted to US\$626.4 million<sup>1</sup>. The increase in revenue was primarily due to the positive dynamics of freight rates in the first half of 2020. Beginning in the third quarter of 2020, there was a market correction due to seasonal factors and a decline in the demand for crude oil and oil products amid the COVID-19 pandemic. Despite market volatility, the Company continued to implement a balanced chartering policy that allowed it to maintain the stability of financial performance.

**1,350.6**  
US\$ million

TCE revenue for 2020 (6.7 % higher than in 2019)

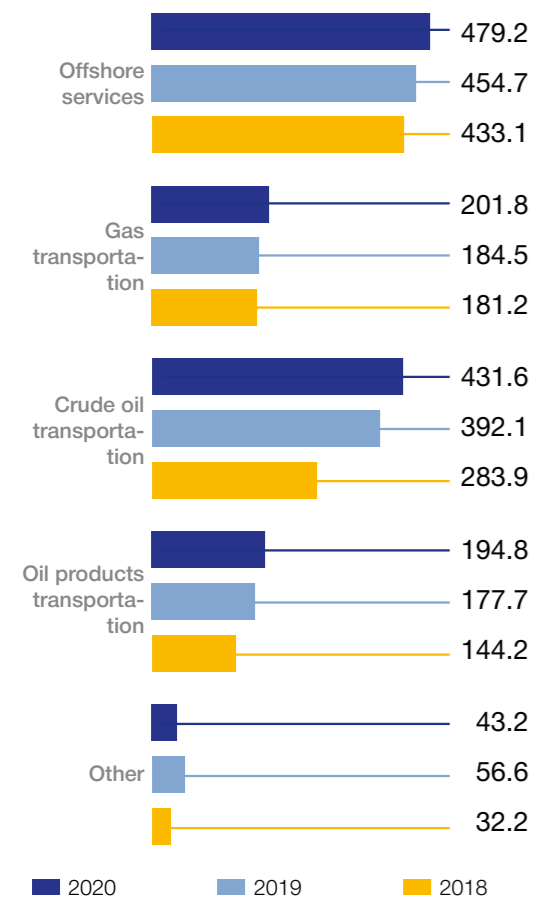
## Structure of TCE revenue by business segments, (%)



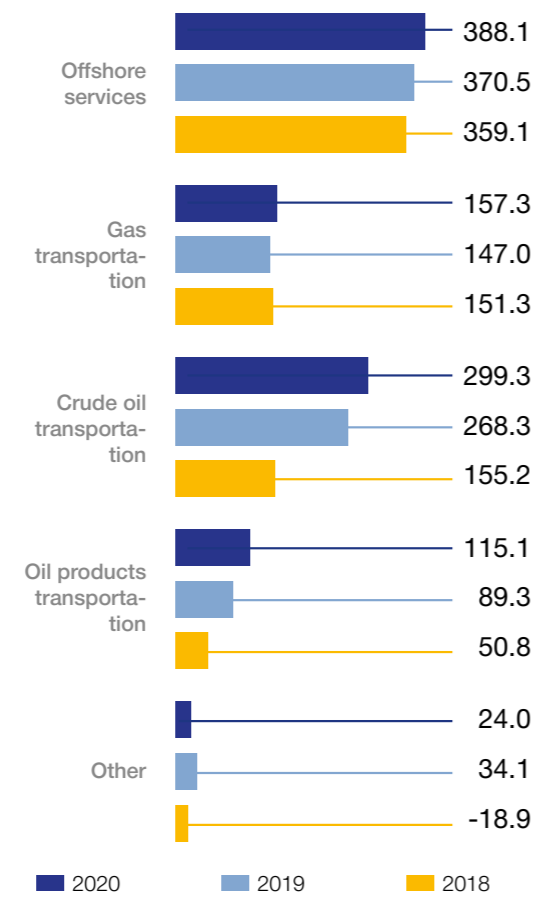
35.5 ■ Offshore services  
14.9 ■ Gas transportation  
32.0 ■ Crude oil transportation  
14.4 ■ Oil products transportation  
3.2 ■ Other

<sup>1</sup> Conventional segments include transportation of crude oil and oil products.

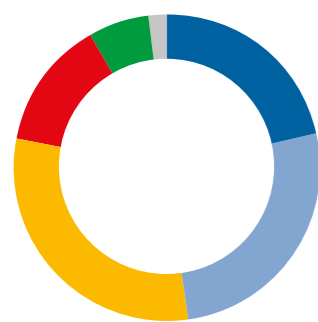
### Dynamics of revenue on a TCE basis by business segments for 2018-2020, (US\$ million)<sup>1</sup>



### Dynamics of profit from vessels operation by business segments for 2018-2020, (US\$ million)<sup>2</sup>



### Structure of the main expense items, (%)



21.6	Voyage expenses and commissions
26.3	Operating expenses
30.2	Depreciation, amortisation and impairment
13.6	Financing costs
6.5	General and administrative expenses
1.8	Other

The 24.5% reduction in voyage costs and commissions<sup>3</sup> (to US\$301.9 million) in 2020

was due to a decline in bunker prices. In 2020 the level of operating costs increased by 3.0% to US\$366.9 million, in particular due to the commissioning of new vessels.

General and administrative expenses decreased by 16% to US\$90.7 million in 2020 as a result of the work done to optimize this cost item, as well as the weakening of the rouble against the US dollar during 2020.

EBITDA was up 9.8% year-on-year to US\$903.4 million. EBITDA margin improved by 1.9 bps to 66.9% due to the growth of conventional segment profitability.

Financial costs decreased by 7.6% compared to 2019 and amounted to US\$190.5 million. A decrease in the debt level and interest rates led to a reduction in this cost line.

Sovcomflot Group reported a net profit of US\$266.9 million for 2020, representing an 18.4% growth year-on-year.

**903.4**  
US\$ million

EBITDA for 2020 (9.8% higher than in 2019 and a record high in SCF history)

## Consolidated statement of financial position

### Key figures from the consolidated statement of financial position as at 31 December 2020, (US\$ million)

Indicator	2020	2019	Change, %
Non-current assets	6,684.5	6,636.2	0.7
Inventory	44.2	53.7	-17.7
Cash and cash equivalents and bank deposits	867.7	401.7	116.0
Other current assets	146.7	244.3	-40.0
<b>Assets</b>	<b>7,743.1</b>	<b>7,335.9</b>	<b>5.6</b>
Equity	4,098.4	3,504.6	16.9
Long-term borrowings	2,944.9	3,057.0	-3.7
Other long-term liabilities	101.6	104.8	-3.0
Short-term trade and other accounts payable	185.5	161.9	14.6
Short-term borrowings	285.7	382.3	-25.3
Other short-term liabilities	127.0	125.4	1.3
<b>Total equity and liabilities</b>	<b>7,743.1</b>	<b>7,335.9</b>	<b>5.6</b>

Total assets of the Group amounted to US\$7,743.1 million as at 31 December 2020, up 5.6% year-on-year. Shareholders' equity increased by 16.9% to US\$4,098.4 million. The book value of non-current assets increased by 0.7% from US\$6,636.3 million at the end of 2019 to US\$6,684.5 million at the end of the reporting period.

Despite the volatility in financial markets due to the unstable situation in the world amid the COVID-19 pandemic, the Group retained access to both foreign and Russian debt capital and equity markets.

In October 2020, PAO Sovcomflot conducted an initial public offering on the Moscow Exchange. The offering included 408,296,691 newly issued ordinary shares at a price of RUB 105 per share. The total net proceeds of the IPO, after expenses and stabilisation-related buy-back, were RUB 37.4 billion (equivalent to US\$480.8 million as of the date of issue). The free float of SCF shares amounts to 15.6% and the Russian Federation retains an 82.8%<sup>1</sup> stake. The proceeds of the IPO are being utilised for investments in new assets, with a focus on industrial projects, decarbonisation and further deleveraging.

In 2020 the Group entered into three new credit facility agreements for a total amount of US\$289 million, the proceeds from which were used to refinance existing loans. 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.

**7,743.1**  
US\$ million

the amount of the SCF Group's assets at the end of 2020

**480.8**  
US\$ million

the amount of funds raised from the placement of PAO Sovcomflot ordinary shares on the Moscow Exchange

<sup>1</sup> Breakdown into segments is made in accordance with IFRS reporting.  
<sup>2</sup> Breakdown into segments is made in accordance with IFRS reporting.  
<sup>3</sup> TCE revenue is determined as the difference between revenue and voyage costs and commissions.

<sup>1</sup> The data is up-to-date at the date of publication of this report.

## Debt structure and leverage as at 31 December 2020, (US\$ million)

Secured loans and lease liabilities	2020	2019	Change, %
Eurobonds and other loans	2,373.0	2,599.1	-8.7
Cash and bank deposits, including restricted deposits	899.2	900.4	-0.1
Net debt	880.2	417.2	111.0
<b>Net debt</b>	<b>2,392.0</b>	<b>3,082.3</b>	<b>-22.4</b>
<b>Net debt/EBITDA ratio</b>	<b>2.6</b>	<b>3.7</b>	<b>-</b>

SCF Group carefully monitors capital structure and works on its optimisation. Sovcomflot Group's leverage (net debt to adjusted equity ratio<sup>1</sup>) at the end of 2020 was 41.9%, net debt to EBITDA ratio was 2.6.

Moody's Investors Service affirmed Sovcomflot credit rating at Ba1 with a stable outlook. S&P Global Ratings affirmed the existing credit rating of the Company at BB+ and changed the outlook to «positive». Fitch Ratings kept SCF's credit rating at BB+ with a stable outlook.

During 2020 Sovcomflot Group continued to work with international rating agencies

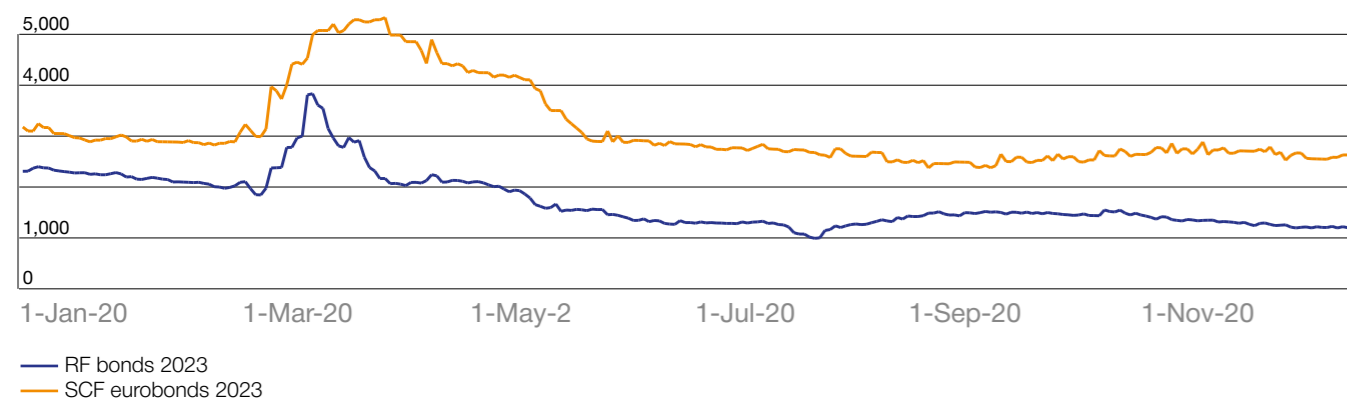
## Sovcomflot's credit ratings as at 31 December 2020

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

Amid the positive debt capital market dynamics for issuers at the end of the reporting period SCF Group's Eurobonds traded at a premium to par

value and had a yield to maturity in 2023 of 2.6% with an average yield for the year of 3.1%.

## Yield to maturity of Sovcomflot Group and Russian Federation bonds, (%)



Source: Refinitiv

<sup>1</sup> Adjusted net debt ratio is calculated as the ratio of net debt to net debt plus equity, adjusted for the market value of vessels.

## Consolidated statement of cash flows

### Key figures from the consolidated statement of cash flows for 2020, (US\$ million)

Indicator	2020	2019	Change, %
<b>Net cash flows from operating activities</b>	<b>927.4</b>	<b>793.9</b>	<b>16.8</b>
Capital expenditures and construction in progress costs	-439.4	-423.8	3.7
<b>Net cash flows used in investment activities</b>	<b>-377.4</b>	<b>-406.4</b>	<b>-7.1</b>
Proceeds from/repayment of borrowings	-241.3	-32.1	652.2
Funds raised from the IPO <sup>1</sup>	480.8	-	-
Interest paid on borrowings	-175.9	-190.1	-7.5
Dividends	-102.7	-24.7	316.2
<b>Net cash flows used in financing activities</b>	<b>-57.3</b>	<b>-290.6</b>	<b>-80.3</b>
Increase in cash and cash equivalents	492.7	96.9	408.6

The Group has a strong liquidity cushion, which represents a significant positive factor for maintaining the company's creditworthiness and financial stability. At the end of 2020, cash balances in bank accounts and their equivalents totalled US\$880.2 million. The Group also had unused revolving credit facilities of US\$79.9 million and available special-purpose credit facilities for new builds of US\$104.8 million. Thus, the Company's current liquidity as at 31 December 2020 totalled US\$1,064.9 million. The Company's liquidity at the end of 2020 fully covered the current investment commitments under the existing shipbuilding programme for 2021 amounting to US\$240 million and for 2022 amounting to US\$270 million.

The Group maintains a stable programme of capital investments during all phases of the shipping cycle. Investments in construction and capital expenditures on modernisation and repair of the fleet in 2020 amounted to US\$442.5 million (2019: US\$427.5 million) with the amount payable under current shipbuilding contracts in 2021-2025 at the end of 2020 being US\$1,033 million. Additionally, shipbuilding contracts for US\$687 million will be financed through finance leasing.

During the reporting period SMART LNG, a joint venture between Sovcomflot Group and NO-VATEK, entered into lease agreements for 14 ice-class LNG carriers designed to serve the Arctic LNG 2 project for US\$2,310 million. The vessels are scheduled to be delivered between 2023 and 2025. The relevant time charter contract backlog for an initial term of 30 years with charter-er's extension options were signed. The total amount of future contracted revenue attributable to SCF Group under the mentioned 14 time charter contracts is about US\$10 billion.

<sup>1</sup> Proceeds from the share issue net of expenses incurred to repurchase own shares and transaction costs related to the issue of shares and repurchase of own shares.

# 03

## Share capital and profit distribution



«October 2020 marked an important milestone in SCF history as the Company accessed public equity capital markets and raised over US\$ 500 million in a landmark IPO with its shares now listed on the Moscow Exchange. The recapitalization resulted in a strengthening of the balance sheet and the financial position of the Group, with net debt to EBITDA ratio falling to 2.6 times. The Company has sufficient investment capacity to undertake large scale projects and to pursue further growth in its core strategic segments of liquefied gas transportation and the servicing of offshore projects.»

**Nikolay Kolesnikov,**  
Executive Vice-President and CFO of PAO  
Sovcomflot



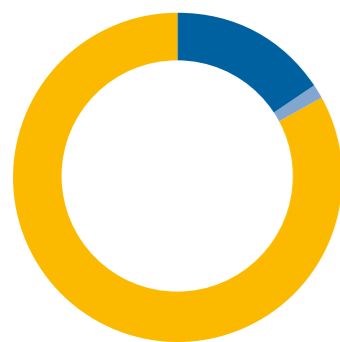
The multifunctional icebreaking vessel *Yevgeny Primakov* (ice class: Icebreaker ICE-15) operating on the Sakhalin 2 project



## Structure of the share capital

In 2020 the authorised capital of PAO Sovcomflot increased and as at 31 December 2020 amounted RUB 2,374,993,901 and consisted of 2,374,993,901 ordinary registered shares with a nominal value of RUB 1 each.

### Structure of the share capital of PAO Sovcomflot, (%)



15,6 ■ Floating shares  
1,6 ■ Quasi-treasury shares  
82,8 ■ Shares in federal ownership

### Implementation of the plan to privatize 25 percent minus 1 share in Sovcomflot approved by the Government of the Russian Federation

In 2020 the forecast plan for the privatization of federal property and the main areas of federal property privatization for 2020-2022, approved by Russian Government Order No. 3260-r dated 31 December 2019, was partially implemented in relation to PAO Sovcomflot. The document provides for the reduction of the government's stake in Sovcomflot planned earlier<sup>1</sup>.

The following measures were carried out to implement the plan.

In pursuance of the resolution of an extraordinary general meeting of shareholders (Instructions No. 95-r of the Federal Agency for State Property Management dated 1 March 2018) to increase the authorised capital by placing 280,956,743 additional ordinary registered shares, 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).

The decision on the additional issue of ordinary registered shares of PAO Sovcomflot and the securities prospectus for these shares were amended according to the decision made by the PAO Sovcomflot Board of Directors on 12 November 2019 (Minutes No. 186 dated 13 November 2019). The securities placement period was extended by one year. The amendments were registered by the Bank of Russia on 30 December 2019.

By a resolution of an extraordinary general meeting of shareholders (Instructions No. 70-r of the Federal Agency for State Property Management dated 13 February 2010) the Charter of PAO Sovcomflot was amended to increase the number of authorised shares to 655,565,735 as part of implementing the forecast plan for the privatization of federal property for 2020-2022 approved by Russian Government Order No. 3260-r dated 31 December 2019. The amendments to the Company's Charter were registered on 26 February 2020.

On 22 June 2020 the PAO Sovcomflot Board of Directors adopted a decision to make amendments to the decision on an additional issue of PAO Sovcomflot securities and the securities prospectus, including as regards the increase in the number of the Company's shares to be placed to 655,565,735.

The sole shareholder of PAO Sovcomflot represented by the Federal Agency for State Property Management adopted a decision to approve a major interested-party

In October 2020, Sovcomflot conducted an initial public offering of **408,296,691** newly issued ordinary shares at a price of RUB 105 per ordinary share and listed them on the Moscow Exchange

transaction consisting of a series of related transactions involving the initial public offering of PAO Sovcomflot shares by Order No. 367-r dated 10 September 2020.

On 14 September 2020 the PAO Sovcomflot Board of Directors made a decision to file an application for the listing of the Company's ordinary shares to Public Joint-Stock Company Moscow Exchange (MICEX-RTS).

On 6 October 2020 the PAO Sovcomflot Board of Directors made a decision to set the placement price for ordinary shares (registration number of the additional issue: No. 1-01-10613-A dated 22 November 2018) at RUB105 for each additionally placed ordinary share of PAO Sovcomflot.

PAO Sovcomflot conducted an initial public offering of 408,296,691 shares in accordance with the above corporate resolutions on 7 October 2020.

The notice on the results of an additional issue of PAO Sovcomflot securities was approved by the Company's CEO on 21 October 2020 and was submitted to the Bank of Russia on 22 October 2020.

Amendments to the Charter of PAO Sovcomflot regarding the amount of the Company's authorised capital after the initial public offering of shares were registered by a tax authority on 25 November 2020. The Charter also provides that the Company is entitled to place 247,269,044 shares with a nominal value of RUB 1 each (authorised shares) in addition to the placed ordinary registered uncertified shares.

## 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 2019 net profit<sup>1</sup>

Area	Amount, RUB million	Comment
Amount of dividends transferred to the federal budget	7,181	Paid from the 2019 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	24	Recapitalization of a subsidiary to finance the construction of an LNG carrier (hull 8008)

A resolution regarding the allocation of the financial result for the reporting year, including the dividend payment for 2020, will be adopted at the Annual General Meeting of Shareholders in 2021.

<sup>1</sup> In accordance with the forecast plan (programme) for the privatization of federal property and the main areas of federal property privatization for 2017-2019 approved by Russian Government Order No. 227-r dated 8 February 2017.

<sup>1</sup> Pursuant to the current Regulations on the Dividend Policy of PAO Sovcomflot, the source of dividend payments is the Company's net profit based on the audited accounting (financial) statements of the Company prepared in accordance with Russian statutory requirements.

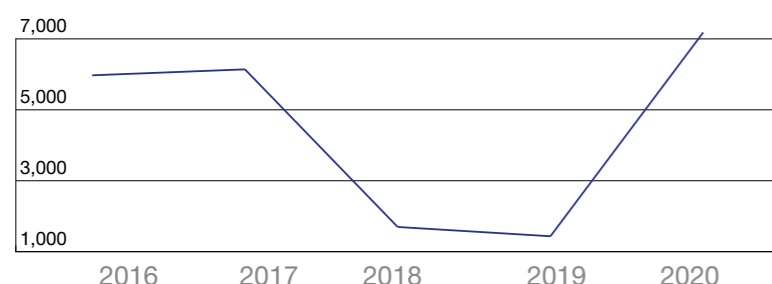
## Dividend policy

The dividend policy is based on maintaining an optimal balance of interests between PAO Sovcomflot and its shareholders when distributing net profit, and on the need to increase the investment appeal of the Company and its capitalisation.

On 7 April 2020 the PAO Sovcomflot Board of Directors made a decision<sup>1,2</sup> to amend the Regulations on the Company's Dividend Policy approved on 14 December 2012<sup>3,4</sup>.

The Company's dividend policy provides that the amount of dividends shall be no less than 25 percent of the Company's net profit attributable to the owners of PAO Sovcomflot according to the audited consolidated financial statements prepared under International Financial Reporting Standards (IFRS) in accordance with the requirements of legislation of the Russian Federation, unless otherwise stipulated by acts issued by the Government of the Russian Federation.

### Dynamics of dividend payments to the Russian Federation, 2016–2020, (RUB million)



**7,181 RUB million**  
the amount of dividends for 2019 paid by PAO Sovcomflot in 2020

On 22 June 2020 the Board of Directors recommended that the General Meeting of Shareholders allocate RUB 7,181 million in dividend payments, based on the 2019 results. This amount of dividends represented 50% of the profit based on the annual consolidated financial statements of PAO Sovcomflot for 2019 prepared under IFRS attributable to the owners of PAO Sovcomflot or 99.7% of the profit according to the accounting (financial) statements of PAO Sovcomflot under RAS.

### Amount of annual dividends paid per PAO Sovcomflot share, (RUB)

Reporting period	Date of the general meeting of shareholders at which the resolution on dividend payment was adopted	Total amount of dividends (RUB)	Amount of dividends per share (RUB)
2015	30/06/2016	5,972,697,977.80	3.04
2016	16/06/2017	6,141,000,000.00	3.12
2017	29/06/2018	1,696,000,000.00	0.86
2018	26/06/2019	1,434,795,000.00	0.73
2019	04/08/2020	7,181,000,000.00	3.65

On 4 August 2020 the Annual General Meeting of Shareholders of PAO Sovcomflot adopted a resolution on the payment of dividends in accordance with recommendations from the Board of Directors. The amount of dividends was transferred in full by PAO Sovcomflot on 17 August 2020. Dividends based on the operating results for 2019 were

paid in 2020 in full and by the deadlines set by Russian legislation. As at 31 December 2020 PAO Sovcomflot had no outstanding dividend payments.

<sup>1</sup>. Minutes of the Board of Directors No. 192 dated 8 April 2020.

<sup>2</sup>. Minutes of the Board of Directors No. 125 dated 14 December 2012.

<sup>3</sup>. Minutes of the Board of Directors No. 195 dated 23 June 2020.

<sup>4</sup>. Order No. 297-r of the Federal Agency for State Property Management dated 4 August 2020.

Considering the financial result according to the consolidated financial statements of PAO Sovcomflot and its subsidiaries for 2020 prepared in accordance with IFRS, the Board of Directors at its meeting held on 14 April 2021 decided to recommend that the Annual General Meeting of Shareholders of PAO Sovcomflot allocate RUB 15,841 million, representing 84% of the consolidated profit attributable to the owners

of PAO Sovcomflot according to the IFRS financial statements prepared in accordance with the requirements of Federal Law No. 208-FZ «On Consolidated Financial Statements» dated 27 July 2010, to payment of dividends.

**15,841  
RUB million**

the amount of dividends for 2020 recommended by the PAO Sovcomflot Board of Directors for the Annual General Meeting of Shareholders in 2021

## Interaction with investors

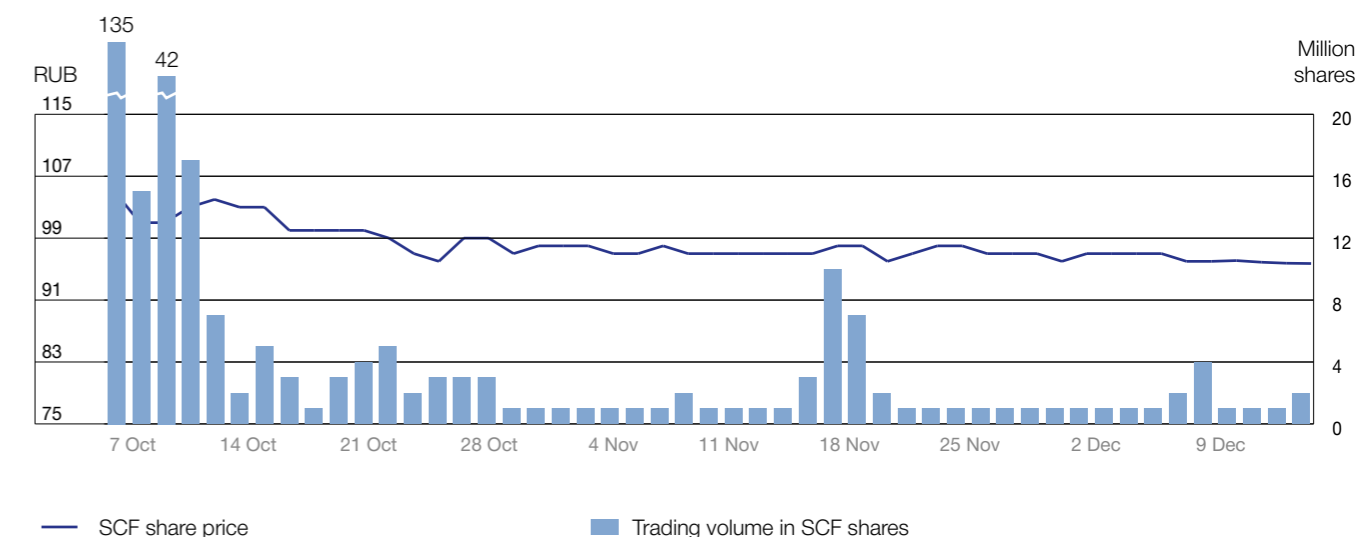
PAO Sovcomflot shares represent a vehicle for investment in predictable and growing long-term infrastructure projects. The free float amounts to 15.6% of the outstanding shares listed on the Moscow Exchange. The Company has a diversified investor base, which includes both international and local funds, as well as private individuals.

PAO Sovcomflot is committed to regular interaction with existing and potential investors. In 2020 the Company established an Investor Relations Department responsible for maintaining regular and open communication with the market. This interaction carried out with the participation of top management of PAO Sovcomflot includes group and individual calls with investors, meetings, and participation in specialised conferences. Such meetings allow investors, analysts and representatives of international rating agencies to receive information on the vector of the Company's strategic development, its operating activities and management of financial resources directly from company management.

The website of PAO Sovcomflot has a dedicated [section for investors and shareholders](#) containing press releases, presentations, reports and regular disclosures, as well as contact details of analysts and an investor calendar.

Analytical coverage of the Company is currently provided by 6 investment banks. PAO Sovcomflot interacts with analysts from investment banks on a regular basis. As of the date on which this report was preliminarily approved, all investment banks hold on to a «buy» recommendation for the PAO Sovcomflot shares.

### PAO Sovcomflot share price and trading volume during the period from October to December 2020



## Corporate governance



«The high development level of the corporate governance system at PAO Sovcomflot facilitates improvements in investment attractiveness and an increase in operational efficiency. PAO Sovcomflot's entry into public capital markets made the development of corporate governance practices a priority task.»

**Alexey Ostapenko**  
Vice President and Administrative Director  
of PAO Sovcomflot



The world's first icebreaking LNG carrier *Christophe de Margerie* (ice class: Arc 7) operating on the Yamal LNG project

# INITIAL PUBLIC OFFERING

On 7 October 2020, PAO Sovcomflot conducted an initial public offering of its shares on the Moscow Exchange (ticker: FLOT). The shares are included in the Level One list. 17.2% of the shares were placed in the IPO at a price of RUB 105 per ordinary share. The government retained an 82.8% stake in Sovcomflot after the IPO.

The IPO was preceded by a preparatory period which lasted for more than 10 years. Over this time, all necessary processes to ensure compliance with the listing rules of the Moscow Exchange were streamlined and the required corporate procedures were carried out:

- the internal documents regulating the activities of governing bodies were updated; the Company's Corporate Governance Code, Code of Corporate Ethics, Regulations on the Dividend Policy, and Regulations on Information Policy were approved; a feedback form was created on the Company's website;
- preparations for the listing were carried out together with the Moscow Exchange; observations and comments from the Exchange were taken into consideration. During the pre-listing procedure it was confirmed that the Company met the requirements set by the Exchange for issuers whose shares are included in the first quotation list;
- the requirement of at least three independent directors on the Company's Board of Directors has been met;
- the membership of the HR and Compensation Committee and the Audit Committee of the PAO Sovcomflot Board of Directors corresponds to the recommendations of the Bank of Russia Corporate Governance Code;
- the Board of Directors has appointed a Corporate Secretary of the Company and the head of the Internal Audit Department and has approved the internal documents regulating their activities;
- the information disclosure process meets the regulatory requirements;
- the mechanism for protecting insider information and preventing market manipulation meets the statutory and regulator's requirements.

Thanks to the conducted preparatory activities the Company achieved a high level of corporate governance, which enables it to ensure equal and fair treatment of all shareholders in the exercise of their right to participate in the company management.

As a result of the IPO, PAO Sovcomflot, which was previously wholly owned by the government, now has approximately

## 86 thousand

minority shareholders.



МОСКОВСКАЯ  
БИРЖА

"The emergence of a new issuer provides an opportunity for the Russian investors, which include almost seven million private individuals, to achieve a greater portfolio diversification. Retail investors accounted for 15% of the demand for Sovcomflot shares – a record for public offerings in Russia. This deal shows that capital markets are open to major Russian companies, and I wish our new issuer every success in its public journey."

**Oleg Viyugin**  
Chairman of the MOEX  
Supervisory Board

## Contribution to the development of corporate governance

Sergey Frank, Chairman of the Board of Directors of PAO Sovcomflot, was awarded the title of 'Director of the Year' at the XV national awards ceremony in the nomination "Chairman of the Board of Directors: Contribution to the development of corporate governance".

The 'Director of the Year' award was founded in 2006 by the Professional Directors Association and the Russian Union of Industrialists and Entrepreneurs in partnership with PwC, Moscow Exchange and Sberbank of Russia. The Expert Award Council includes representatives of industry regulators, business and investment community, government authorities, experts adhering to the principles and values of corporate governance, as well as the award winners of previous years



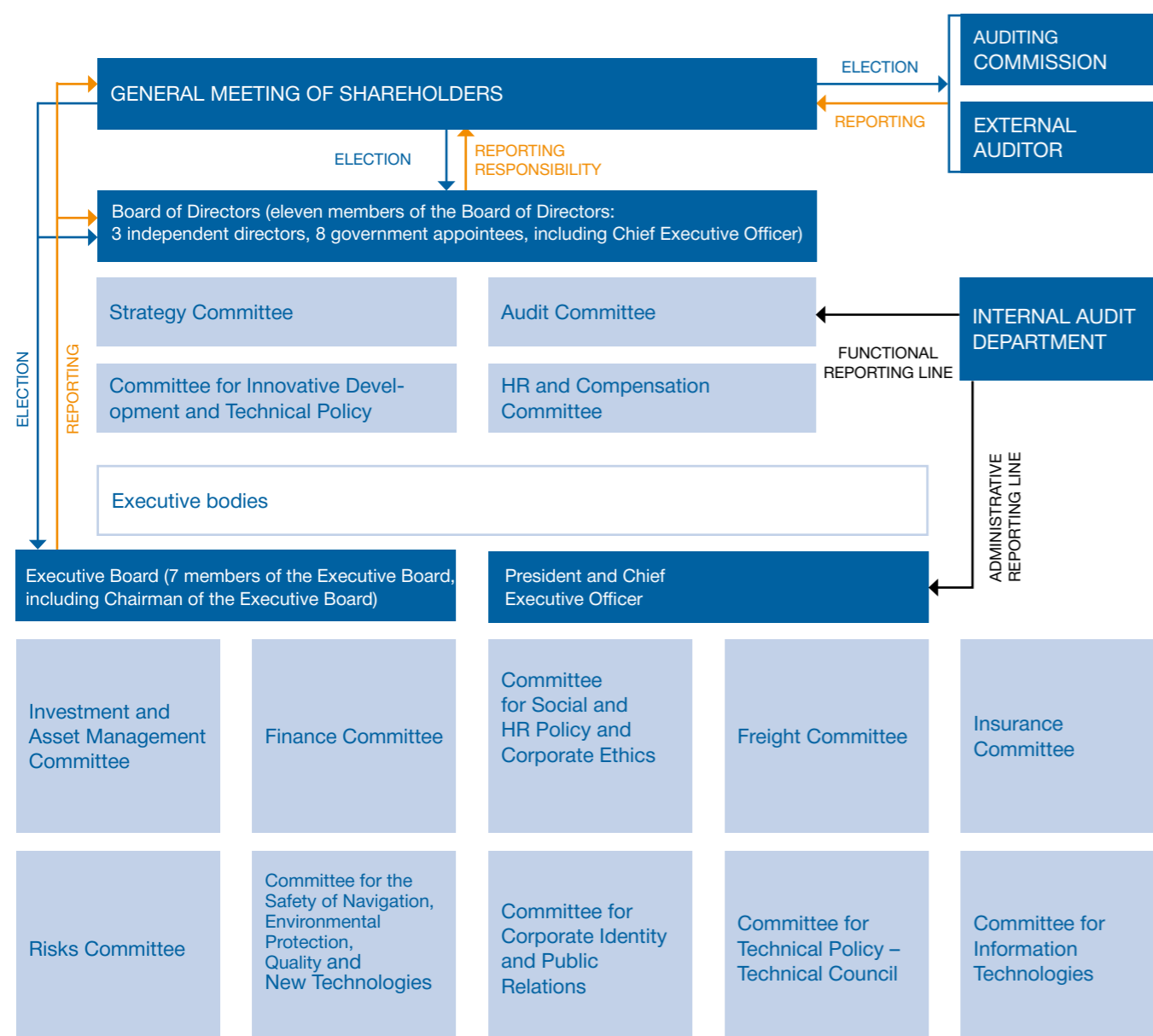
"The corporate governance system of Sovcomflot has been developing for years and meets the best Russian and international standards. My predecessors, Igor Shuvalov and Ilya Klebanov, laid its foundation. Independent directors, including David Moorhouse, Charles Ryan, Walid Chammah and Andrey Sharonov, also made an outstanding contribution to the development of the corporate governance of the company. The active role of the Sovcomflot Board of Directors in shaping the strategic course of the company's development has ensured the successful operation of the company in the highly competitive global energy shipping industry. In many ways, it let the company consistently introduce modern engineering solutions for the cargo shipping industry, helping Sovcomflot to become one of the world leaders in environmentally friendly technologies. I am confident that extensive knowledge, professionalism and strong background of the current members of the Board of Directors of Sovcomflot will continue to strengthen the company's leading position in the market."

**Sergey Frank,**  
Chairman of the PAO Sovcomflot  
Board of Directors

# 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



## Internal documents relating to corporate governance

- 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 (made according to Instructions No. 95-r of the Federal Agency for State Property Management dated 1 March 2018 by taking into account Instructions No. 167-r of the Federal Agency for State Property Management dated 6 May 2020 and the notice on the results of an additional issue of PAO Sovcomflot securities approved by the CEO of PAO Sovcomflot on 21 October 2020 and submitted to the Bank of Russia on 22 October 2020);
- Amendments to the Charter of PAO Sovcomflot (approved by Instructions No. 367-r of the Federal Agency for State Property Management dated 10 September 2020);
- Amendments to the Charter of PAO Sovcomflot (approved by Instructions No. 70-r of the Federal Agency for State Property Management dated 13 February 2020);
- Amendments to the Charter of PAO Sovcomflot (approved by Instructions No. 373-r of the Federal Agency for State Property Management dated 26 June 2019);
- 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);
- Corporate Governance Code (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 (approved by the Board of Directors decision dated 26 May 2017 (Minutes No. 163 dated 26 May 2017), taking into account the amendments approved by the Board of Directors on 26 February 2019 (Minutes No. 179 dated 1 March 2019) and 18 November 2020 (Minutes No. 201 dated 20 November 2020));
- Regulations on the Corporate Secretary of PAO Sovcomflot (approved by the Board of Directors decision dated 11 April 2017 (Minutes No. 162 dated 13 April 2017), as amended by the Board of Directors decision dated 14 September 2020 (Minutes No. 198 dated 14 September 2020));
- Regulations on the Dividend Policy of PAO Sovcomflot (approved by the Board of Directors decision dated 14 December 2012 (Minutes No. 125 dated 14 December 2012), taking into account the amendments approved by the Board of Directors decision dated 7 April 2020 (Minutes No. 192 dated 8 April 2020));
- Code of Corporate Ethics (approved by the PAO Sovcomflot Executive Board decision dated 29 August 2019 (Minutes No. 30(975)));
- Regulations on the Disclosure of Information of PAO Sovcomflot (approved by the Executive Board decision dated 26 November 2020 (Minutes No. 55(1051)));
- Internal Control Rules to Prevent, Detect and Suppress the Misuse of Insider Information of PAO Sovcomflot and/or Market Manipulation (approved by the PAO Sovcomflot Board of Directors decision dated 21 October 2020 (Minutes No. 200 dated 22 October 2020) and the Proprietary List of Insider Information of PAO Sovcomflot (approved by Order No. 44 of the CEO dated 6 October 2020).

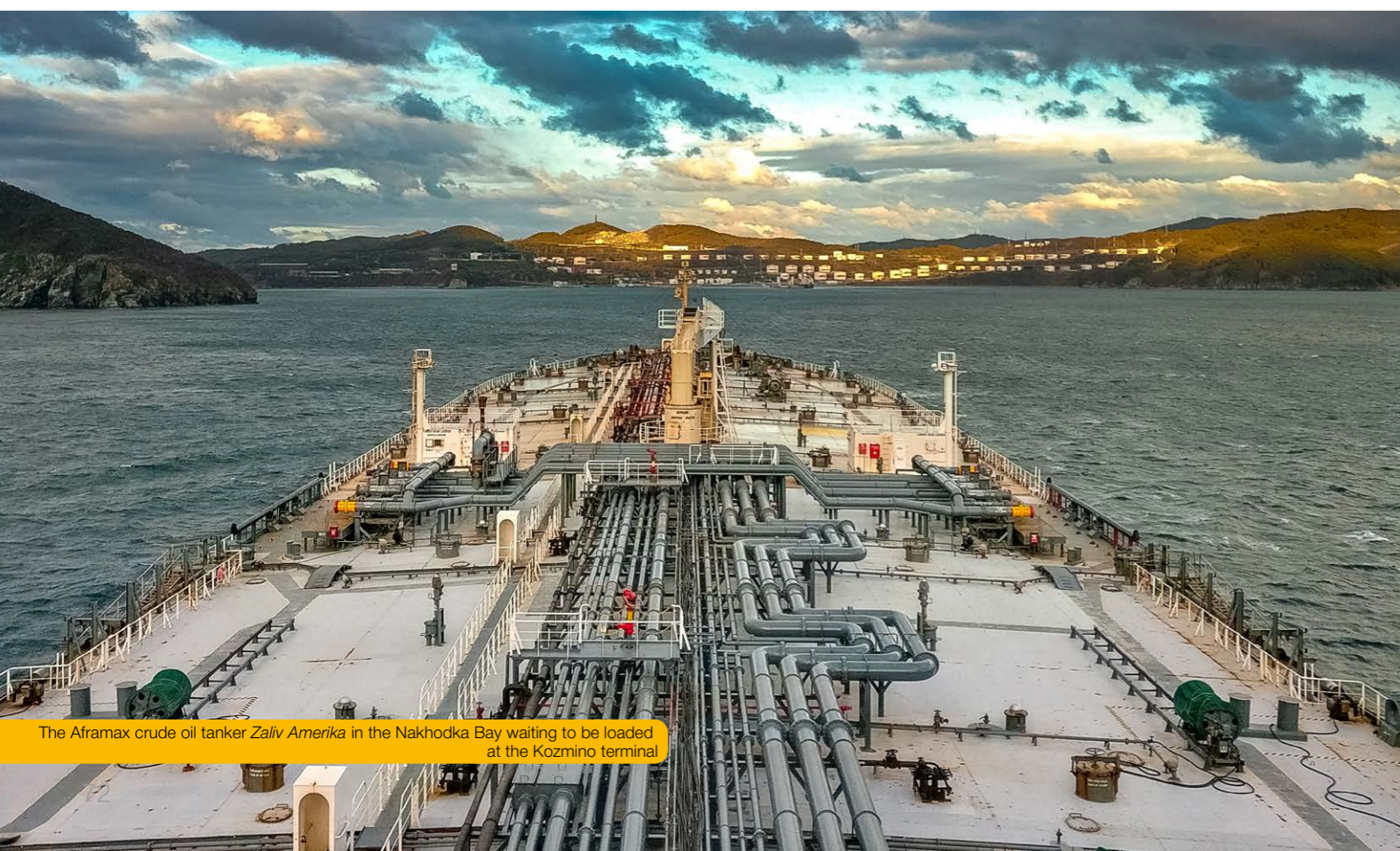
## Improvement of the corporate governance system

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 Board of Directors 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.



The Aframax crude oil tanker *Zaliv Amerika* in the Nakhodka Bay waiting to be loaded at the Kozmino terminal

### Statistics of compliance with the CG Code provisions based on the report on compliance with the principles and recommendations of the Bank of Russia Corporate Governance Code

Section of the CG Code	Principles recommended by the CG Code	Observed	Partially observed	Not observed
Shareholder rights	13	11	2	-
Board of Directors	36	24	12	-
Corporate Secretary	2	1	1	-
Compensation system	10	8	2	-
Risk management system	6	5	1	-
Disclosure of information	7	6	1	-
Material corporate actions	5	4	1	-
<b>Total</b>	<b>79</b>	<b>59</b>	<b>20</b>	<b>-</b>

In conjunction with the initial public offering of PAO Sovcomflot shares which took place in October 2020, as of the end of December 2020 the Company complied with the recommendations of the Corporate Governance Code recommended by the Bank of Russia in whole or in part. For more details, see the report on compliance with the principles and recommendations of the CG Code ([Appendix 1](#) to this report).

The Company has had a Corporate Governance Code since 2007, 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 innovative 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 shares have been listed on the Moscow Exchange since 2020.

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. The following key documents laying down the principles of corporate governance have been updated (or re-approved): the Charter of PAO Sovcomflot has been amended; amendments and additions have been made to the Regulations on the Dividend Policy, Regulations on the Internal Audit Department and Regulations on the Corporate Secretary of PAO Sovcomflot. These documents were updated to reflect recommendations of the CG Code, as well as the specifics of the Company's operations.

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, development of the staff potential, improvement of energy efficiency, and environmental protection.

## 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 Anti-Corruption Policy and a hot line operating since 2015. A new version of the Anti-Corruption Policy was approved by the PAO Sovcomflot Executive Board (Minutes No. 30(975) dated 29 August 2019). The document sets forth the rules and standards of doing business and applies to all Sovcomflot Group companies. The Company's Executive Board, at the same meeting, approved the PAO Sovcomflot Code of Corporate Ethics, which contains the basic ethical principles and priorities of the Company

and recommendations on how the Sovcomflot Group employees should behave when making decisions in the course of their professional activities.

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. More detailed information can be found in the [Sustainable development](#) section of this Report.

## Conflicts of interest resolution

The general policy for resolving 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.

## General Meeting of Shareholders

Four general meetings of shareholders of PAO Sovcomflot were held in 2020. The sole shareholder of the Company during this period was the Russian Federation. 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.

At the extraordinary general meeting of shareholders of PAO Sovcomflot held on **13 February 2020** (Instructions No. 70-r of the Federal Agency for State Property Management dated 13 February 2020) it was decided to make amendments to the Charter of PAO Sovcomflot regarding an increase in the number of authorised shares.

At the extraordinary general meeting of shareholders of PAO Sovcomflot held on **6 May 2020** (Instructions No. 167-r of the Federal Agency for State Property Management dated 6 May 2020) it was decided to make amendments to the previously adopted decision on an increase in the authorised capital relating to an increase in the number of securities to be placed.

At the general meeting of shareholders of PAO Sovcomflot held on **4 August 2020** (Instructions No. 297-r of the Federal Agency for State Property Management dated 4 August 2020) it was decided to:

- Approve the 2019 Annual Report of PAO Sovcomflot;
- Approve the annual accounting (financial) statements of PAO Sovcomflot for 2019;
- Approve the following distribution of the net profit of PAO Sovcomflot for 2019 amounting to RUB 7,204,747 thousand:
  - allocate RUB 7,181,000 thousand to the payment of dividends on PAO Sovcomflot shares based on 2019 performance;
  - retain RUB 23,747 thousand within PAO Sovcomflot<sup>1</sup>;

- Pay RUB 7,181,000 thousand in dividends on the ordinary shares of PAO Sovcomflot based on 2019 performance and set the tenth day following the date of the decision to pay dividends as the dividend record date, with the dividend payment deadline set at 25 business days after 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 2020.

The extraordinary general meeting of shareholders of PAO Sovcomflot held on **10 September 2020** (Instructions No. 367-r of the Federal Agency for State Property Management dated 10 September 2020) adopted a resolution granting the consent of the shareholder to the making of a major interested-party transaction consisting of a series of related transactions involving the placement of PAO Sovcomflot shares in public markets.



<sup>1</sup> Pursuant to the current Regulations on the Dividend Policy of PAO Sovcomflot, the source of dividend payments is the Company's net profit based on the audited accounting (financial) statements of the Company prepared in accordance with Russian statutory requirements. For more detailed information about the distribution of net profit, see the Distribution of profit section of this Report.

# Board of Directors of PAO Sovcomflot

## 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 PAO Sovcomflot Board of Directors operated in two different compositions during the reporting period:

[The Board of Directors elected by the Extraordinary General Meeting of Shareholders dated 23 September 2019 \(Instructions No. 592-r of the Federal Agency for State Property Management dated 23 September 2019\) as follows:](#)

- Alexander Abramov (government appointee)
- Ilya Klebanov (government appointee)
- David Moorhouse (government appointee)
- Lyubov Nisenboym (government appointee)
- Pavel Sorokin (government appointee)
- Oksana Tarasenko (government appointee)
- Igor Tonkovidov (government appointee)
- Sergey Frank (government appointee)
- Yury Tsvetkov (government appointee)
- Alexey Klyavin (independent director)
- Walid Chammah (independent director)
- Andrey Sharonov (independent director)

[The Board of Directors elected by the Annual General Meeting of Shareholders dated 4 August 2020 \(Instructions No. 297-r of the Federal Agency for State Property Management dated 4 August 2020\) as follows:](#)

- Alexander Abramov (government appointee)
- Viktor Ivanov (government appointee)
- David Moorhouse (government appointee)
- Pavel Sorokin (government appointee)
- Oksana Tarasenko (government appointee)
- Igor Tonkovidov (government appointee)
- Sergey Frank (government appointee)
- Yury Tsvetkov (government appointee)
- Alexey Klyavin (independent director)
- Walid Chammah (independent director)
- Andrey Sharonov (independent director)

11 persons were elected to the Board of Directors in the reporting period, which meets the statutory requirements as well as the Company's needs. The personal composition of the Board was determined by a general meeting of shareholders (a decision of the sole shareholder). Members of the Company's Board of Directors were 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 Federal Agency for State Property Management with the participation of the Russian Ministry of Transport and PAO Moscow Exchange, which enables the shareholder to receive information about the candidates necessary to get an idea of their personal and professional qualities.

In accordance with the PAO Sovcomflot Board of Directors decisions dated 24 September 2019 (Minutes No. 184) and 12 August 2020 (Minutes No. 196), Sergey Frank was elected as the Chairman of the Board of Directors.

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. Three independent directors were elected to the Board of Directors (as at 31 December 2020): Alexey Klyavin<sup>1</sup>, Walid Chammah, and Andrey Sharonov.

## Key competencies of the Board of Directors members<sup>1</sup>

Competency areas	Sergey Frank	Alexander Abramov	Viktor Ivanov	Ilya Klebanov	Alexey Klyavin (i.d.)	David Moorhouse	Lyubov Nissenboym	Pavel Sorokin	Oksana Tarasenko	Igor Tonkovidov	Yury Tsvetkov	Walid Chammah (i.d.)	Andrey Sharonov (i.d.)
strategic planning	+	+	+	+	+	+	+	+	+	+	+	+	+
international cooperation/ conduct of business	+	+	+	+	+	+	+	+	+	+	+	+	+
risk management	+	+	+	+	+	+	+	+	+	+	+	+	+
corporate governance	+	+	+	+	+	+	+	+	+	+	+	+	+
operating activities	+	+	+	+	+	+	+	+	+	+	+	+	+
industry	+	+	+	+	+	+	+	+	+	+	+	+	+
analysis of financial statements	+	+	+	+	+	+	+	+	+	+	+	+	+
HR management and motivation systems	+	+	+	+	+	+	+	+	+	+	+	+	+
innovations and information technology	+	+	+	+	+	+	+	+	+	+	+	+	+

## Information on members of the PAO Sovcomflot Board of Directors (as at 31 December 2020)

### Sergey Frank

Chairman of the  
PAO Sovcomflot Board of  
Directors

**Born in** 1960.

**Education:** Admiral Nevelskoy Far Eastern Higher Marine Engineering College, specialising in Maritime Navigation; Far Eastern State University, specialising in Jurisprudence.

**Academic degree:** Candidate of Technical Sciences.

In October 2004 Sergey Frank was elected as Chief Executive Officer of OAO Sovcomflot and joined its Board of Directors. He held this position until September 2019, when he was elected as Chairman of the Company's Board of Directors.

### Alexander Abramov

Member of the  
PAO Sovcomflot Board of  
Directors

**Born in** 1957.

**Education:** Moscow Institute of Railway Engineers; Institute of Retrain-ing and Advanced Training under the Government of the Russian Federation.

From 2016: Chief Adviser to the Chairman of the Council of the Central Union of Consumer Societies of the Russian Federation (Centrosoyuz of Russia). He has been a member of the PAO Sovcomflot Board of Directors since 2019.

### Viktor Ivanov

Member of the  
PAO Sovcomflot Board of  
Directors

**Born in** 1950.

**Education:** Bonch-Bruевич Leningrad Electrotechnical Institute of Communications, specialising in Radio Communications.

Academic degree: Doctor of Juridical Sciences.

At present he serves as President of the Association Russian House of International Scientific and Technical Cooperation. He was elected to the Board of Directors of PAO Sovcomflot in 2020.

### Alexey Klyavin

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

**Born in** 1954.

**Education:** Kaliningrad Higher Engineering Maritime School, specialising as Engineer-Navigator. From 2013: President of the Russian Chamber of Shipping. He has served on the PAO Sovcomflot Board of Directors as an independent director since 2012.

<sup>1</sup> Due to a formal affiliation of Alexey Klyavin with PAO Sovcomflot according to the Moscow Stock Exchange Listing Rules, pursuant to the PAO Sovcomflot Board of Directors decision dated 14 September 2020 (Minutes No. 198) it was decided to recognize Alexey Klyavin as an independent director. This decision is posted on the Company's website.

<sup>1</sup> Members of the Board of Directors elected in 2019 and 2020 by decisions of the Company's shareholder.



<b>David Moorhouse</b> Member of the PAO Sovcomflot Board of Directors	<b>Born in</b> 1954. <b>Education:</b> Kaliningrad Higher Engineering Maritime School, specialising as Engineer-Navigator. From 2013: President of the Russian Chamber of Shipping. He has served on the PAO Sovcomflot Board of Directors as an independent director since 2012.
<b>Pavel Sorokin</b> Member of the PAO Sovcomflot Board of Directors	<b>Born in</b> 1985. <b>Education:</b> Plekhanov Russian Academy of Economics, specialising in World Economy; University of London, degree in Finance and Financial Law. In March 2018 he was appointed as Deputy Minister of Energy of the Russian Federation. He has been a member of the PAO Sovcomflot Board of Directors since 2019.
<b>Oksana Tarasenko</b> Member of the PAO Sovcomflot Board of Directors	<b>Born in</b> 1983. <b>Education:</b> Lomonosov Moscow State University, specialising in Juris-prudence; Lomonosov Moscow State University, field of studies: Man-agement. Academic degree: Candidate of Juridical Sciences. Oksana Tarasenko has been Deputy Minister of Economic Development of the Russian Federation since December 2018. She was first elected to the Board of Directors of PAO Sovcomflot in 2018.
<b>Igor Tonkovidov</b> Member of the PAO Sovcomflot Board of Directors	<b>Born in</b> 1964. <b>Education:</b> Odessa Institute of Marine Engineers, specialising as Mechan-ical Engineer; University of London (U.K.), Master's degree in Financial Management; INSEAD Business School (France), AVIRA programme for top managers. In 2012, he took the position of Executive Vice President and Chief Technical Officer of PAO Sovcomflot. In 2019 he joined the Board of Directors and became the President and Chief Executive Officer of the Company.
<b>Yury Tsvetkov</b> Member of the PAO Sovcomflot Board of Directors	<b>Born in</b> 1965. <b>Education:</b> Admiral Makarov Leningrad Higher Maritime Engineering School, specialising in Maritime Navigation; the Academy of National Economy under the Government of the Russian Federation, professional retraining programmes «Enterprise Economics and Management» leading to Master of Management, and Economics and Public Finance; Maastricht School of Management (the Netherlands); Columbia Business School (USA). During the reporting period he served as Deputy Minister of Transport of the Russian Federation. He joined the Board of Directors of PAO Sovcomflot in 2019.
<b>Walid Chamamah</b> Member of the PAO Sovcomflot Board of Directors (independent director)	<b>Born in</b> 1954. <b>Education:</b> American University in Beirut, Bachelor of Business Administration; American Graduate School of International Management, Master of International Management. At present he is Partner at Chamamah & Partners. He has served on the PAO Sovcomflot Board of Directors as an independent member since 2015.
<b>Andrey Sharonov</b> Member of the PAO Sovcomflot Board of Directors (independent director)	<b>Born in</b> 1964. <b>Education:</b> 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. From 2016: President of Moscow School of Management SKOLKOVO. He joined the Board of Directors of PAO Sovcomflot in 2014 as an independent director.

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.

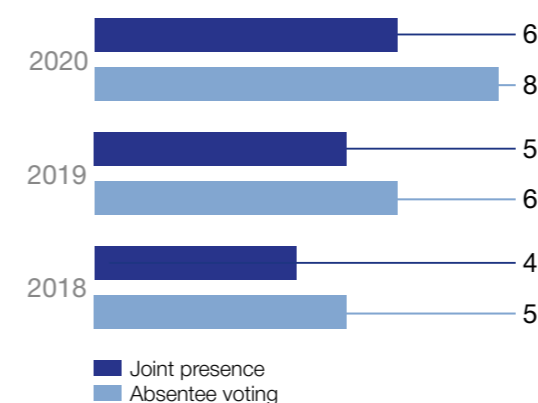
## Activities of the Board of Directors in 2020

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. An annual 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 requirements and the Company's Charter. The Board of Directors also considers other matters at its meetings according to the requirements of the Company's Charter and/or the law.

14 meeting of the PAO Sovcomflot Board of Directors were held in 2020 (including 6 meetings in the form of joint presence, including through video conference, and 8 meetings held by absentee voting)<sup>1</sup>.

### Number of Board of Directors meetings, 2018-2020



### Number of issues considered by the Board of Directors, 2018-2020



In 2020 the PAO Sovcomflot Board of Directors considered 55 issues in the following main areas:

- Strategic management of Sovcomflot Group, including results of implementation of the long-term development programme in 2019 and preliminary results of the implementation of the PAO Sovcomflot strategy up to 2025, review of quarterly reports on the implementation of the long-term development programme, and issues related to the updating of the long-term development strategy up to 2025;
- Notification of significant issues in PAO Sovcomflot operations;
- Preparation of PAO Sovcomflot for entry into public capital markets, including making amendments to the decision on an additional issue of securities and securities prospectus, determination of the placement price of the shares, making amendments to the Charter of PAO Sovcomflot and other decisions related to the submission of an application for the listing of shares;

<sup>1</sup>. Date of the meeting and number of the minutes: 29 January 2020, Minutes No. 189 (absentee voting); 20 February 2020, Minutes No. 190 (absentee voting); 27 March 2020, Minutes No. 191 (absentee voting); 7 April 2020, Minutes No. 192; 24 April 2020, Minutes No. 193 (absentee voting); 19 May 2020, Minutes No. 194; 22 June 2020, Minutes No. 195 (absentee voting); 12 August 2020, Minutes No. 196 (absentee voting); 27 August 2020, minutes No. 197; 14 September 2020, Minutes No. 198; 6 October 2020, Minutes No. 199; 21 October 2020, Minutes No. 200 (absentee voting); 18 November 2020, Minutes No. 201 (absentee voting); 9 December 2020, Minutes No. 202.

- Approval of the financial plan (budget) of PAO Sovcomflot and Sovcomflot Group, summarizing performance for the reporting period, preparations for holding the 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 for 2020 and the results of their attainment by the executive bodies for the reporting period and for 2019;
- Consideration of issues related to compliance with Instructions issued by the President of the Russian Federation and the Government of the Russian Federation;
- Review of internal audit reports and approval of internal audit plans on a semi-annual basis, consideration of the results of an external assessment of the internal audit function;
- Approval and updating of internal documents, including the Regulations on Dividend Policy, Regulations on the Compensation of Personnel, Regulations on the Corporate Secretary, Regulations on the Internal Audit Department, and updating of internal documents related to non-core assets and procurement procedures.
- Support of the organisational activities of the Board of Directors and formation of the Board of Directors committees.

**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.**

Information on the most significant issues was disclosed by PAO Sovcomflot as material facts.

The report on the work of the Company's Board of Directors and its committees in 2020 is scheduled to be considered in the second half of 2021.

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.

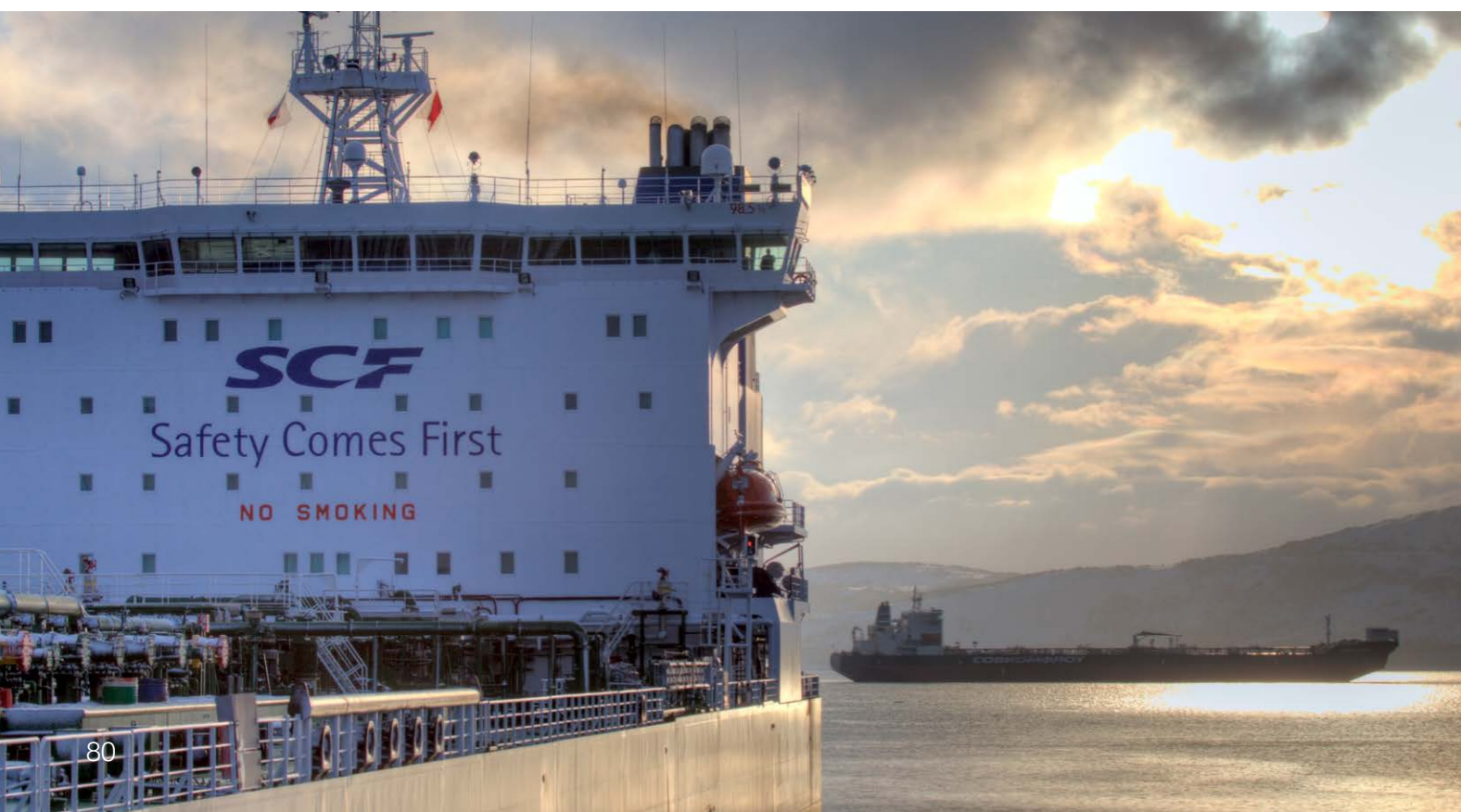
Decisions on issues that require preliminary assessment by the relevant committee of the Board of Directors are adopted taking into account recommendations of such committee.

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](#).

## Activities of the Board of Directors committees in 2020

### Composition and competencies of the Board of Directors committees as at 31 December 2020

Name	Competencies
<p><b>Strategy Committee</b></p> <ol style="list-style-type: none"> <li>1. Viktor Ivanov - Chairman</li> <li>2. Alexander Abramov</li> <li>3. Alexey Klyavin (independent director)</li> <li>4. Pavel Sorokin</li> <li>5. Oksana Tarasenko</li> <li>6. Igor Tonkovidov</li> <li>7. Yury Tsvetkov</li> <li>8. Andrey Sharonov (independent director)</li> </ol>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• Elaborating proposals and recommendations on key performance indicators and the governance system for Sovcomflot Group financial activities.</li> <li>• Elaborating proposals and recommendations on investment policy, increasing the capitalisation of Sovcomflot Group, and working with Sovcomflot Group securities.</li> <li>• Elaborating proposals and recommendations on the PAO Sovcomflot dividend policy.</li> </ul>
<p><b>Audit Committee</b></p> <ol style="list-style-type: none"> <li>1. Andrey Sharonov (independent director) – Chairman</li> <li>2. David Moorhouse</li> <li>3. Walid Chammah (independent director)</li> </ol>	<ul style="list-style-type: none"> <li>• Control over the completeness, accuracy and reliability of the Company's financial statements.</li> <li>• 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.</li> <li>• Evaluation of the Company's financial and economic activities, including assessment of management and financial reporting.</li> <li>• Evaluation of the report of the Company's Auditor prior to its presentation at the General Meeting of Shareholders.</li> <li>• 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.</li> <li>• Review of the regulations on internal audit and the work plan of the internal audit department.</li> <li>• Review of issues relating to appointment (dismissal) of the head of the internal audit department and amount of his/her compensation.</li> <li>• 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.</li> <li>• Ensuring the independence and objectivity of the internal and external audit functions.</li> <li>• Ensuring effective interaction between the Company's internal audit department and external auditors.</li> <li>• Elaborating recommendations for selecting an independent appraiser and conducting a valuation of property in cases provided for by current legislation.</li> <li>• 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.</li> </ul>



Name	Competencies
<p><b>HR and Com-pensation Committee (also performs functions of a nominations committee)</b></p> <ol style="list-style-type: none"> <li>1. Walid Chammah (independent director) - Chairman</li> <li>2. David Moorhouse</li> <li>3. Andrey Sharonov (independent director)</li> </ol>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Determining and adjusting the PAO Sovcomflot employment policy.</li> <li>• Determining the amount of compensation for members of the Company's Board of Directors and Auditing Commission.</li> <li>• Determining the amount of compensation for members of the collegiate executive body and the person acting as the sole executive body of the Company.</li> <li>• 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.</li> <li>• Electing executive bodies of the Company.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• Elaborating and submitting recommendations (opinions) to the Board of Directors on other issues in accordance with instructions from the Board of Directors.</li> </ul>
<p><b>Committee for Innovative Development and Technical Policy</b></p> <ol style="list-style-type: none"> <li>4. David Moorhouse - Chairman</li> <li>5. Alexey Klyavin (independent director)</li> <li>6. Igor Tonkovidov</li> <li>7. Yury Tsvetkov</li> </ol>	<ul style="list-style-type: none"> <li>• Considering and approving the innovative development policy and programmes of Sovcomflot Group.</li> <li>• Considering and approving R&amp;D projects.</li> <li>• Assessing state-of-the-art innovative technologies to be implemented in Sovcomflot Group.</li> <li>• Elaborating the SCF Group's technical policy.</li> <li>• Elaborating the SCF Group's innovative development policy.</li> <li>• Improving the safety and service quality management system in Sovcomflot Group.</li> <li>• Technical expert appraisals of investment projects.</li> </ul>

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 the Committee operated in two compositions, which were elected by the PAO Sovcomflot Board of Directors decisions dated 24 September 2019 (Minutes No. 184) and 12 August 2020 (Minutes No. 196), taking into account the Board of Directors decision dated 27 August 2020 (Minutes No. 197), respectively.

In 2020 the Committee considered and prepared recommendations for the Board of Directors based on the results of implementation of the long-term development programme of PAO Sovcomflot, preliminarily considered issues

related to the updating of the PAO Sovcomflot strategy up to 2025, and also considered the financial plan (budget) for 2021 and forecast for 2022-2023 on a preliminary basis<sup>1</sup>.

During the reporting period the members of the Committee held working meetings with management of PAO Sovcomflot on issues related to the updating of the long-term development programme of PAO Sovcomflot up to 2025 and preparation of the Company for entry into public capital markets.

### Report on the work of the Audit Committee

During the reporting period the Committee operated in two compositions, which were elected by the PAO Sovcomflot Board of Directors decisions dated 24 September 2019 (Minutes No. 184) and 12 August 2020 (Minutes No. 196), respectively.

In 2020 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, for internal audit activity reports and work plans on a semi-annual basis, and also

reviewed the results of an external assessment of internal audit and external audit report for 2019, the audit plan for 2020 and interim 2020 audit results<sup>2</sup>.

During the reporting period Audit Committee members held regular working meetings with the auditors, the internal audit department and the financial and accounting departments of PAO Sovcomflot.

### Report on the work of the HR and Compensation Committee

During the reporting period the Committee operated in two compositions, which were elected by the PAO Sovcomflot Board of Directors decisions dated 24 September 2019 (Minutes No. 184) and 12 August 2020 (Minutes No. 196), respectively.

In 2020 the Committee prepared recommendations for the Board of Directors on issues related to the approval of performance targets and their attainment by the executive bodies as part of fulfilling the long-term

development programme of PAO Sovcomflot; considered amendments to internal documents relating to the compensation of personnel, and also considered issues related to the Company's entry into public capital markets<sup>3</sup>.

During the reporting period members of the HR and Compensation Committee held regular 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 the Committee operated in two compositions, which were elected by the PAO Sovcomflot Board of Directors decisions dated 24 September 2019 (Minutes No. 184) and 12 August 2020 (Minutes No. 196), respectively.

In 2020 the Committee preliminarily considered draft Regulations on Intellectual Property Management in PAO Sovcomflot, reviewed issues related to the selection of an optimal propulsion unit for Arctic LNG carriers for the Arctic LNG 2 and Ob LNG projects, preparation of the

Company's strategy to achieve reductions in emissions from SCF Group ships according to the goals set by the IMO, as well as prospective areas of the Group's innovative activities<sup>4</sup>.

During the reporting period Committee members held working meetings with relevant structural units of PAO Sovcomflot on issues related to the implementation of innovative technologies and technical policy of the Group.

<sup>1</sup> Date of the meeting and number of the minutes: 6 April 2020, minutes unnumbered; 11 November 2020, minutes unnumbered; 8 December 2020, minutes unnumbered.

<sup>2</sup> Date of the meeting and number of the minutes: 27 January 2020, minutes unnumbered; 11 March 2020, minutes unnumbered; 6 April 2020, minutes unnumbered; 27 April 2020, minutes unnumbered; 14 May 2020, minutes unnumbered; 2 November 2020, minutes unnumbered; 30 November 2020, minutes unnumbered; 8 December 2020, minutes unnumbered; 18 December 2020, minutes unnumbered.

<sup>3</sup> Date of the meeting and number of the minutes: 6 April 2020, minutes unnumbered; 14 May 2020, minutes unnumbered; 11 September 2020, minutes unnumbered; 2 November 2020, minutes unnumbered; 8 December 2020, minutes unnumbered.

<sup>4</sup> Date of the meeting and number of the minutes: 17 June 2020, minutes unnumbered; 25 December 2020, minutes unnumbered.

# Chief Executive Officer and Executive Board of PAO Sovcomflot

## THE EXECUTIVE MANAGEMENT BODIES OF PAO SOVCOMFLOT MANAGE THE COMPANY'S DAY-TO-DAY ACTIVITIES

### Sole executive body

Chief Executive Officer

### Collegiate executive body

Executive Board

By a resolution of an extraordinary general meeting of shareholders (Instructions No. 592-r of the Federal Agency for State Property Management dated 23 September 2019) the powers of Sergey Frank as the Chief Executive Officer of PAO Sovcomflot were terminated earlier and Igor Tonkovidov was appointed Chief Executive Officer of PAO Sovcomflot for a term of three years.

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 documents 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 documents 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

### PRESIDENT

#### Igor Tonkovidov

Chief Executive Officer of PAO Sovcomflot

**Born in** 1964

**Education:** Odessa Institute of Marine Engineers, specialising as Mechanical Engineer; University of London (U.K.), Master's degree in Financial Management; INSEAD Business School (France), AVIRA programme for top managers.  
34 years of experience in the industry, 21 years in SCF Group

### EXECUTIVE BOARD MEMBERS

#### 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.  
9 years of experience in the industry and in SCF Group

He did not own shares in the Company during the reporting period, nor made any transactions for the acquisition or disposal of Company shares.

#### Nikolay Kolesnikov

Executive Vice President and Chief Financial Officer 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.  
9 years of experience in the industry and in SCF Group

He did not own shares in the Company during the reporting period, nor made any transactions for the acquisition or disposal of Company shares.

#### Callum Ludgate

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

**Born in** 1969

**Education:** Southampton University.  
27 years of experience in the industry and in SCF Group

He did not own shares in the Company during the reporting period, nor made any transactions for the acquisition or disposal of Company shares.

#### 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.  
25 years of experience in the industry, 20 years in SCF Group

He did not own shares in the Company during the reporting period, nor made any transactions for the acquisition or disposal of Company shares.

#### 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.  
23 years of experience in the industry, 18 years in SCF Group

He did not own shares in the Company during the reporting

#### Sergey Popravko

Executive Vice President and Chief Operating Officer of PAO Sovcomflot

**Born in** 1961

**Education:** Admiral Nevelskoy Far Eastern Higher Marine Engineering College, 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.  
36 years of experience in the industry, 15 years in SCF Group

He did not own shares in the Company during the reporting period, nor made any transactions for the acquisition or disposal of Company shares.

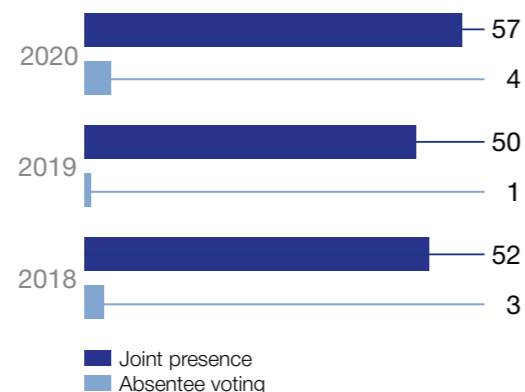
During the reporting period the PAO Sovcomflot Executive Board also included Evgeny Ambrosov, whose powers as an Executive Board member were terminated on 18 November 2020 by a decision of the Company's Board of Directors (Minutes No. 201 dated 20 November 2020).

## Executive Board committees

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 the Safety of Navigation, 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;
- Risks Committee.

### Number of Executive Board meetings, 2018-2020



### Number of issues considered, 2018-2020



The Executive Board adopted decisions on the following main areas of activity of PAO Sovcomflot at its meetings in 2020:

- Implementing the Sovcomflot Group strategy;
- 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.

# 61

## meetings

of the PAO Sovcomflot Executive Board were held in 2020, of which

4 were held by absentee voting

# 182

## issues

were considered by the PAO Sovcomflot Executive Board in 2020

## 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 Commission<sup>1</sup> approved by the PAO Sovcomflot General Meeting of Shareholders (Instructions No. 519-r of the Federal Agency for State Property Management dated 30 June 2016).

General Meeting of Shareholders on 26 June 2019 (Instructions No. 373-r of the Federal Agency for State Property Management dated 26 June 2019) and the Annual General Meeting of Shareholders on 4 August 2020 (Instructions No. 2197-r of the Federal Agency for State Property Management dated 4 August 2020), respectively.

During the reporting period the Auditing Commission operated in the following compositions, which were elected by the Annual

### Composition of the Auditing Commission of PAO Sovcomflot as at 31 December 2020

#### CHAIRMAN OF THE AUDITING COMMISSION

**Mikhail Kuznetsov**

**Born in** 1979  
**Education:** higher

General Director of Topcompetence LLC, General Director of Corporate Development Centre LLC, Director of the Centre for Systemic Transformations of the Economics Department of Lomonosov Moscow State University.

#### MEMBERS OF THE AUDITING COMMISSION:

**Ivan Bezmenov**

**Born in** 1980  
**Education:** higher

Director of the Department for North Caucasian Federal District Territorial Planning, Russian Ministry of Economic Development

**Nikita Kozhemyakin**

**Born in** 1989  
**Education:** higher

Head of Department, Federal Agency for State Property Management

**Zakhary Dzhioev**

**Born in** 1977  
**Education:** higher

Deputy Head of the Federal Agency for Maritime and River Transport

Members of the Auditing Commission did not own shares in PAO Sovcomflot during the reporting period, nor made any transactions in Company shares.

In 2020, compensation was paid to 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. 297-r of the Federal Agency for State Property Management dated 4 August 2020.

<sup>1</sup> More detailed information about these regulations can be found on the Company's website in the Corporate governance section.

A view from the bridge of the icebreaking LNG carrier *Christophe de Margerie*

### Compensation paid to the Auditing Commission members in 2020, ('000 RUB)

Indicator	Amount
Compensation for participation in the body exercising control over the issuer's financial and economic activity	374
Salary	-
Bonuses	-
Commissions	-
Benefits	-
Reimbursement of expenses	-
Other types of compensation	-
<b>Total</b>	<b>374</b>

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

## Compensation system for members of management bodies

### Compensation of the Board of Directors members in 2020

PAO Sovcomflot pays compensation to members of the PAO Sovcomflot Board of Directors and reimburses expenses actually incurred by them in the performance of their functions as Board of Directors members 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. 478-r of the Federal Agency for State Property Management dated 29 June 2015, as amended by Instructions No. 519-r of the Federal Agency for State Property Management dated 30 June 2016).

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 as well as Instructions No. 592-r of the Federal Agency for State Property Management dated 23 September 2019 and Instructions No. 297-r of the Federal Agency for State Property Management dated 4 August 2020,

PAO Sovcomflot Board of Directors members were paid compensation and reimbursement of expenses in the amount set forth in internal documents of PAO Sovcomflot.

### Compensation of the Board of Directors members in 2020, ('000 RUB)

Indicator	Amount
Salary	50,359
Bonuses	-
Commissions	-
Benefits	-
Reimbursement of expenses	-
Other types of compensation	512
<b>Total</b>	<b>50,871</b>

## Compensation of Executive Board members and the Chief Executive Officer in 2020

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 documents of strategic and operational planning.

The compensation of the PAO Sovcomflot Executive Board members consists of a fixed component (monthly salary) and 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.

The size of a variable portion of remuneration payable to members of the Company's Executive Board depends on the attainment of targets set for the period by key performance indicators (KPI). A long-term motivation programme for members of the Company's Executive Board based on deferred compensation approved by the Company's Board of Directors in December 2019 took effect on 1 January 2020.

The target values of KPIs for the 2020 fiscal year (annual compensation<sup>1</sup>) and for 2020-2022 (deferred compensation<sup>2</sup>) were approved by the Board of Directors decision dated 10 December 2019 (Minutes No. 187 dated 13 December 2019).

### Compensation of Executive Board members and the Chief Executive Officer in 2020, ('000 RUB)<sup>3</sup>

Indicator	Amount
Salary	232,585
Bonuses	301,776
Commissions	-
Benefits	-
Reimbursement of expenses	-
Other types of compensation	-
<b>Total</b>	<b>534,361</b>

<sup>1</sup>. Approved annually and assessed by the Company's Board of Directors based on fiscal year end results  
<sup>2</sup>. Approved for three years and assessed by the Company's Board of Directors upon the expiry of three years.  
<sup>3</sup>. According to the accounting (financial) statements of PAO Sovcomflot prepared under RAS.

# 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.

In 2020 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.

The main principles and priorities for stakeholder communications are enshrined in the Corporate Governance Code<sup>1</sup>.

## Mechanisms for stakeholder communications

Stakeholder		Mechanisms for communications
<b>Shareholders and investors</b>	Shareholders 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
<b>Business partners</b>	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
<b>Employees</b>	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
<b>State</b>	Russian legislative and executive state authorities	Participating in the activities of working groups and expert councils established under Russian state authorities
<b>Society</b>	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
<b>Russian and international professional organisations and NGOs</b>	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

Stakeholder		Mechanisms for communications
<b>The media</b>	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.

## Information policy and transparency

Sovcomflot takes a responsible approach, ensuring that information is disclosed in a timely and accurate manner and adhering to the principles of promptness, accessibility and objectivity.

In 2016 the PAO Sovcomflot Board of Directors approved the **Regulations on Information Policy** pursuing the following main goals:

- protecting the rights and legitimate interests of the Company's shareholders and potential investors, professional participants in the securities market, government authorities and other stakeholders in obtaining timely and accurate information about the Company, which is essential for making balanced investment and management decisions;
- enhancing the Company's information transparency;
- improving the level of trust in relations between the Company and its shareholders and stakeholders;
- complying with the requirements of international and Russian legislation concerning mandatory disclosure of information by a joint-stock company.

### Information subject to mandatory disclosure according to regulatory requirements

In 2020 the Company's Executive Board approved the Information Disclosure Regulations of the Company taking into account the requirements of the Bank of Russia Regulations on Information Disclosure, rules of the Moscow Exchange, current legislation on the protection of insider information and other regulations governing information disclosure.

The Company's Charter and internal documents, annual and quarterly reports, annual and quarterly accounting (financial) statements under RAS and consolidated financial statements under IFRS, issue documents, information statements, data about affiliates and other information which

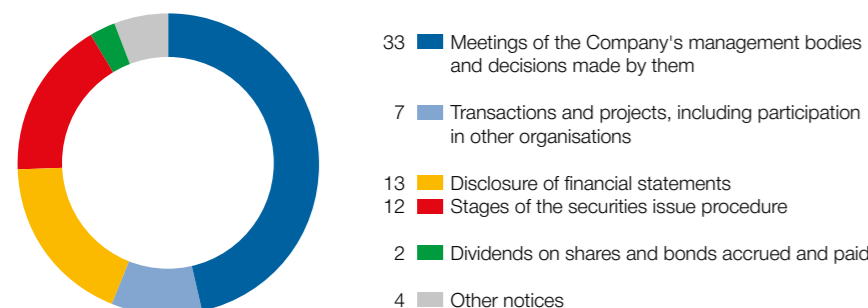
may have an impact on the price of **Company's securities are published on the Company's official website** and the portal of **Interfax - Corporate Information Disclosure Centre**.

To ensure that Russian and foreign shareholders are treated equally, the Company discloses financial results of the Group in Russian and English. Conference calls and meetings with institutional investors are held. Representatives of the Company take part in investment conferences. For more detailed information about the mechanisms for interaction with investors see **the relevant section of this Report**.

<sup>1</sup> The new version was approved by the PAO Sovcomflot Board of Directors decision dated 10 November 2015, Minutes No. 149.

A reliable system has been created to prevent the dissemination and use of insider information. Control of transactions made by persons who have access to relevant information is carried out on a regular basis.

#### Types of notices of material facts disclosed in 2020



#### Voluntary disclosures

Along with information, which is subject to mandatory disclosure, the Company also publishes information about its activities which is not covered by regulator's requirements in order to increase the level of openness to its shareholders, the investment community and the media.

PAO Sovcomflot strives to ensure the most prompt coverage of its activities, synchronize audiences and ensure access to published information through various communication channels.

The Company actively interacts with media representatives. SCF Press Service is open to inquiries from the media and promptly provides the most accurate and objective information about the Company's activities. Conversations with journalists are held on a regular basis, press tours around ships are organised, experts and ships crew members give comments to central and industry media.

Overall, more than 10,000 publications mentioning the Company were made in the media in 2020. The main themes of publications in the media devoted to the Company's activities were:

- Entry into the equity market (IPO) and financial results of PAO Sovcomflot;
- Ordering of a fleet of Arctic LNG carriers for the Arctic LNG 2 project from the Zvezda Shipbuilding Complex (Primorsky Krai);
- Experimental voyage through the Northern Sea Route undertaken by the LNG carrier *Christophe de Margerie* in May 2020;
- The development of unmanned navigation and the use of new energy sources on SCF vessels.

- Addition of new LNG carriers to the SCF fleet and their operation under long-term agreements with key charterers (*SCF La Perouse, SCF Barents*)

The Company is represented in social media where news concerning its activities are published regularly.

Publication of press releases on the Company's official website is one of the key instruments for maintaining communications with a broad range of stakeholders. Most releases cover key themes within the implementation of the business development strategy and those that are relevant for most stakeholders.

Communications within the Group are maintained through several information interaction channels at different levels:

- text and video messages from management to ships' captains and crews
- information bulletins, including information bulletin of the Board of Directors;
- the corporate SCF Newsletter (internal and external communications);
- a feedback form on the [Company's official website](#) (internal and external communication).

# 35

## interviews

with and commentaries by SCF top managers and experts were organised during 2020 and published in the media

# 25

## public speeches

and presentations by top managers, including industry conference appearances, were organised in 2020

# 28

## press releases

were published on the official website of PAO Sovcomflot in 2020

# Risk management system and internal control

## 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.

#### Main functions and tasks of key participants in the risk management system (RMS)

#### BOARD OF DIRECTORS

- Determining general principles and approaches to risk management
- Reviewing key risks and methods to manage these risks
- Approving risk appetite (preferred risk) and methodology for its measurement

#### EXECUTIVE BOARD

- Approving the regulatory and methodological framework of the RMS
- Monitoring the implementation of risk management measures
- Approving the corporate risk register, risk map and risk management measures

#### COORDINATOR (STRATEGIC PLANNING AND DEVELOPMENT DIRECTORATE)

- Coordinating risk management activities
- Developing the regulatory and methodological framework of the RMS
- Consolidating information on risks
- Preparing reports on risks

#### INTERNAL AUDIT

- Evaluating the effectiveness of the risk management system
- Preparing reports on evaluation results and recommendations for the Audit Committee and the Board of Directors

#### HEADS OF STRUCTURAL UNITS - RISK OWNERS

- Maintaining and developing the risk management system
- Identifying and assessing risks
- Implementing risk management activities



A Risks Committee under the Company's Executive Board was established in 2020. Main functions of the Risks Committee:

- preliminarily considering, analysing and preparing recommendations (opinions) on RMS issues submitted to the Executive Board for consideration as well as the results of external and internal assessments of the effectiveness of the RMS;
- developing an RMS improvement plan and submitting it to the Executive Board for approval;
- launching, monitoring implementation and assessing the results of RMS development projects in functional areas and the plan as a whole.

Other committees set up by the Executive Board of the Company (Freight Committee, Investment Committee, Finance Committee, Technical Policy Committee – Technical Council, etc.) also carry out risk management within their respective competence.

The Audit Committee of the Company's Board of Directors exercises control over the reliability and effectiveness of the risk management system, including assessment of the effectiveness of risk management procedures.

Risk management is carried out in accordance with the Regulations on the PAO Sovcomflot Risk Management System (the «RMS Regulations»). The document was developed in accordance with the Corporate Governance Code of the Russian Federation<sup>1</sup> and Guidelines for the Preparation of Regulations on the Risk Management System<sup>2</sup>. The RMS Regulations were approved by the PAO Sovcomflot Board of Directors in November 2015<sup>3</sup>.

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

### 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

between the parties involved and nature of their interaction, and the general approach to the organisation of the risk management system.

Pursuant to the RMS Regulations, the main purpose of the RMS is to create conditions for achieving the Company's strategic and operating objectives and goals through regular identification, analysis and assessment of risks, development and implementation of measures to manage risks and maintain the risk level within limits acceptable for management and shareholders.

The report on the PAO Sovcomflot risk management system for 2019 and 9M 2020 was submitted for consideration to the management and supervisory bodies of PAO Sovcomflot.<sup>4</sup>

Also, an independent external assessment of the effectiveness of the Company's RMS was carried out in early 2021 by Ernst & Young - Valuation and Advisory Services, LLC. According to the assessment report, the PAO Sovcomflot RMS in general meets the criteria of effectiveness and the goals and objectives of the RMS, with certain observations regarding implementation of some criteria at the level of design or operations of the RMS.

In accordance with the RMS Regulations, the Strategic Planning and Development Directorate is in charge of coordinating risk management activities. A description of key participants in the risk management system and their main responsibilities is provided in the table above.

Further development and improvement of the risk management system is based on the provisions set out in the COSO Enterprise Management - Integrated Framework and other applicable standards.

ina timely manner, planning and implementing required environmental measures, monitoring amendments to shipping industry regulations, and improving HR policies.

The implemented risk management measures together with a proactive response to emerging threats enabled the Group to minimise their impact on operations during the reporting period.

<sup>1</sup> Approved by Bank of Russia Letter No. 06-52/2463 dated 10 April 2014.

<sup>2</sup> Approved by Russian Government Order No. ISh-P13-4148 dated 24 June 2015.

<sup>3</sup> Minutes of the Board of Directors No. 149 dated 13 November 2015.

<sup>4</sup> Minutes of the Executive Board No. 51 (1047) dated 5 November 2020. Minutes of the Board of Directors No. 203 dated 1 February 2021.

### Significant risks that materialised or increased in 2020

Category	Risk factors	Measures taken
<b>MATERIALIZED RISKS</b>		
Economic risks	Changes in freight and hire rates in the international freight market	Determining an optimal ratio of proceeds from long-term and spot contracts in accordance with the approved strategy and freight policy Monitoring global freight markets to make timely decisions on the optimal distribution of the fleet Timely selling the obsolete fleet
Threats to public health	Impact of the coronavirus (COVID-19) pandemic on the operations of the Group and the operations of its customers, suppliers and shipyards	A protocol for crew change in accessible (mostly Russian) ports has been developed and implemented A mandatory quarantine prior to boarding has been introduced Preventive measures in offices
<b>INCREASED RISK</b>		
Economic risks	Seasonal and regional changes in tonnage supply and demand	Diversifying the Group's activities and break into new promising and sustainable segments Building and commissioning state-of-the-art specialised vessels in accordance with the approved strategy of the Company and by taking into account customer requirements

## 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.

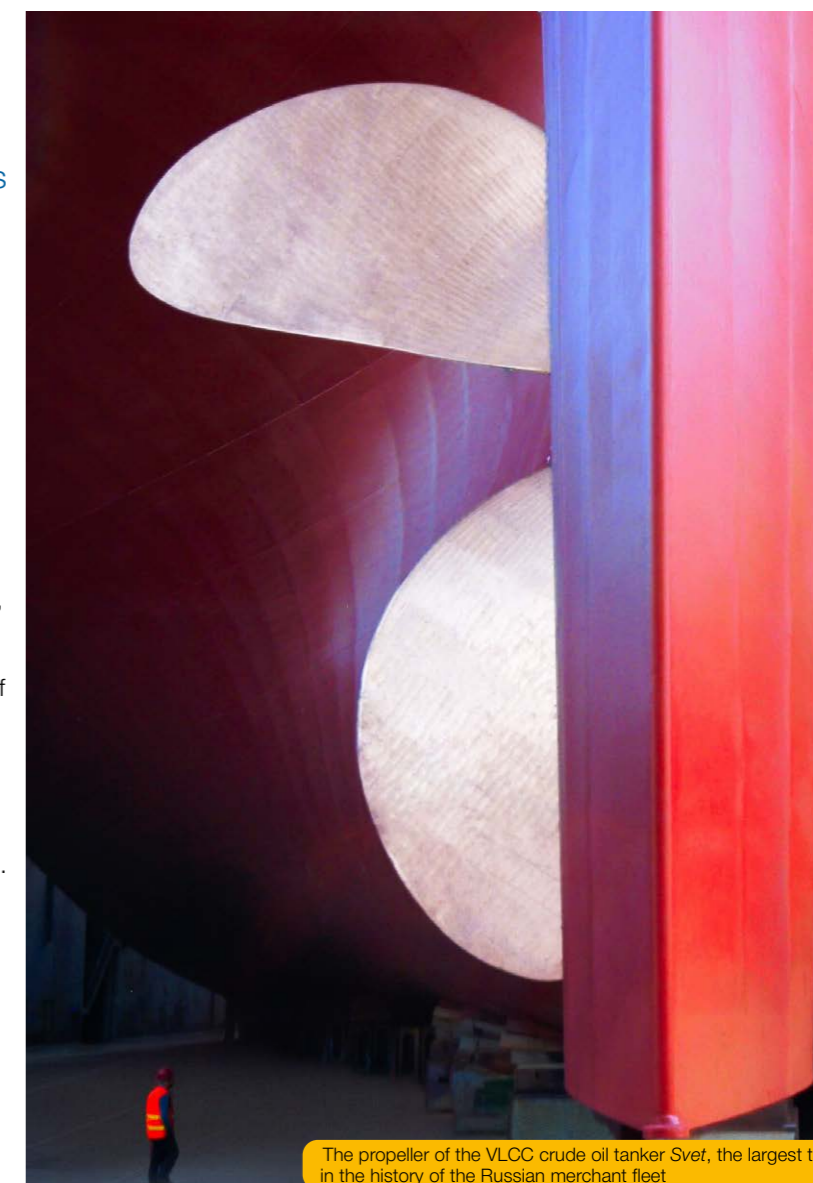
The internal control system is managed by the Company's governing bodies (the Board of Directors, executive bodies - the Company's Executive Board and Chief Executive Officer), committees under the Board of Directors, committees under the Executive Board (Freight Committee, Investment Committee, Finance 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 Company<sup>1</sup>.

The efficiency of the internal control system is also bolstered by having independent directors in the Board of Directors and its committees. The current Board of Directors has three independent directors.

Effectiveness of the internal control system is assessed by the Auditing Commission and the Internal Audit Department<sup>2</sup>.

<sup>1</sup> For more details see the relevant sections of this Annual Report.

<sup>2</sup> For more details see the relevant sections of this Annual Report



The propeller of the VLCC crude oil tanker Svet, the largest tanker in the history of the Russian merchant fleet

# Internal and external audit

## 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 Regulations on the Internal Audit Department of PAO Sovcomflot were approved by the Board of Directors decision dated 26 May 2017 (Minutes No. 163) with amendments and additions approved by the Board of Directors decisions dated 26 February 2019 (Minutes No. 179) and 18 November 2020 (Minutes No. 201)).

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 the requirements of 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).

An external assessment of audit quality is conducted at least every five years upon a decision of the Audit Committee of the PAO Sovcomflot Board of Directors. 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).

## External audit

The accounting (financial) statements of PAO Sovcomflot for 2020 prepared in accordance with Russian accounting legislation 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-regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS) located at 21 Michurinsky Prospect, bldg. 4, Moscow 119192. Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.



The icebreaking platform supply vessel *Vitus Bering* (ice class: Icebreaker ICE-10) operating on the Sakhalin-1 project



# Sustainable development



«A strong commitment towards protecting the environment, reducing its carbon footprint and increasing the energy efficiency of its fleet has long been and remains an integral part of SCF's strategy. SCF's 'Green Charter' has been formulated taking into consideration Pathways in the Paris Agreement, emission reduction targets set by the IMO for 2050 and other regulations on an international, regional and national level. We are confident that SCF's goals are shared by its world-leading charterers and business partners in the energy sector, as well as manufacturers of vessel engines and equipment and the global shipbuilding community.»

**David Moorhouse,**

member of the Board of Directors, Chairman of the Board's Committee for Innovative Development and Technical Policy



Mendeleev Prospect, one of SCF's «green» LNG-fuelled tankers, completing cargo operations in the port of Nakhodka

# Sustainable development policy

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.



“In the post-COVID world, shipping and maritime will be at the heart of the economic recovery. ‘Sustainable Shipping for a Sustainable Planet’, our theme for 2020 couldn’t be more relevant now. The goal of the IMO is to help transform the industry to underpin the achievement of the sustainable development goals.»

**Kitack Lim,**  
Secretary-General of the International  
Maritime Organization (IMO)

## Areas of SCF Group's activities in the field of ESG<sup>1</sup>

# E

- Energy efficiency and conservation
- Water management
- GHG and other polluting emissions
- Waste generation and disposal
- Compliance with environmental laws

# S

- Workplace relations and employment, HR potential development
- Occupational safety and health
- Staff training and development

# G

- Financial stability and operational efficiency
- Corporate governance and business ethics
- Stakeholder communications
- Anti-corruption
- Tax transparency

## SCF's 'Green Charter'

The Sovcomflot Group's Green Charter is a declaration of commitments related to sustainable development approved as part of the PAO Sovcomflot Strategy up to 2025.

The document lays down the strategic areas of SCF's activities aimed at sustainable development and proclaims the Company's commitment to develop an integrated management system based on compliance with the requirements of international industry regulations and standards.

The document pays special attention to measures to fight climate change by using innovative technologies and raising personnel awareness on environmental protection.

The Company also declares its intention to continue implementing 'green' technologies, including energy saving ones, as well transparent energy consumption calculation methods. Reducing carbon footprint from the fleet while maintaining high economic indicators is one of the key directions for development specified in the document.

In the HR management area, the Company confirms its commitment to create favourable working conditions and provide opportunities for enhancing professional skills to existing employees and trainees, ensure gender equality and access to qualified medical aid, and pursue a zero tolerance policy towards corruption in any form.



The tanker *Lomonosov Prospect* using LNG as the primary fuel during LNG bunkering in Gibraltar.

<sup>1</sup> ESG refers to environmental, social and governance factors used for analysis in responsible investing.



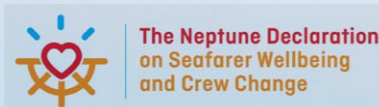
## The Poseidon Principles

Sovcomflot was one of the first in the industry to support the environmental Poseidon Principles adopted by the leading banks lending to the shipping industry.

The Poseidon Principles are an environmental initiative by a number of major financial institutions aimed at the implementation of financing projects in the shipping industry taking into account sustainable development principles. Banks consider the degree of environmental compatibility and energy efficiency of maritime transport when making lending decisions for shipping companies. Assessment criteria correlate with carbon dioxide emission reduction targets set by the International Maritime Organization (IMO). Currently, 24 major international banks provide financing to companies in the shipping industry, taking into account the Poseidon Principles.

In 2020 a credit facility agreement concluded by Sovcomflot with three international banks to refinance LNG tankers Grand Aniva and Grand Elena, which was one of the first in the shipping industry to incorporate the Poseidon Principles, was named the 'Deal of the Year' in the 'Project Financing' category by the jury at the annual Marine Money Awards.

See the Environmental protection section of the Sustainable development chapter of this Annual Report for more detailed information about reduction of carbon dioxide emissions.



## The Neptune Declaration

Sovcomflot joined the Neptune Declaration, which is designed to ensure that the rights of seafarers amid COVID-19 are respected and to support global supply chains.

The document is an initiative led by the Global Maritime Forum and brings together more than 450 major companies from the shipping, oil & gas and other industries. The companies that signed the document commit to take action to resolve the crew change crisis as soon as possible, involving their partners and government authorities in the process.

Amid the growing pandemic Sovcomflot Group managed to promptly take measures to protect the health of employees and ensure the uninterrupted operation of the fleet and onshore units. Local restrictions in a number of countries and regions, certainly, made adjustments to the crew change process. The Company has done and continues to do everything possible to ensure that its seafarers return home in a timely fashion. In particular, the rotation scheme has been optimised so that as many crew members as possible could be changed during calls to Russian ports.

Sovcomflot is taking a set of measures to monitor the health of each crew member prior to boarding the vessel, during the voyage and when going ashore. All rotating crews are allowed to go on board only after passing a coronavirus test, completing a two-week observation period and, if necessary, taking a second test.

From 95% to 100% of shore-based employees have transferred to remote work, thanks to the timely integration of digital solutions into all core operational management processes.



## ANTI-CORRUPTION CHARTER OF RUSSIAN BUSINESS

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 consistent implementation of the provisions of the Anti-Corruption Charter of Russian Business, which was joined by Sovcomflot, is a confirmation to this.

The Anti-Corruption Charter of Russian Business was signed in 2012 by four major business associations: the Russian Union of Industrialists and Entrepreneurs, the Chamber of Commerce and Industry of the Russian Federation, the All-Russian Non-Governmental Organization of Small and Medium-Sized Businesses «OPORA RUSSIA» and the All-Russian Non-Governmental Organization "Business Russia" with the participation of the Chairman of the Government of the Russian Federation.

The goal of the Charter is to encourage Russian businesses to voluntarily adopt special anti-corruption programmes that provide for internal control procedures, waiver of preferences, procurement through open bidding, financial control, personnel training and supervision, assistance to law enforcement authorities, and other measures.

The PAO Sovcomflot Executive Board made a decision on the Company's accession to the Anti-Corruption Charter of Russian Business in July 2017. The Company was included in the consolidated register of parties to the Charter by Order No. RP-16 of Alexander Shokhin, President of the Russian Union of Industrialists and Entrepreneurs, dated 14 November 2017.

An anti-corruption policy and **the SCF Group feedback form** have been in operation in the Company since 2015.

A new version of the anticorruption policy was approved by the PAO Sovcomflot Executive Board in August 2019. The document sets forth the rules and standards of doing business and applies to all Sovcomflot Group companies. The Company's Executive Board, at the same meeting, approved the PAO Sovcomflot Code of Corporate Ethics, which contains the basic ethical principles and priorities of the Company and recommendations on how the Sovcomflot Group employees should behave when making decisions in the course of their professional activities.



«Sovcomflot seafarers must be sure that their employer, together with its partners and clients, is doing everything necessary to ensure that the crews return home on time. During 2020, Sovcomflot took all possible measures to ensure that crew changes were conducted in compliance with all the existing international and Russian regulations, as well as the requirements of relevant authorities, while countering the spread of coronavirus. In 2021 we will continue to work in this direction.»

**Sergey Popravko,**  
Executive Vice President and Chief  
Operating Officer of PAO Sovcomflot

# Occupational health and safety

## Safety management system and service quality

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

The system is based on advanced methods of technical operation of vessels and vessel equipment as well as personnel management, approved in accordance with the 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 high-profile 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.

2.16 - the average number of observations related to navigational safety and quality made during one inspection of SCF's vessels by oil majors, which is significantly better than the industry average (2.70) according to Q88 data.

Sovcomflot devotes much attention to raising the safety culture, which directly influences the number of incidents attributed to human factor. The company continuously monitors safety culture dynamics in the fleet, conducts specialised training sessions for seagoing personnel based on modern sociology science research to develop adequate skills in responding to emergencies with ship equipment.

The safety culture in the SCF fleet 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 (for more details [see the Professional development section](#)).

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, company specialists participate in meetings of the Maritime Safety Committee of the Russian Chamber of Shipping as well as meetings with representatives of the International Maritime Organization (IMO) and develop manuals on ISM Code implementation in collaboration with the International Chamber of Shipping (ICS).

Navigational safety and occupational health and safety issues are considered at various levels of Sovcomflot Group management. The Committee for Innovative Development and Technical Policy of the PAO Sovcomflot Board of Directors conducts a preliminary review, analysis, and elaboration of recommendations for improving the safety and service quality management system. 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.

In the SCF Group companies responsible for technical management of the fleet, occupational health and safety issues are administered by special HSSE (Health, Safety, Security, Environment) services. Navigation safety superintendents and occupational safety specialists control compliance with the occupational health and safety regulations in the fleet.

Company vessels have occupational health and safety committees, whose task is to assist in implementing the Company's safety management system procedures related to occupational health and safety, raising the safety culture on the ship and involving crew members in occupational safety management. These committees serve as a special venue for the dialogue between fleet employees and management: by a decision of the committee, applications and recommendations are submitted to the Company on behalf of the crew via the captain. These committees hold meetings at least once per month, which must be attended by all crew members not on watch, with those on watch being subsequently notified of the results of the meeting on a mandatory basis. The committees are authorised to decide on any issues related to safety on the ship, including by studying reports on potential threats of incidents, and analyse the need for additional personal protective equipment and emergency rescue equipment.

## Key occupational safety indicators

Sovcomflot Group has been steadily retaining mid-positions in rankings compiled by the International Association of Independent Tanker Owners (INTERTANKO) and Q88 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 2020 was 0.37, 18% down on 2019 (the LTIF for the global tanker fleet, according to INTERTANKO data for 2020, averages 0.47).

The Total Recordable Case Frequency (TRCF) was 0.80, which is also lower by 12% compared to 2019 (the TRCF for the global tanker fleet, according to INTERTANKO data for 2020, averages 1.1).

In 2020 there were no accidents in the SCF fleet that resulted in partial or total disability. The Company considers this to be a significant achievement and thanks the captains and crews of vessels for their commitment to the safety culture and compliance with the requirements set out in safety management system manuals.

The LNG carrier *Grand Aniva* transporting LNG from the Sakhalin-2 project



SCF Management Services (Dubai) responsible for the technical management of the 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 2020, 19 SCF Group's ships had Green Award certificates (which is warranted by the specifics of the region of operation).

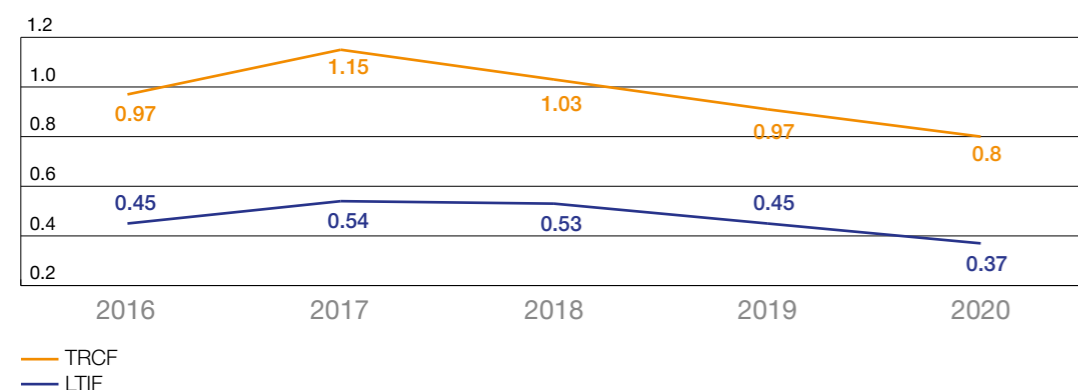
# 0.37

the LTIF value  
(vs. 0.45 in 2019)

# 0.80

the TRCF value (vs.  
0.91 in 2019)

LTIF and TRCF dynamics, 2016-2020



# Human resources and social programmes

## 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.

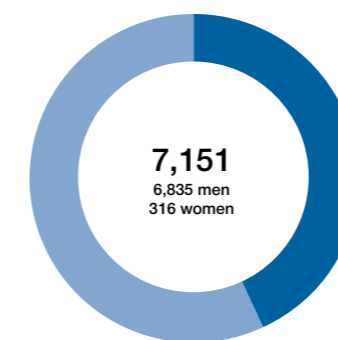
The Employment Policy is reflected in a system of internal regulations geared to attract and select qualified personnel, provide professional development (training, career growth, talent pool), motivation and incentives for employees, and assess their performance.

The Sovcomflot Group's total staff number is over 8,000. Due to the nature of the Group's operations, fleet personnel (7,151 people as at 31 December 2020) make up the bulk (about 90%) of the total Group headcount<sup>1</sup>.

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 and implementing the Programme for Developing Core Competencies of Seafarers designed for six years. This programme launched in 2020 covers all captains and engineering officers in the Sovcomflot Group fleet who have at least 12 months of experience on board a ship.

Total number of fleet personnel by category



3,083	Officers
3,072	men
11	women
4,068	Ratings
3,763	men
305	women

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 2020 it was 98.2% for officers and 95.8% for ratings. The retention rate for

senior officers in 2020 was 98.8%. This shows that Sovcomflot Group is viewed as an attractive employer, and is able to retain skilled staff.

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 appraisal results, 397 employees received a promotion, including 87 senior officers, 194 junior officers and 116 ratings, with 11 ratings promoted to officer rank.

**The Group has developed a programme to promote the most talented first officers and second engineers to the positions of master and chief engineer respectively.**

**384**  
the number of people  
by Sovcomflot Group  
in 2020

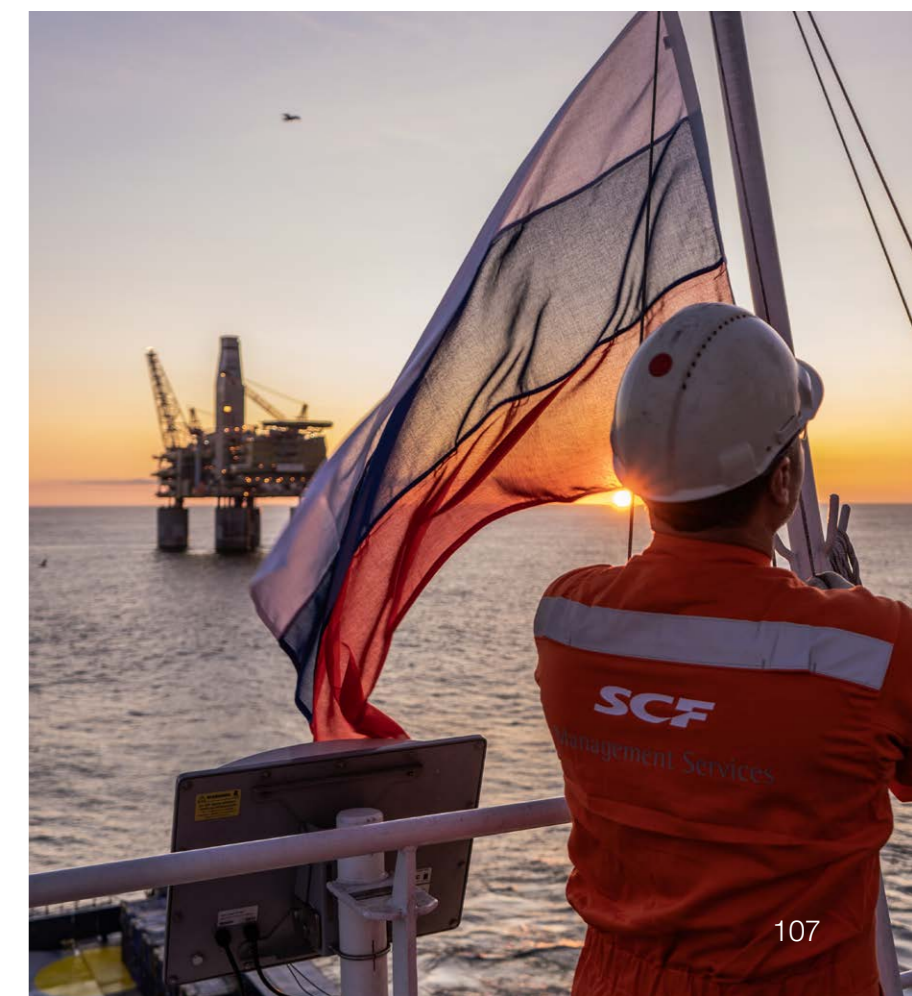
## Professional development

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 321 fleet officers participated in these seminars.

**In 2020 1,241 people completed 3,852 skill improvement courses at the expense of the Company in accordance with the International Convention on Standards of Training, Certification, and Watchstanding for Seafarers (STCW) 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.



<sup>1</sup> Including the crews of the ships of third-party owners managed by SCF Group.

### Cooperation with maritime educational institutions

In order to attract young skilled specialists, Sovcomflot Group fosters cooperation with Russian maritime educational institutions.

The previously concluded cooperation agreements with the three main maritime universities in the country: Admiral Makarov State University of Maritime and Inland Shipping (Saint Petersburg), Admiral Ushakov Maritime State University (Novorossiysk) and Admiral Nevelskoy Maritime State University (Vladivostok) continued to operate in 2020.

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.

### Main types of cooperation with maritime educational institutions

Type of cooperation	Nature of cooperation	Results of practical training
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.	123 cadets of maritime universities and 10 cadets of secondary vocational training institutions received practical training on board the SCF vessels in 2020
Targeted training of fleet specialists	SCF Group implements targeted training programmes for young fleet officers in collaboration with leading Russian maritime universities. The group of SCF cadets at the Admiral Nevelskoy Maritime State University in 2020 included 20 people: 8 navigators, 8 marine engineers and 4 electrical officers. A similar group of 20 people was formed from third- and fourth-year cadets at the Admiral Makarov State University of Maritime and Inland Shipping.	In 2020 all cadets from dedicated groups received practical training on SCF Group vessels. 82 graduates of higher and secondary educational institutions were employed by SCF Group.
	As part of a joint project between SCF Group and the Admiral Ushakov Maritime State University, a targeted enrolment programme for cadets within the quota for training funded from the federal budget was operating at the University from 2014 to 2020.	In 2020 all cadets from the targeted enrolment groups who complied with the contract terms were hired into officer positions on SCF ships.

### 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 ice-breakers, 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 more than 15 years and today is one of Russia's leading maritime educational institutions. The training centre cooperates with 15 companies from the southern region of Russia on training for seagoing personnel. The centre has been certified by Russian Maritime Register of Shipping to ISO 9001:2015 ("Quality Management") and pursuant to the International Convention on Standards of Training, Certification, and Watchstanding for Seafarers, as amended ("System of Quality Standards"). According to the latest estimate by auditors, the Novoship Training Centre occupies 5% of the domestic market for specialised training.

## 4,903

were issued in SCF corporate training centres in 2020 for all types of training, including those using distance learning technology

Sovcomflot stimulates professional development among its staff and encourages employees to pursue additional education in order to gain in-depth knowledge of modern technologies in fleet management. SCF's engineering staff have very high scientific capabilities: currently,

15 seafarers, who have completed post-graduate studies and received the title of Candidate of Technical Sciences or are preparing to defend their theses, work in the Group's fleet.

**The Sovcomflot Training Centre in St. Petersburg became the first in Russia to provide training for crews of ships subject to the IGF Code (International Code of Safety for Ship Using Gases or Other Low-flashpoint Fuels) under a programme developed by this centre by taking into account the experience in operating Aframax tankers of the 'Green Funnel' series.**

## Personnel motivation

### Incentive and motivation programmes broken down by personnel categories

Fleet employees	Onshore personnel
Long-term contracts for officers on gas carrier crews	Non-material and material incentives for the performance of particularly important assignments
Corporate pension programme	Corporate pension programme
Incentives in the form of state, departmental, regional, and corporate awards	Incentives in the form of state, departmental, regional, and corporate awards
Material incentives in connection with the receipt of state awards	System of annual bonuses based on KPI performance
Programme for developing core competencies of seafarers	Long-term motivation programme for the Company's Executive Board members based on deferred compensation; long-term motivation programme for 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 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.

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 Insurance Company 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.

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

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

## 4,834

shipboard employees of SCF Group were Pension Programme participants at the end of 2020

**Since the beginning of the Programme, 625 seafarers have received pension payments totalling more than 169 million roubles.**



# 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 and social institutions, enhancing the prestige of the maritime profession, preserving the cultural and historical heritage and natural diversity of our country, and taking care of industry veterans.

PAO Sovcomflot provides sponsorship and charity assistance in accordance with the relevant regulations 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).

In accordance with these regulations, the Company annually allocates for these purposes 1% of the budgeted annual net profit calculated according to international financial reporting standards in US Dollars. In 2020 the Group's sponsorship and charity expenses amounted to RUB 71 million (US\$0.96 million<sup>1</sup>).

**Distribution of the Group's sponsorship and charity expenses in 2020, (RUB million)**



# 71

## RUB million

(approximately US\$1 million) - the total amount of the Group's sponsorship and charity expenses in 2020

## Key areas of sponsorship and charity

### Charitable assistance to St. Olga's Children's Hospital (Saint Petersburg)

Sovcomflot Group has been providing support to St. Olga's Hospital and allocating funds to equip the anaesthesiology and intensive care ward of the hospital with modern high-tech equipment for more than 10 years. In 2020, given the spread of new coronavirus disease, the volume

of funds to support the health care facility was doubled: the hospital received two expert-class artificial lung ventilation units, which enabled it to significantly increase the volume and improve the quality of aid provided during the COVID-19 pandemic.

### Charitable assistance to the Safonovo Orphanage Boarding School (Smolensk Region)

Sovcomflot has been providing support to the boarding school for 10 years, helping its team to prepare children for independent lives and create for them conditions similar to those found in a family. In 2020 the boarding school had 78 children under its care.

carried out to prevent the spread of new coronavirus infection among the boarding school teachers and residents and continuing the strengthening of its material and technical base by equipping classrooms and living quarters with the necessary equipment and repairing job training workshops.

In 2020 the main efforts were directed toward ensuring that a set of preventive measures is

### 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 Maritime State University (Madvostok). For more detailed information, see the **Professional development** section of this Annual Report. During the reporting period, Sovcomflot allocated additional funds to universities to purchase means for preventing

the spread of new coronavirus infection, as well as equipment for distance learning.

Sovcomflot has been actively supporting the development of children's sailing in Primorsky Krai through the Sailing School at the Admiral Nevelskoy Maritime State University since 2016. Experienced teachers instill in schoolchildren a love of the sea, help them learn the ABCs of the maritime profession on Optimist and Cadet class dinghies. The school currently has more than 50 students.

### Charitable assistance to Captain Varukhin Maritime Centre (Velikiy Novgorod)

Sovcomflot is a member of the Board of Guardians of the Centre and provides active support in the development of this unique educational institution. The development of the Centre's material and technical base - equipping classrooms and ships with multimedia, navigation and emergency rescue equipment - continued in 2020. Activities were carried out to improve the skills of its teaching staff. A gathering of young sailors within the project "Russia - a country of 21st century sailors" took place in the summer of 2020 in compliance with all anti-epidemic measures.

Sovcomflot's annual support makes it possible not only to preserve the existing traditions of the children's fleet, but also to form a basis for the development of innovative competencies required for work in a modern fleet.

<sup>1</sup> At the official exchange rate set by the Central Bank of the Russian Federation as of 31 December 2020

Students from the Captain Varukhin Maritime Centre (Novgorod Region) in the Sovcomflot office in Saint Petersburg



### Charitable assistance to the Youth Maritime League

The active collaborative work carried out by Sovcomflot and the Youth Maritime League, a public organisation supporting the development of the younger generation, helps raise the prestige of the maritime profession and sports through the development of maritime programmes "School of Young Shipwrights" and "School under Sails". Over a few recent years, about 3,000 children and teenagers representing 64 children's maritime centres, cadet corps and clubs of young sailors from 49 regions of

Russia participated in all-Russian gatherings of young sailors in children's centres "Artek" and "Ocean" with the participation of Sovcomflot. The year 2020 made its adjustments - the main efforts were directed toward developing the material and technical base of children's centres. Nevertheless, it proved possible to conduct gatherings of young sailors in children's centres in compliance with all anti-epidemic measures and restrictions.

### Charitable assistance to the Eurasian Centre for the Preservation of Far Eastern Leopards (Primorsky Krai)

Sovcomflot has been providing assistance to the Land of Leopard National Park and supporting the programme aiming to preserve and restore the population of the rarest leopard subspecies, the Far Eastern Leopard. With the Company's assistance, in 2020 a set of landscape fire protection as well as other environmental and

biotechnical measures were carried out in the new territories of the national park (in particular, the Ussuriisk Nature Reserve). A digital platform was implemented to control patrol routes, full material and technical support was provided to the ranger inspection service.

### Charitable assistance to the Centre for the Study and Preservation of the Amur Tiger Population (Primorsky Krai)

Sovcomflot has been financing the project for the study and preservation of the Amur tiger population in the Far East since 2016. The Amur tiger is the northernmost subspecies of tiger and is listed in the Red Book. Today its population numbers about 600 animals.

With the support of Sovcomflot, the centre continues to develop successfully its research programme, monitor the tiger population, increase the effectiveness of the tiger's protection outside the specially protected natural reserves, carries out awareness-raising and educational activities and is improving the regulatory framework.

### Charitable assistance to the Russian America Project (Fort Ross, US)

Since 2012, Sovcomflot, in collaboration 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.

### Sponsorship support for the All-Russian Federation of Swimming

Sovcomflot Group has been providing sponsorship support to the All-Russian Federation of Swimming for more than 10 years. The children's swimming competition "Merry Dolphin" was not conducted in 2020 due to restrictions, but the XIV International Swimming Competition "Vladimir Salnikov Cup" (Saint Petersburg) did take place. These competitions have been included in the European Swimming League (LEN) and International Swimming Federation (FINA) calendars as a top-level international tournament for many years. In 2020, for the first time ever, the competition took place without spectators and fans were watching the athletes competing for 35 sets of medals in online broadcast.

The triumphant at the Cup were Russian swimmer Evgeniya Chikunova and Belarusian Ilya Shimanovich, who won the tournament Grand Prix and set new records. Andrey Minakov from Saint Petersburg set a new European youth record at the 100 m butterfly.

### Sponsorship support for the All-Russian Federation of Sailing

Sovcomflot Group has been providing sponsorship support to the All-Russian Federation of Sailing for more than 10 years. In doing so, it is paying particular attention to the development of children's and youth sailing: new schools and sections have been organised in Russian

regions, athletes are provided with support to participate in major competitions, such as the Russian Championship and national championship in Olympic classes. In addition, support from Sovcomflot helps the Federation train Russian Paralympic athletes.

### Support for scientific and cultural programmes

#### Literary Award «Far East»

The All-Russian Literary Award "Far East" named after V.K. Arsenyev, an outstanding Russian geographer and explorer of the Far East, is a new, but yet important event in the cultural life of our country. Supporting the award in the

category "Prose for Children", Sovcomflot is confident that reading the best examples of modern Russian prose, the younger generation of Russians will love their homeland, our country, just as Vladimir Arsenyev loved it.

#### Scientific and Practical Conference «Polar Readings»

Sovcomflot has been supporting the efforts of the Branch of the Museum of World Ocean in St. Petersburg "Icebreaker Krasin", the Arctic Museum and Exhibition Centre, and the Arctic and Antarctic Research Institute on holding the conference "Polar Readings" and publishing a collection of scientific papers for many years. In 2020 the conference was held for the eighth time, but for the first time in a remote mode.

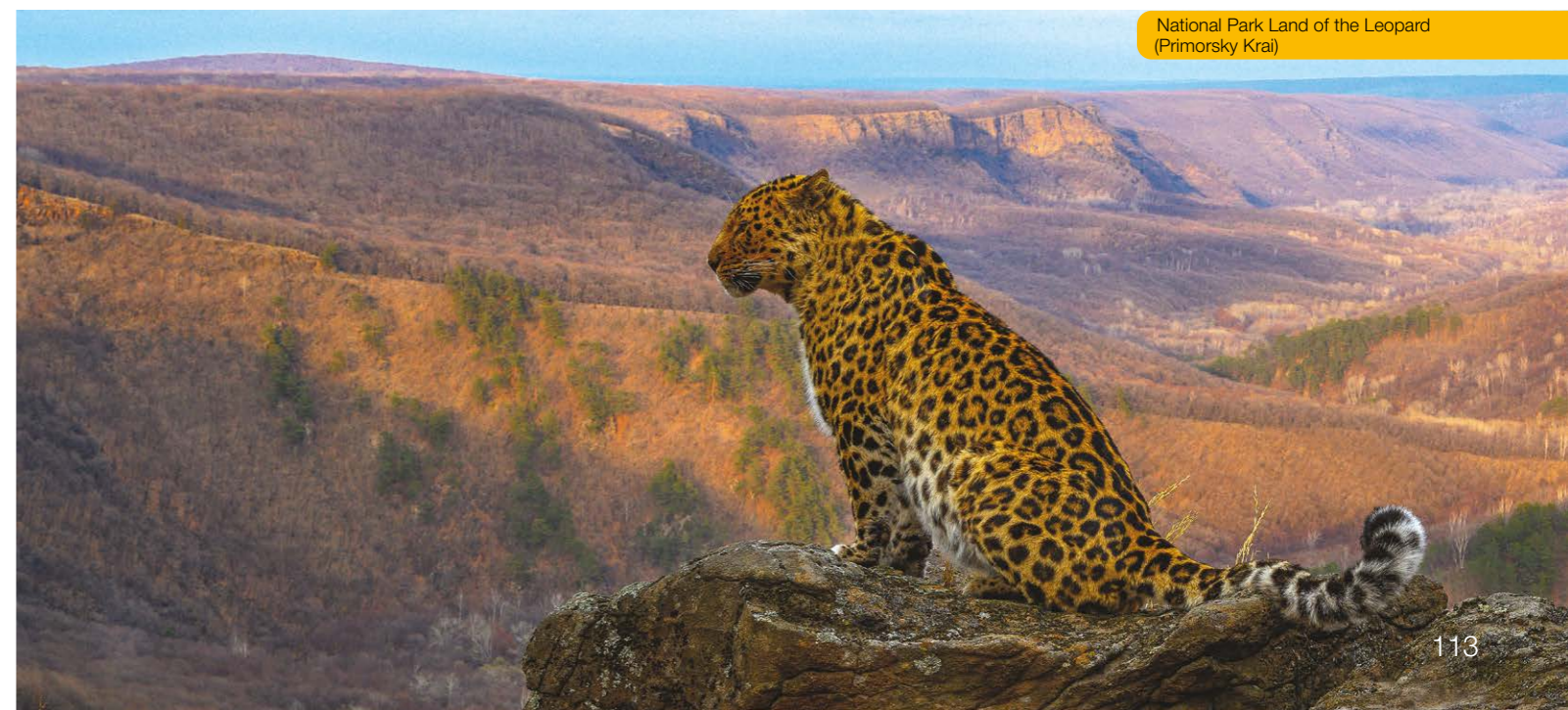
150 Arctic research specialists from Russia, Belarus, Norway and Sweden took part in the conference. Reports presented in 8 thematic sections were devoted to a wide range of issues related to the history or research and expeditions in the Arctic, international cooperation in studying Polar regions, and technologies that help popularize scientific knowledge about the Arctic.

#### International Film Festival «17 Moments...» named after Vyacheslav Tikhonov

Sovcomflot has been supporting this film festival since its inception in collaboration with the Ministry of Culture of Russia and Moscow Region, the Filmmakers' Union of Russia and the State Film Fund. The festival serves as a good launch pad for creative arts students, helps discover new names who are aspiring to make

their mark in the history of cinema and is geared toward encouraging the creation of new films for children, youth and family.

National Park Land of the Leopard (Primorsky Krai)



# Environmental protection

## 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.

Sovcomflot Group's operating specifics are associated with certain man-made environmental impacts, which include emissions from different types of fuel burned by ship engines and 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.

The LR II product tanker *Viktor Bakayev* near the coast of Norway

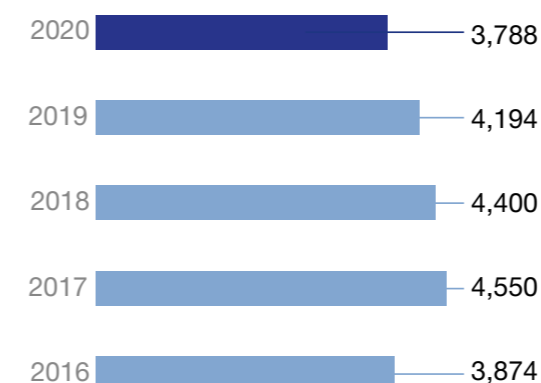


## Atmospheric emissions

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

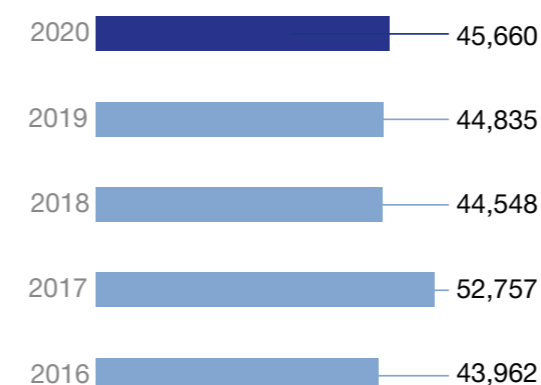
The basic components of atmospheric emissions are carbon, sulphur and nitrogen oxides formed during the combustion of fuel in ship engines.

**Dynamics of carbon dioxide (CO<sub>2</sub>) emission, 2016-2020, ('000 tonnes)**



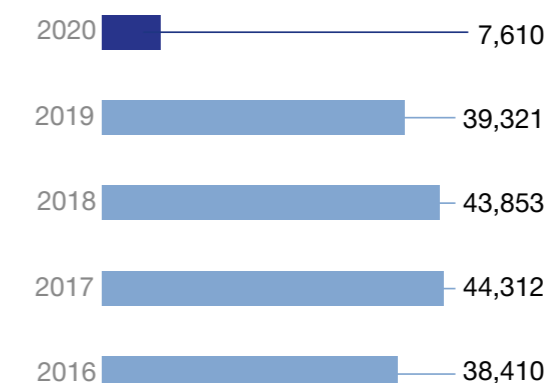
The decrease in CO<sub>2</sub> emissions is due to the increase in the use of LNG fuel in 2020 to 16% of the total fuel consumption of the fleet, which generally boosts the energy efficiency of ships.

**Dynamics of nitrogen oxides (NO<sub>x</sub>) emission, 2016-2020, (tonnes)**



Although the share of LNG fuel in the total fuel consumption of the fleet increased in 2020, this did not lead to a reduction in nitrogen oxides emissions because their amount largely depends on the engines' running time and operating load.

**Dynamics of sulphur oxides (SO<sub>x</sub>) emission, 2016-2020, (tonnes)**



The significant reduction in sulphur oxides emissions in 2020 is a result of activities carried out in 2019 on all the Group's ships to prepare for the switch to low-sulphur marine fuel with a sulphur content not exceeding 0.5% from 1 January 2020.

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.

### EEOI index

Energy Efficiency Operational Index (EEOI) is calculated as the total CO<sub>2</sub> 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 2020, (grammes/tonne-mile)**

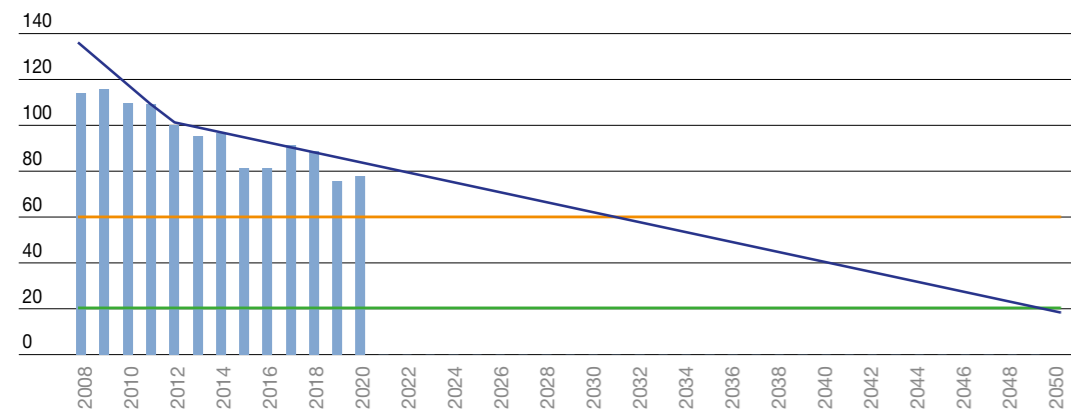
Type of vessel	Standard	Actual 2020	Actual 2019
Suezmax tankers	≤ 12	8.138	8.346
Aframax tankers	≤ 15	5.668	10.118
LR II product carriers	≤ 15	8.122	11.053
LR I product carriers	≤ 16	14.553	13.294
MR product carriers	≤ 25	17.207	19.617
Handy product carriers	≤ 25	20.575	24.809
Panamax bulkers	≤ 12	10.307	7.580

**Decarbonisation index**

The carbon intensity targets under SCF Group's 'Green Charter' are based on the vision of the International Maritime Organization (IMO). In 2018 the IMO adopted a decarbonisation strategy, which defines CO<sub>2</sub> emission reduction targets. The IMO expects global carbon dioxide emissions to be reduced by at least 50%

by 2050 compared to 2008 and CO<sub>2</sub> emissions per transport work (CO<sub>2</sub> emission intensity index) to be reduced by at least 40% by 2030 and 70% by 2050 compared to 2008 levels.

**Dynamics of the CO<sub>2</sub> emission intensity index for the SCF Group fleet**



Legend:  
 ■ Actual value of the CO<sub>2</sub> emission intensity index for the SCF fleet (%)  
 — Trajectory of IMO's decarbonisation index  
 — Index value corresponding to 30% reduction of CO<sub>2</sub> emissions in tonnes from 2008 to 2030  
 — Index value corresponding to 50% reduction of CO<sub>2</sub> emissions in tonnes from 2008 to 2050

**Results of the use of LNG as a fuel for Aframax tankers**

The commissioning of a 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

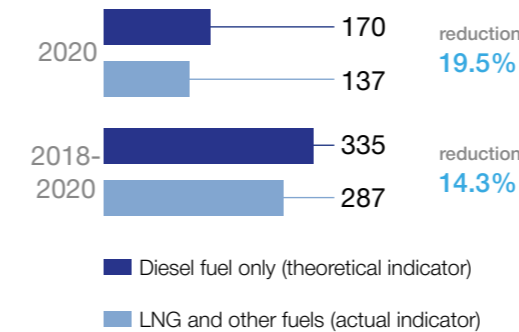
regulations governing NOx emissions (Annex VI to the International Convention for the Prevention of Pollution from Ships) even when running on diesel fuel.

**22%**  
 reduction in the CO<sub>2</sub> emission intensity index for the SCF fleet between 2012 and 2020

The first vessel of the series was put into operation in 2018. By the end of 2019 the number of Aframax tankers in the SCF fleet capable of running on LNG increased to six. An analysis of data obtained from ship operations during 2018-2020 confirms the theoretical calculations that Sovcomflot relied on when assessing the prospects of this technology.

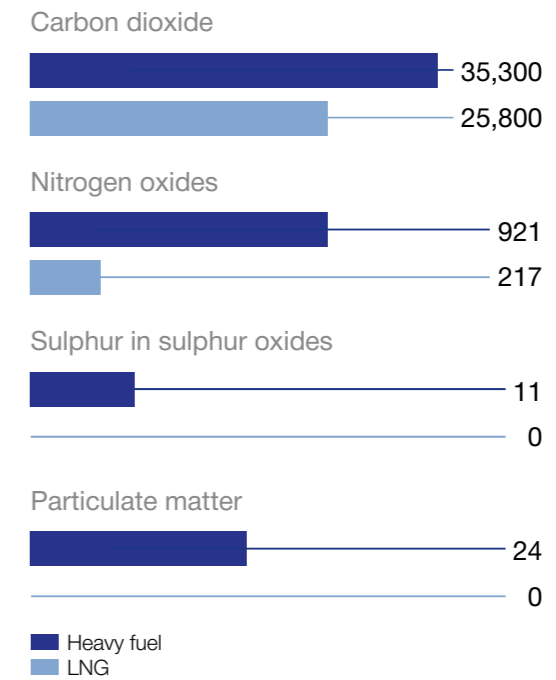
The diagram below shows the amount of carbon dioxide emissions from SCF Group's Aframax tankers that use LNG along with other marine fuels compared with similar tankers running on diesel fuel.

**Reduction in carbon dioxide emission when using LNG as a fuel for Aframax tankers, ('000 tonnes per year)<sup>1</sup>**



Provided that an Aframax tanker runs exclusively on LNG, the reduction of sulphur oxides and soot emissions reaches 100%, nitrogen oxides emissions decrease by at least 76%, and the reduction of carbon dioxide emissions can reach 30% as compared with power plants running on conventional heavy fuel.

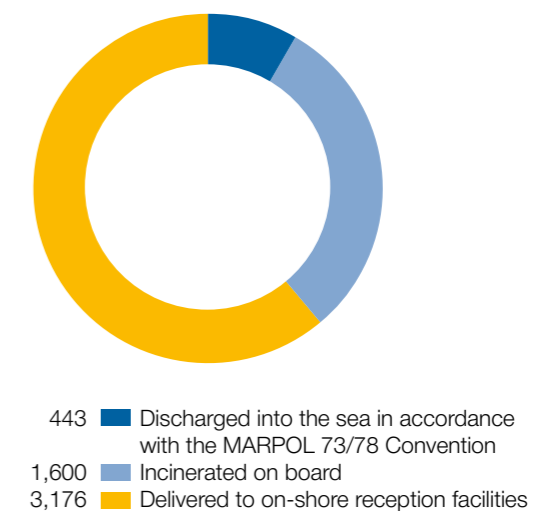
**Potential for reducing atmospheric emissions from ship power plants through the use of LNG, (tonnes per year)**



**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.

**Amount of different types of garbage disposed of in 2020, (cubic metres)**



<sup>1</sup> The amount of fuel of different types consumed by vessels during operations which was used for calculating these indicators is verified by IMO Data Collection System reports and by the classification society ABS.

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

Management of garbage produced on ships is also organised in strict compliance with Annex V of the MARPOL Convention 73/78, which regulates prevention of pollution by garbage from ships.



The LNG carrier *Pskov* during a ship-to-ship cargo transfer operation

## Energy consumption and efficiency

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

### Dynamics of fuel consumption in 2018-2020, (tonnes)

Type of fuel	2020		2019		2018	
Fuel oil	800,023	65%	958,550	70%	1,025,791	72%
Diesel fuel	234,583	19%	203,754	15%	231,860	16%
Gas engine fuel	190,204	16%	200,475	15%	166,741	12%
<b>Total</b>	<b>1,224,811</b>	<b>100%</b>	<b>1,362,779</b>	<b>100%</b>	<b>1,424,393</b>	<b>100%</b>

Sovcomflot Group is actively engaged in work to implement a state programme for introducing gas engine fuel in the transport sector. In 2020, the share of gas engine fuel amounted to 16% of the total ship fuel consumption against 15% 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, six dual-fuel Aframax tankers using liquefied natural gas as the primary fuel were brought into service in 2018-2019. In 2020, two LNG carriers equipped with two-stroke internal combustion

engines running on gas fuel were accepted for operation.

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.

# 16%

the share of gas engine fuel in the total amount of ship fuel consumed (vs. 15% in 2019)

## 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 2020 Sovcomflot Group continued to implement the following 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 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 and timers).

**Sovcomflot Group realises its high responsibility for the quality of the environment and seeks to minimise its adverse impacts on the environment by introducing innovations, reducing energy consumption, and increasing staff qualifications.**

# 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 2020 Annual Report of PAO Sovcomflot at the meeting held on 14 April 2021.

The Company's corporate governance system is based on the Russian statutory requirements and the application of international best practices of corporate governance.

The Company recognises that high standards of corporate governance are important not only for improving investment attractiveness, but also for enhancing the Company's performance and reputation.

In the reporting year the Company continued work to improve the corporate governance model and practices. In accordance with the road map for implementing the CG Code at PAO Sovcomflot, approved by the Board of Directors

in 2015, the following key internal documents that set forth the principles of corporate governance were updated (or reapproved): Amendments to the Charter of PAO Sovcomflot as well as amendments to the Regulations on the Dividend Policy, Regulations on the Internal Audit Department, and Regulations on the Corporate Secretary.

The form below contains the CG Code recommendations observed, partially observed or not observed by the Company, with justification of the reasons for non-observance and indication of alternative mechanisms used by the Company and its plans for improving the corporate governance system.

Item 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
<b>1.1</b>	<b>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.</b>			
<b>1.1.1</b>	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.	<ol style="list-style-type: none"> <li>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.</li> <li>The company provides convenient ways of communications with the public, such as the hot-line, 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.</li> </ol>	<b>Observed</b>	
<b>1.1.2</b>	Procedures for notification of the general meeting and provision of materials for it should enable the shareholders to get properly prepared for participation therein.	<ol style="list-style-type: none"> <li>A notice of the general meeting was posted (published) on the website at least 30 days prior to the date of the meeting.</li> <li>The notice of the meeting includes the venue of the meeting and documents required for access to the premises.</li> <li>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.</li> </ol>	<b>Observed</b>	

Item 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.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> </ol>	Observed	
1.1.4	There should be no unjustified difficulties preventing shareholders from exercising their right to demand that a general meeting be convened, to nominate candidates to the company's governing bodies, and to place proposals on its agenda.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> </ol>	Observed	
1.1.5	Each shareholder should be able to freely exercise his/her right to vote in a straightforward and most convenient way.	<ol style="list-style-type: none"> <li>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.</li> </ol>	Observed	

Item 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
1.1.6	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.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> </ol>	Observed	
1.2	<b>SHAREHOLDERS SHOULD BE GIVEN EQUAL AND FAIR OPPORTUNITIES TO PARTICIPATE IN THE PROFITS OF THE COMPANY BY MEANS OF RECEIVING DIVIDENDS</b>			
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.	<ol style="list-style-type: none"> <li>The company has developed a dividend policy which has been approved by the board of directors and disclosed.</li> <li>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.</li> </ol>	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.	<ol style="list-style-type: none"> <li>The dividend policy of the company clearly indicates financial/economic circumstances in which the company should not pay dividends.</li> </ol>	Partially observed	The Company's dividend policy provides that dividends shall not be accrued and paid in cases stipulated by current legislation of the Russian Federation

Item 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.	Observed	
<b>1.3</b>	<b>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.</b>			
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.	Observed	
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.	Partially observed	Quasi-treasury shares were not voted during the reporting period

Item 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
<b>1.4</b>	<b>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.</b>			
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	
<b>2.1</b>	<b>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.</b>			
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 authority to form the collegiate executive body and early terminate its powers and to determine the remuneration and compensation for its members is vested in the Company's Board of Directors (Art. 12 of the Charter).
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	
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	



Item 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
2.1.4	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.	<ol style="list-style-type: none"> <li>The company has developed and implemented a policy (policies) on remuneration and/or reimbursement (compensation) of expenses for members of the board of directors and executive bodies and other key managers of the company, which was approved by the board of directors.</li> <li>Matters related to the said policy(ies) were considered at meetings of the board of directors held during the reporting period.</li> </ol>	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.	<ol style="list-style-type: none"> <li>The board of directors plays a key role in prevention, detection and resolution of internal conflicts.</li> <li>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.</li> </ol>	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.	<ol style="list-style-type: none"> <li>The board of directors has approved regulations on information policy.</li> <li>The company has designated persons responsible for implementation of the information policy.</li> </ol>	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.	<ol style="list-style-type: none"> <li>The board of directors reviewed the company's corporate governance practices during the reporting period.</li> </ol>	Observed	

Item 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
2.2	<b>THE BOARD OF DIRECTORS SHOULD BE ACCOUNTABLE TO THE COMPANY'S SHAREHOLDERS.</b>			
2.2.1	Information about the board of directors' work should be disclosed and provided to the shareholders.	<ol style="list-style-type: none"> <li>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.</li> <li>The annual report contains information on principal results of evaluation of the work of the board of directors performed during the reporting period.</li> </ol>	Partially observed	An evaluation of the work of the Board of Directors is scheduled for the second half of 2021
2.2.2	The chairman of the board of directors must be available to communicate with the company's shareholders.	<ol style="list-style-type: none"> <li>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.</li> </ol>	Observed	
2.3	<b>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.</b>			
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.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> </ol>	Observed	

Item 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
2.3.2	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.	Observed	
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.	Partially observed	An evaluation of the work of the Board of Directors is scheduled for the second half of 2021
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.	Partially observed	An evaluation of the work of the Board of Directors is scheduled for the second half of 2021

Item 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	<b>THE BOARD OF DIRECTORS SHOULD INCLUDE A SUFFICIENT NUMBER OF INDEPENDENT DIRECTORS.</b>			
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.	Observed	
2.4.2	Candidates to the board of directors should be evaluated to determine whether they meet the criteria of independence, with a review to determine whether or not independent board members meet the independence criteria conducted on a regular basis. When carrying out such evaluation, substance shall take precedence over form.	1. During the reporting period the board of directors (or its nominating committee) formed an opinion on the independence of each candidate to the board of directors and submitted the relevant report to the shareholders. 2. The board of directors (or its nominating committee) reviewed the independence of the current board members identified as independent directors in the company's annual report at least once during the reporting period. 3. The company has developed procedures determining which actions a board member is required to undertake in the event that he/she ceases to be independent, including an obligation to notify the board of directors to this effect in a timely manner.	Observed	

Item 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
2.4.3	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	
<b>2.5</b>	<b>THE CHAIRMAN OF THE BOARD OF DIRECTORS SHOULD HELP IT CARRY OUT THE FUNCTIONS ASSIGNED TO THE BOARD IN A MOST EFFICIENT MANNER.</b>			
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.	<ol style="list-style-type: none"> <li>1. The chairman of the board of directors is an independent director or the senior independent director among the independent directors is identified.</li> <li>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.</li> </ol>	Partially observed	<p>Considering the fact that, in accordance with Russian Government Resolution No. 738, the Chairman of the Board of Directors of the Company is charged with certain duties, including deciding on the need to obtain voting directives for the Board of Directors members who are government appointees on the agenda items of the Board not expressly specified in Russian Government Resolution No. 738, a government appointee who has sufficient knowledge and experience, taking into account the specifics of the Company's activities, is elected as Chairman of the Company's Board of Directors.</p> <p>The role, rights and duties of the Chairman of the Board of Directors are defined in the Regulations on the Board of Directors approved by decision of the Company's sole shareholder.</p>
2.5.2	The chairman of the board of directors should ensure that the board meetings are held in a constructive atmosphere and that any items on the meeting agenda are discussed freely. The chairman should also monitor fulfilment of decisions made by the board of directors.	1. The performance of the chairman of the board of directors was evaluated as part of the procedure of evaluating the performance of the board of directors in the reporting period.	Partially observed	An evaluation of the work of the Board of Directors is scheduled for the second half of 2021

Item 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
2.5.3	The chairman of the board of directors should take the necessary measures to provide the board members in a timely manner with information required to make decisions on issues on the agenda.	1. The duty of the chairman of the board of directors to take measures to ensure that materials relating to the agenda of the board meeting are provided to the board members in a timely manner is set forth in the company's internal documents.	Observed	
<b>2.6</b>	<b>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.</b>			
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.	<ol style="list-style-type: none"> <li>2. 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.</li> <li>3. 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.</li> <li>4. The company has established a procedure enabling board members to receive, at the expense of the company, professional advice on issues within their competence.</li> </ol>	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	

Item 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
2.6.3	Board members should have sufficient time to perform their duties.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> </ol>	Partially observed	An evaluation of the work of the Board of Directors is scheduled for the second half of 2021
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.	<ol style="list-style-type: none"> <li>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.</li> <li>The company has a formalised introductory programme for newly elected board members.</li> </ol>	Observed	
<b>2.7</b>	<b>MEETINGS OF THE BOARD OF DIRECTORS, PREPARATION FOR THEM, AND PARTICIPATION OF BOARD MEMBERS THEREIN SHOULD ENSURE EFFICIENT WORK OF THE BOARD.</b>			
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.	<ol style="list-style-type: none"> <li>The board of directors held at least six meetings during the reporting year.</li> </ol>	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.	<ol style="list-style-type: none"> <li>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.</li> </ol>	Observed	

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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.	<ol style="list-style-type: none"> <li>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.</li> </ol>	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.	<ol style="list-style-type: none"> <li>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 threefourths or a majority of all elected board members.</li> </ol>	Observed	
<b>2.8</b>	<b>THE BOARD OF DIRECTORS SHOULD FORM COMMITTEES FOR PRELIMINARY CONSIDERATION OF THE MOST IMPORTANT ISSUES RELATING TO THE COMPANY'S ACTIVITIES.</b>			
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.	<ol style="list-style-type: none"> <li>The board of directors has formed an audit committee composed entirely of independent directors.</li> <li>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.</li> <li>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.</li> <li>Meetings of the audit committee were held at least once per quarter during the reporting period.</li> </ol>	Partially observed	A majority of the Audit Committee members are independent directors. The Committee is chaired by an independent director. The Regulations on the Audit Committee of the PAO Sovcomflot Board of Directors are in accordance with the recommendations of the CG Code.
2.8.2	A remuneration committee consisting of independent directors and chaired by an independent director other than the chairman of the board of directors should be formed for preliminary consideration of matters related to the development of efficient and transparent remuneration practices.	<ol style="list-style-type: none"> <li>The board of directors has formed a remuneration committee composed entirely of independent directors.</li> <li>The chairman of the remuneration committee is an independent director other than the chairman of the board of directors.</li> <li>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.</li> </ol>	Partially observed	A majority of the HR and Compensation Committee members are independent directors. An independent director was elected as Chairman of the Committee. The Regulations on the HR and Compensation Committee of the PAO Sovcomflot Board of Directors are in accordance with the recommendations of the CG Code.

Item 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
2.8.3	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.	<ol style="list-style-type: none"> <li>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).</li> <li>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.</li> </ol>	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.	<ol style="list-style-type: none"> <li>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.</li> </ol>	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.	<ol style="list-style-type: none"> <li>The committees of the board of directors are headed by independent directors.</li> <li>Internal documents (policies) of the company include provisions that persons who are not members of the audit committee, nominating committee and remuneration committee may attend their meetings only at the invitation of their chairmen.</li> </ol>	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.

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2.8.6	Chairmen of the committees should inform the board of directors and its chairman of the work of their committees on a regular basis.	<ol style="list-style-type: none"> <li>During the reporting period, chairmen of the committees reported on the work of their committees to the board of directors on a regular basis.</li> </ol>	Observed	
2.9	<b>THE BOARD OF DIRECTORS SHOULD ENSURE THAT THE QUALITY OF ITS WORK AND THAT OF ITS COMMITTEES AND MEMBERS IS ASSESSED.</b>			
2.9.1	Assessment of the quality of the board's work should be aimed at defining how efficiently the board of directors, its committees and members work and whether their work meets the needs of the company's development, revitalizing the work of the board and identifying areas where it might be improved.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> </ol>	Partially observed	An evaluation of the work of the Board of Directors is scheduled for the second half of 2021
2.9.2	The work of the board of directors, its committees and board members should be evaluated on a regular basis, at least once a year. To carry out an independent evaluation of the quality of the board of directors' work, a third-party entity (consultant) should be retained at least once every three years.	<ol style="list-style-type: none"> <li>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.</li> </ol>	Partially observed	An evaluation of the work of the Board of Directors is scheduled for the second half of 2021
3.1	<b>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.</b>			
3.1.1	The corporate secretary should have knowledge, experience, and qualifications sufficient for performance of his/her duties, as well as an impeccable reputation and should enjoy the trust of the shareholders.	<ol style="list-style-type: none"> <li>The company has adopted and disclosed an internal document – regulations on the corporate secretary.</li> <li>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.</li> </ol>	Partially observed	The 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.

Item 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
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	<b>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.</b>			
4.1.1	The level of remuneration paid by the company to members of the board of directors, executive bodies and other key managers should be sufficient to motivate them to work efficiently and enable the company to attract and retain knowledgeable and skilled specialists. The company should avoid setting the level of remuneration any higher than necessary, or creating an unjustifiably wide gap between the levels of remuneration paid to the above persons and other employees of the company.	1. The company has adopted an internal document (documents) - remuneration policy (policies) for members of the board of directors, executive bodies and other key managers, which clearly define(s) approaches to remuneration for these persons.	Observed	
4.1.2	The company's remuneration policy should be developed by the remuneration committee and approved by the board of directors. The board of directors, with the support of its remuneration committee, should monitor introduction and implementation of the remuneration policy in the company and if necessary review and amend the same.	1. During the reporting period the remuneration committee reviewed the remuneration policy (policies) and its (their) implementation practices and, where necessary, made appropriate recommendations to the board of directors.	Observed	

Item 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
4.1.3	The company's remuneration policy should contain transparent mechanisms to determine the amount of remuneration for members of the board of directors, the executive bodies and other key managers of the company, as well as to regulate all types of payments, benefits and privileges provided to the above persons.	1. The company's remuneration policy (policies) contains (contain) transparent mechanisms to determine the amount of remuneration for members of the board of directors, the executive bodies and other key managers of the company, as well as to regulate all types of payments, benefits and privileges provided to the above persons.	Observed	
4.1.4	The company should develop a policy on reimbursement (compensation) of expenses containing a list of reimbursable expenses and specifying service levels to which members of the board of directors, the executive bodies and other key managers of the company may be entitled. This policy can be made an integral part of the company's remuneration policy.	1. The remuneration policy (policies) or other internal documents of the company establishes (establish) the rules for reimbursing expenses to members of the board of directors, the executive bodies and other key managers of the company.	Observed	
4.2	<b>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.</b>			
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	

Item No.	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	Status of compliance with the principle of corporate governance	Explanations for deviations from criteria for assessing compliance with the principle of corporate governance
4.2.2	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.	Partially observed	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.
4.2.3	The company should not provide for any additional allowance or compensation in the event of early dismissal of board members in connection with a change of control over the company or other circumstances.	1. The company does not provide for any additional allowance or compensation in the event of early dismissal of board members in connection with a change of control over the company or other circumstances.	Observed	
4.3	<b>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.</b>			
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	

Item No.	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	Status of compliance with the principle of corporate governance	Explanations for deviations from criteria for assessing compliance with the principle of corporate governance
4.3.2	The company should introduce a long-term incentive programme for members of the executive bodies and other key managers of the company involving its shares (or options or other derivative financial instruments, the underlying asset for which are the company's shares).	1. The company has introduced a long-term incentive programme for members of the executive bodies and other key managers of the company involving the company's shares (financial instruments based on the company's shares). 2. The long-term incentive programme for members of the executive bodies and other key managers of the company provides that the right to dispose of shares and other financial instruments used in the programme shall arise no earlier than three years from the date when such shares were provided. In addition, the right to dispose of the same is made conditional on the achievement by the company of certain performance indicators.	Partially observed	The Regulations on Long-Term Motivation approved by the Company's Board of Directors are being revised taking account of the initial public offering of shares, which took place in October 2020.
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	<b>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.</b>			
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	

Item No.	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	Status of compliance with the principle of corporate governance	Explanations for deviations from criteria for assessing compliance with the principle of corporate governance
5.1.2	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.	Partially observed	During the reporting period the Company's Board of Directors and its Audit Committee evaluated the efficiency of the risk management system. Information about the results of this evaluation is included in the Company's Annual Report.
5.2	<b>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.</b>			
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	

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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	<b>THE COMPANY AND ITS ACTIVITIES SHOULD BE TRANSPARENT TO ITS SHAREHOLDERS, INVESTORS, AND OTHER STAKEHOLDERS.</b>			
6.1.1	The company should develop and implement an information policy ensuring the efficient exchange of information by the company, its shareholders, investors, and other stakeholders.	1. The board of directors has approved the company's information policy, which was developed by taking into account recommendations of the Code. 2. The board of directors (or one of its committees) considered matters related to the company's compliance with its information policy at least once during the reporting period.	Observed	
6.1.2	The company should disclose information on its corporate governance system and practices, including detailed information on compliance with the principles and recommendations of the Code.	1. The company discloses information on its corporate governance system and the general principles of corporate governance applied in the company, in particular, on the company's website. 2. The company discloses information on the composition of its executive bodies and board of directors, independence of the board members and their membership in committees of the board of directors (as defined in the Code). 3. If there is a person that controls the company, the company publishes information about the main results of this evaluation is included in the company's annual report in respect of corporate governance in the company.	Partially observed	The Company does not publish a memorandum concerning corporate governance in the Company.
6.2	<b>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.</b>			



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6.2.1	The company should disclose information in accordance with the principles of regularity, consistency and timeliness, as well as accessibility, reliability, completeness and comparability.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> </ol>	Observed	
6.2.2	The company should avoid using a formalistic approach to information disclosure and disclose material information about its activities even if disclosure of such information is not required by legislation.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> </ol>	Observed	
6.2.3	The annual report, as one of the most important tools of information exchange with shareholders and other stakeholders, should contain information making it possible to assess the company's performance results for the year.	<ol style="list-style-type: none"> <li>The company's annual report contains information on the key aspects of its operating activities and financial results.</li> <li>The company's annual report contains information about the environmental and social aspects of the company's activities.</li> </ol>	Observed	
6.3	<b>THE COMPANY SHOULD PROVIDE INFORMATION AND DOCUMENTS REQUESTED BY ITS SHAREHOLDERS IN ACCORDANCE WITH THE PRINCIPLE OF EQUAL AND UNHINDERED ACCESSIBILITY.</b>			

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6.3.1	The company should provide information and documents requested by its shareholders in accordance with the principle of equal and unhindered accessibility.	<ol style="list-style-type: none"> <li>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.</li> </ol>	Observed	
6.3.2	When providing information to its shareholders, the company should maintain a reasonable balance between the interests of individual shareholders and its own interests, mindful of its interest in keeping important business information that may have a material impact on its competitiveness confidential.	<ol style="list-style-type: none"> <li>During the reporting period the company did not refuse shareholder requests for information or such refusals were justified.</li> <li>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.</li> </ol>	Observed	
7.1	<b>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.</b>			
7.1.1	Material corporate actions are deemed to include reorganisation of the company, acquisition of 30 or more percent of its voting shares (takeover), making major transactions by the company, increasing or reducing its share capital, listing and delisting of its shares, as well as other actions which might result in material changes in the rights of shareholders or infringement of their interests. The company's charter should contain a list of (criteria for identifying) transactions or other actions that constitute material corporate actions and provide that decisions on such actions shall fall within the competence of the board of directors.	<ol style="list-style-type: none"> <li>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.</li> <li>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</li> </ol>	Partially observed	Material corporate actions are defined in the Company's CG Code (Article 7). According to the current Charter of the Company, material corporate actions are approved by the General Meeting of Shareholders (the sole shareholder) or the Board of Directors of the Company depending on the competence established by laws and the Company's Charter. All issues that must be submitted to the General Meeting of Shareholders are subject to preliminary consideration by the Board of Directors (Article 12 of the Company's Charter).

Item No.	Principles of corporate governance	Criteria for assessing compliance with the principle of corporate governance	Status of compliance with the principle of corporate governance	Explanations for deviations from criteria for assessing compliance with the principle of corporate governance
7.1.2	The board of directors should play a key role in passing resolutions or making recommendations relating to material corporate actions, relying on opinions of the company's independent directors.	<ol style="list-style-type: none"> <li>The company has in place a procedure whereby independent directors can communicate their opinions on material corporate actions before their approval.</li> </ol>	Observed	
7.1.3	When taking material corporate actions which would affect rights and legitimate interests of shareholders, equal terms and conditions should be ensured for all shareholders; if statutory mechanisms designed to protect shareholder rights prove insufficient, additional measures should be taken to protect the rights and legitimate interests of the company's shareholders. In such instances, the company should not only seek to comply with the formal requirements of law, but should also be guided by the principles of corporate governance set out in the Code.	<ol style="list-style-type: none"> <li>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.</li> <li>During the reporting period all material corporate actions passed an approval process before their execution.</li> </ol>	Observed	
7.2	<b>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.</b>			

Item 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
7.2.1	Information about material corporate actions should be disclosed together with explanations concerning reasons for, conditions and consequences of such actions.	<ol style="list-style-type: none"> <li>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.</li> </ol>	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.	<ol style="list-style-type: none"> <li>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.</li> <li>The company's internal documents provide a procedure for retaining an independent appraiser to estimate the acquisition and redemption value of company shares.</li> <li>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.</li> </ol>	Observed	

## 2. Sovcomflot Group – Key risks

Type of risk	Risk factors	Risk mitigation measures
<b>Economic risks</b>	Changes in freight and hire rates in the international freight market	Draft and approve the Development Strategy of the Group and regularly update the document in connection with changes in market conditions and the external environment; identify the optimal ratio of revenues from long-term and spot contracts
	Seasonal and regional changes in tonnage supply and demand	Monitor global freight markets to make timely decisions on the optimal distribution of the fleet
	Strong competition from other carriers	Leverage the Group's accumulated experience in the operation of different types of vessels, taking into account customer requirements
	Arrival of new cargo transportation, loading, storage and warehousing technologies and resulting changes in technological requirements in the field of maritime transport	Build and commission specialised state-of-the-art vessels; promptly sell obsolete fleet
	Quantitative and qualitative changes in global fleet composition	Diversify the Group's activities and break into new, promising segments
<b>Environmental risks</b>	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
<b>Regulatory and legal risks</b>	Changes in international legislation and shipping industry regulations, customs and tax laws, licensing, environmental protection, etc.	Monitor changes in shipping industry regulations, be proactive in response to such changes, and maintain a constructive dialogue with regulatory authorities
	The introduction of stringent requirements on vessels by leading classification societies, as well as international oil and trading companies	Draft and implement best-practice design and technological solutions that meet current and potential future requirements
	Seizure of the Group's vessels, in respect of which maritime liens or maritime claims may arise	Monitor the likelihood of claims and other legal encumbrances in respect of the Group's vessels; proactively respond to potential actions in this area
	Inadequate insurance coverage of the Group's vessels	Insure the Group fleet with leading international and Russian companies

Type of risk	Risk factors	Risk mitigation measures
<b>Operational risks</b>	Mechanical faults and damage to vessels; maritime casualties	Improve technical management systems and procedures, implement an across-the-board critical analysis of the reasons for breakages and emergencies, increase the professional level of fleet personnel and onshore support
	Delays and defaults on obligations by main counterparties	Conclude contracts with reputable and highly reliable counterparties
	Suspension of activities owing to labour disputes	Promptly consider the legal interests of Group employees and introduce a culture which promotes the joint resolution of issues as they arise
	Dependence of the Group on hiring and retaining qualified personnel	Improve HR policies, create a high-performing team united by common goals and effective material and moral incentives
<b>Country risks</b>	Adverse changes in the political and economic situation in countries and regions where the Group operates	Draft anti-crisis action plans if adverse scenarios arise
	Negative impact of restrictions imposed against Russia by a number of Western countries	Diversify the customer base, project and business portfolio, and sources of Group financing
	Pirate attacks on the Group's vessels	Organise security for the Group's vessels in dangerous regions, ramp up cooperation with respective international and national authorities, introduce and adjust the rules to be applied by vessels during crises
<b>Financial risks</b>	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
<b>Threats to public health</b>	Threats to public health, such as coronavirus (COVID-19) or other epidemics or pandemics, could affect the operations of the Group and the operations of the Group's customers, suppliers and shipyards	The Group is constantly monitoring such threats and takes necessary steps to protect the health and safety of its seafarers and shore-based staff, and minimise any disruptions in its operations.

## 3. Participation of PAO Sovcomflot in commercial and nonprofit organisations

Information on participation of PAO Sovcomflot in commercial and non-profit organisations as at 31 December 2020.

Company's name	Country of incorporation	Equity stake (direct or indirect), %	Core/planned activities
PAO Novoship and its subsidiaries	Russia	89.4563	Ownership and control of Group companies
SCF Tankers Limited and its subsidiaries	Liberia	100	Ownership and management of ship-owning companies
SCF Overseas Holding Limited and its subsidiaries	Cyprus	100	Ownership and management of ship-owning companies
Intrigue Shipping Limited and its subsidiaries	Cyprus	100	Ownership and management of ship-owning companies
OOO SCF Arctic	Russia	100	Ownership and management of ship-owning companies
OOO SCF Varandey	Russia	100	Ownership and operation of vessels
OOO SCF GEO	Russia	100	Ownership and operation of vessels
OOO SCF Shelf	Russia	100	Ownership and operation of vessels
OOO SCF Prirazlomnoye	Russia	100	Ownership and operation of vessels
OOO SCF Atlantic	Russia	100	Ownership and operation of vessels
OOO SCF Novy Port	Russia	100	Ownership and operation of vessels
SMART LNG, LLC	Russia	50	Ownership and operation of vessels
OOO SCF LNG Shipping	Russia	100	Ownership and operation of vessels
OOO SCF Eco	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	The company is inactive
Sovchart S.A.	Switzerland	100	The company is inactive

## 4. Major and interested-party transactions

In 2020 PAO Sovcomflot concluded the following major interested-party transaction consisting of a series of related transactions:

**1. The underwriting agreement dated 7 October 2020 entered into in connection with the sale of ordinary shares of PAO Sovcomflot in a public offering (hereinafter referred to as the «New Shares» and the «Offering», respectively) between PAO Sovcomflot (the «Company») and the underwriting banks: Citigroup Global Markets Limited, J.P. Morgan Securities plc, Merrill Lynch International, JSC Sberbank CIB, Sberbank CIB (UK) Limited, VTB Capital plc and ING Bank N.V. (hereinafter collectively referred to as the «Underwriters») (the «Underwriting Agreement»).**

Subject matter of the Underwriting Agreement:

- the Company agrees to transfer New Shares to the Underwriters and/or their designated person(s) and the Underwriters agree to purchase and pay for New Shares, subject to certain conditions precedent being met and fulfilled;
- the Company is making certain representations and warranties to the Underwriters pursuant to the terms of the Underwriting Agreement;
- the Company undertakes to pay a fee to the Underwriters in connection with the Offering of New Shares and to reimburse or compensate expenses, costs and damages that may be incurred by the Underwriters and other persons which/who, under the terms of the Underwriting Agreement, will be covered by indemnity against expenses, costs and damages that may be incurred by them in cases provided for by the Underwriting Agreement, including a breach of representations and warranties;
- transactions in the Company's ordinary shares by the Company and/or its affiliates (as defined in the Underwriting Agreement) are restricted during the agreed period after the completion of the Offering;
- the Company assumes obligations under the put option contract between OOO SCF Arctic, VTB Capital plc, and AO VTB Capital for improper performance by OOO SCF Arctic of its obligations to pay amounts due under the terms of the mentioned contract;
- other basic terms and conditions of the Underwriting Agreement.

**2. The underwriting support agreement dated 7 October 2020 entered into in connection with the Offering of New Shares in a public offering between the Company and the Underwriters (the «Underwriting Support Agreement»).**

Subject matter of the Underwriting Support Agreement:

- the Underwriters agree to provide services to the Company in connection with the Offering which are usually provided by global joint coordinators and joint bookrunners for transactions of this kind;
- the Company undertakes to pay a fee to the Underwriters and reimburse them for expenses incurred in the Offering under the terms of the Engagement Letter and the Underwriting Agreement;
- the Company undertakes to reimburse or compensate expenses, costs and damages that may be incurred by the Underwriters and other persons which/who will be covered by the indemnity provisions of the Engagement Letter;
- other basic terms and conditions of the Engagement Letter.

**3. The engagement letter dated 14 September 2020 (the «Engagement Letter») in connection with the Offering between the Company and the Underwriters.**

Subject matter of the Engagement Letter:

- the Underwriters agree to provide services to the Company in connection with the Offering which are usually provided by global joint coordinators and joint bookrunners for transactions of this kind;
- the Company undertakes to pay a fee to the Underwriters and reimburse them for expenses incurred in the Offering under the terms of the Engagement Letter and the Underwriting Agreement;
- the Company undertakes to reimburse or compensate expenses, costs and damages that may be incurred by the Underwriters and other persons which/who will be covered by the indemnity provisions of the Engagement Letter;
- other basic terms and conditions of the Engagement Letter.

**4. The indemnity agreement dated 4 March 2020 indemnifying the Underwriters and other persons against expenses, costs and damages that may be incurred by them in the provision of marketing services, including preparation of marketing materials in connection with the Offering, between the Company and the Underwriters (the «Indemnity Agreement»).**

Subject matter of the Indemnity Agreement:

- the Company undertakes to reimburse or compensate expenses, costs and damages that may be incurred by the Underwriters and other persons which/who will be covered by the indemnity provisions of the Indemnity Agreement;
- other basic terms and conditions of the Indemnity Agreement.

**5. The loan agreement dated 7 October 2020 entered into between the Company and OOO SCF Arctic in connection with the provision of funds by the Company to OOO SCF Arctic for the performance of its obligations under the put option contract (the «Loan Agreement»).**

Subject matter of the Loan Agreement:

- the Company assumes an obligation to provide funds to OOO SCF Arctic in order to enable OOO SCF Arctic to perform its obligations to purchase Company shares at the purchase price of the Shares specified in the Option Exercise Notice, but not to exceed five (5) billion roubles;
- OOO SCF Arctic assumes an obligation to repay the funds provided by the Company to enable OOO SCF Arctic to perform its obligations under the put option contract upon the first written demand of the Company within sixty (60) calendar days of receiving such demand, provided that such demand shall be made no earlier than 31 December 2025;
- other basic terms and conditions of the Loan Agreement.

**6. Other transactions, contracts, agreements and documents contemplated by and/or related to the Underwriting Agreement, the Underwriting Support Agreement or otherwise related to the Offering (including, in particular, in connection with actions taken by one or more Underwriters to maintain (stabilize) prices, demand for, supply and/or trade volume of the Company's ordinary shares).**

The person(s) being a party (parties) to and beneficiary (beneficiaries) of the transaction:

- Parties to the Underwriting Agreement: the Company and the Underwriters.
- Parties to the Underwriting Support Agreement: the Company and the Underwriters.

- Parties to the Engagement Letter: the Company and the Underwriters.
- Parties to the Indemnity Agreement: the Company and the Underwriters.
- Parties to the Loan Agreement: the Company and OOO SCF Arctic.
- Beneficiaries of the Underwriting Agreement: OOO SCF Arctic as well as persons other than the Underwriters for whose benefit the obligation to reimburse or compensate expenses, costs and damages that may be incurred by them under the terms of the Underwriting Agreement was assumed by the Company;
- Beneficiaries of the Underwriting Support Agreement: persons other than the Underwriters for whose benefit the obligation to reimburse or compensate expenses, costs and damages that may be incurred by them under the terms of the Underwriting Support Agreement was assumed by the Company;
- Beneficiaries of the Engagement Letter: persons other than the Underwriters for whose benefit the obligation to reimburse or compensate expenses, costs and damages that may be incurred by them under the terms of the Engagement Letter was assumed by the Company;
- Beneficiaries of the Indemnity Agreement: persons other than the Underwriters for whose benefit the obligation to reimburse or compensate expenses, costs and damages that may be incurred by them under the terms of the Indemnity Agreement was assumed by the Company;
- Beneficiary of the Loan Agreement: OOO SCF Arctic.

**Full and abbreviated corporate names (name for a non-profit organisation) of a legal entity or name, surname and patronymic (if any) of an individual recognized in accordance with the laws of the Russian Federation to be a person interested in the transaction, as well as the ground(s) on which that person is recognized to be a person interested in the transaction:**

**Evgeny Ambrosov** was the Chairman of the Board of Directors of OOO SCF Arctic and a member of the Issuer's Executive Board at the time of the transaction.

**Nikolay Kolesnikov** was a member of the OOO SCF Arctic Board of Directors at the time of the transaction; is a member of the Issuer's Executive Board.

**Aleksey Ostapenko** was a member of the OOO SCF Arctic Board of Directors at the time of the transaction; is a member of the Issuer's Executive Board.

**Sergey Popravko** was a member of the OOO SCF Arctic Board of Directors at the time of the transaction; is a member of the Issuer's Executive Board.

The price (monetary valuation) of the property which is the subject of the transaction and which can be directly or indirectly disposed of (acquired) (including the amount of the Company's liabilities) as a result of the conclusion or execution of the transaction represents fifty (50) or more percent of the book value of the Company's assets according to its accounting statements prepared in accordance with Russian Accounting Standards as of the last reporting date and is determined based on its market value.

**Time for the performance of obligations under the transaction and information on the performance of these obligations:**

Until the Parties have fully performed their obligations. As at 31 December 2020, the obligations have been performed, except for the Underwriting Agreement, under which the lock-up period for transactions in the Issuer's securities did not expire as at 31 December 2020 (the Underwriting Agreement provides for restrictions for 180 days after the completion of the offering), and the Loan Agreement, under which the funds must be repaid by the set deadline, which did not occur at the end date of the reporting year.

**The issuer's management body which made a decision to grant consent to the transaction or subsequently approve it, the date of the decision (date and minutes of the minutes) or information that such decision was not made:**

The decision to approve related transactions was adopted by the Company's Extraordinary General Meeting of Shareholders on 10 September 2020 (Instructions No. 367-r of the Federal Agency for State Property Management dated 10 September 2020). Furthermore, the related transactions made during the placement of shares of an additional issue by the Company also stemmed from the resolution to increase the Company's authorised capital by placing the additional issue of shares adopted by the Company's Extraordinary General Meeting of Shareholders on 1 March 2018 (Instructions No. 95-r of the Federal Agency for State Property Management dated 1 March 2018) taking into account the resolution adopted by the Company's Extraordinary General Meeting of Shareholders on 6 May 2020 (Instructions No. 167-r of the Federal Agency for State Property Management dated 6 May 2020).

**During the reporting period the Company also made one interested-party transaction which does not require the approval of the Company's management bodies according to the requirements of the Federal Law «On Joint Stock Companies» which took effect on 1 January 2017**

Supplementary Agreement No. 5 dated 21 February 2020 to the Sublease Agreement dated 10 December 2015 between PAO Sovcomflot (the «Lessor») and OOO SCF GEO (the «Lessee»), whereby the parties agreed to extend the lease of the premises and consider the Sublease Agreement extended for the period from 1 March 2020 to 31 January 2021 on the previous terms.

In all matters not covered by the said Supplementary Agreement No. 5 the parties shall be governed by the terms of the sublease agreement and current legislation of the Russian Federation.

Supplementary Agreement No. 5 to the Sublease Agreement dated 10 December 2015 entered into force upon signature and applies to the legal relations between the parties as from 1 March 2020.

## 5. Information on litigations involving PAO Sovcomflot

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

In carrying out its activities the Company 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 Company to counter fraud and corruption in any form, during the period between 2005 and 2007 the Company initiated certain legal proceedings. In particular, in late 2005 the Group investigated a number of transactions which involved the former management of Novoship (UK) Ltd.

Novoship (UK) Ltd and its subsidiaries filed claims at the Commercial Court in London in December 2006. Judgment was handed down on 14 December 2012. The Group was initially successful on all claims in the court of first instance, but after appeal unsuccessful on some claims against certain defendants. In 2014 those defendants indicated an intention to pursue the Group for damages in respect of \$90 million of security provided during the litigation. The limit for filing claims expired at the end of 2020.

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

Item No.	Subject	Order	Shareholder's directives	Results of implementation
1	On implementing the Corporate Governance Code	Russian Government Order No. ISh-P13-5859 dated 31 July 2014	Russian Government Directives No. 1113p-P13 dated 26 February 2015 (Russian Government Order No. ISh-P13-5859 dated 31 July 2014);	<ol style="list-style-type: none"> <li>1. Meeting of the PAO Sovcomflot Board of Directors dated 30 September 2014 (Minutes No. 138);</li> <li>2. Meeting of the PAO Sovcomflot Board of Directors dated 9 April 2015 (Minutes No. 143);</li> <li>3. Meeting of the PAO Sovcomflot Board of Directors dated 10 November 2015 (Minutes No. 149);</li> <li>4. Meeting of the PAO Sovcomflot Board of Directors dated 10 April 2018 (Minutes No. 171);</li> <li>5. Relevant materials and information are posted on the Interdepartmental Portal for State Property Management (the «Interdepartmental Portal») on a regular basis</li> </ol>
2	On approval of the Long-Term Development Programme and its audit	Subclauses 32, 33 and 34, Clause 1 of List of Orders of the President of the Russian Federation No. Pr-3086 dated 27 December 2013	Russian Government Directives No. 4955p-P13 dated 17 July 2014	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 30 September 2014 (Minutes No. 138);</li> <li>2. Meeting of the Board of Directors dated 19 November 2014 (Minutes No. 139); 3. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187);</li> <li>3. Meeting of the Board of Directors dated 29 January 2020 (Minutes No. 189);</li> <li>4. Meeting of the Board of Directors dated 9 December 2020 (Minutes No. 202);</li> <li>5. Meeting of the Board of Directors dated 17 March 2021 (Minutes No. 204);</li> <li>6. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
3	On including the main parameters of requirements for labour resources in the long-term development programme, including for engineering and technical professions, necessary to carry out the main activities of the programme	Sub-clause b, Clause 2 of List of Orders of the President of the Russian Federation No. Pr-1627 dated 1 July 2014	Russian Government Directives No. 7439p-P13 dated 5 November 2014	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 19 November 2014 (Minutes No. 139);</li> <li>2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187);</li> <li>3. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>

Item No.	Subject	Order	Shareholder's directives	Results of implementation
4	On ensuring the adoption of KPIs to assess the performance of management	Clause 5 of List of Orders of the President of the Russian Federation No. Pr-1474 dated 5 July 2013	Russian Government Directives No. 2579p-P13 dated 25 April 2014	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 19 November 2014 (Minutes No. 139);</li> <li>2. Meeting of the Board of Directors dated 7 August 2015 (Minutes No. 147)</li> <li>3. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187);</li> <li>4. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
5	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 per annum	Sub-clause 5, Clause 1 of List of Orders of the President of the Russian Federation No. Pr-2821 dated 5 December 2014	Russian Government Directives No. 2303p-P13 dated 16 April 2015	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 19 May 2015 (Minutes No. 144);</li> <li>2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187);</li> <li>3. Meeting of the Board of Directors dated 9 December 2020 (Minutes No. 202);</li> <li>4. Meeting of the Board of Directors dated 17 March 2021 (Minutes No. 204);</li> <li>5. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
6	On including an integral key performance indicator of innovative activities in the list of key performance indicators of the long-term development programme	Sub-paragraph b, Paragraph 2, Section 2 of Minutes No. 2 of the meeting of the Presidium of the Russian Presidential Council for Economic Modernisation and Innovative Development dated 17 April 2015	Russian Government Directives No. 1472p-P13 dated 3 March 2016	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 25 August 2016 (Minutes No. 156);</li> <li>2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187);</li> <li>3. Meeting of the Board of Directors dated 9 December 2020 (Minutes No. 202);</li> <li>4. Meeting of the Board of Directors dated 17 March 2021 (Minutes No. 204);</li> <li>5. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
7	On developing and approving a list of internal regulatory documents governing JSC's activities	Clause 1 of Russian Presidential Order No. Pr-3013 dated 27 December 2014	Russian Government Directives No. 3984p-P13 dated 24 June 2015	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 7 August 2015 (Minutes No. 147);</li> <li>2. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
8	On changing the structure of the JSC's annual report	Clause 3 of Russian Presidential Order No. Pr-3013 dated 27 December 2014	Russian Government Directives No. 2007p-P13 dated 6 April 2015	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 19 May 2015 (Minutes No. 144);</li> <li>2. Meeting of the Board of Directors dated 22 September 2015 (Minutes No. 148);</li> <li>3. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>

Item No.	Subject	Order	Shareholder's directives	Results of implementation
9	On 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	Russian Government Orders No. DMP9-87pr dated 25 November 2013, No. AD-PO-9176 dated 12 December 2014 and No. ISh-P13-1419 dated 5 March 2015	Russian Government Directives No. 1346p-P13 dated 5 March 2015	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 7 April 2015 (Minutes No. 143);</li> <li>2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187);</li> <li>3. Meeting of the Board of Directors dated 9 December 2020 (Minutes No. 202);</li> <li>4. Meeting of the Board of Directors dated 17 March 2021 (Minutes No. 204);</li> <li>5. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
10	On implementation of non-core assets disposal programmes	Paragraph 4, Sub-clause c, Clause 2 of Russian Presidential Decree No. 596 dated 7 May 2012, Russian Government Order No. 894-r dated 10 May 2017	Russian Government Directives No. 6604p-P13 dated 18 September 2017	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 31 October 2017 (Minutes No. 167);</li> <li>2. Meeting of the Board of Directors dated 31 January 2018 (Minutes No. 169);</li> <li>3. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187);</li> <li>4. Meeting of the Board of Directors dated 9 December 2020 (Minutes No. 202);</li> <li>5. Meeting of the Board of Directors dated 17 March 2021 (Minutes No. 204);</li> <li>6. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
11	On ensuring the establishment of unified treasures of parent, subsidiary and affiliated entities	Clause 1 of List of Orders of the President of the Russian Federation No. Pr-1032 dated 7 May 2014	Russian Government Directives No. 5110p-P13 dated 8 August 2014 and No. 1796p-P13 dated 26 March 2015	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 9 September 2014 (Minutes No. 137);</li> <li>2. Meeting of the Board of Directors dated 19 May 2015 (Minutes No. 144);</li> <li>3. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
12	On amending the procurement policy as regards innovative build-ing materials	Paragraph 7 of Minutes No. DM-P9-38pr of the meeting held by the Prime Minister of the Russian Federation dated 14 June 2016	Russian Government Directives No. 6558p-P13 dated 5 September 2016	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 6 December 2016 (Minutes No. 158);</li> <li>2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187);</li> <li>3. Meeting of the Board of Directors dated 9 December 2020 (Minutes No. 202);</li> <li>4. Meeting of the Board of Directors dated 17 March 2021 (Minutes No. 204);</li> <li>5. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>

Item No.	Subject	Order	Shareholder's directives	Results of implementation
13	On amending the JSC's procurement policy as regards competitive domestic software	Russian Government Order No. ISh-P13-1872 dated 1 April 2016	Russian Government Directives No. 4972p-P13 dated 11 July 2016	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 25 August 2016 (Minutes No. 156);</li> <li>2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187);</li> <li>3. Meeting of the Board of Directors dated 9 December 2020 (Minutes No. 202);</li> <li>4. Meeting of the Board of Directors dated 17 March 2021 (Minutes No. 204);</li> <li>5. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
14	On expanding the practice of using factoring when performing agreements for the supply of goods (performance of work, rendering of services)	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)	Russian Government Directives No. 7704p-P13 dated 11 October 2016	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 6 December 2016 (Minutes No. 158);</li> <li>2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187);</li> <li>3. Meeting of the Board of Directors dated 9 December 2020 (Minutes No. 202);</li> <li>4. Meeting of the Board of Directors dated 17 March 2021 (Minutes No. 204);</li> <li>5. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
15	On introducing lean manufacturing systems in JSCs operating within the military-industrial complex and including this indicator in the JSC's KPI system.	Sub-paragraph 2.3, Section I of Minutes No. 4 of the meeting of the Russian Government Military-Industrial Commission dated 25 April 2014	Russian Government Directives No. 3666p-P13 dated 11 June 2015	Not applicable
16	On transferring a part of net profit to the federal budget as dividends on the shares owned by the Russian Federation	Russian Government Orders No. 774-r dated 29 May 2006, No. DM-P13-2762 dated 26 April 2017 and No. 944-r dated 18 May 2017	Directives of the Federal Agency for State Property Management with regard to the JSCs included in Annex 2 to the Special List	Not applicable
17	On developing and approving regulations to ensure rationing of procurement and introduction of procurement norms in joint-stock companies	Clause 2 of List of Orders of the Government of the Russian Federation No. DM-P9-8413 dated 12 December 2015.	Russian Government Directives No. 2793p-P13 dated 19 April 2016	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 31 May 2016 (Minutes No. 153);</li> <li>2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187);</li> <li>3. Meeting of the Board of Directors dated 9 December 2020 (Minutes No. 202);</li> <li>4. Meeting of the Board of Directors dated 17 March 2021 (Minutes No. 204);</li> <li>5. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>

Item No.	Subject	Order	Shareholder's directives	Results of implementation
18	On introducing professional standards in the activities of joint-stock companies	Taking into account the provisions of Federal Law No. 122-FZ "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" dated 2 May 2015	Russian Government Directives No. 5119p-P13 dated 14 July 2016	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 25 August 2016 (Minutes No. 156);</li> <li>2. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
19	On making settlements in roubles under new export contracts	Sub-paragraph 1, Paragraph 1, Section I of Minutes No. 7 of the meeting of the National Council for Financial Stability dated 10 April 2015	Russian Government Directives No. 4807p-P13 dated 23 July 2015	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 22 September 2015 (Minutes No. 148);</li> <li>2. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
20	On completing the questionnaire on analysis of introduction of internal documents	Clause 2 of Russian Presidential Order No. Pr-769 dated 26 April 2016, Clause 6 of Russian Government Order No. AD-P36-4292 dated 20 July 2016	Letter No. RB11/9968 from the Federal Agency for State Property Management dated 20 March 2017	<ol style="list-style-type: none"> <li>1. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
21	On updating the JSC's long-term development programme and submitting auditor's opinions regarding LDPs	Russian Presidential Decree No. 204 dated 7 May 2018, Russian Government Order No. DM-P13-4513 dated 21 July 2018	Russian Government Directives No. 276p-P13 dated 17 January 2019	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 11 April 2019 (Minutes No. 180);</li> <li>2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187);</li> <li>3. Meeting of the Board of Directors dated 9 December 2020 (Minutes No. 202);</li> <li>4. Meeting of the Board of Directors dated 17 March 2021 (Minutes No. 204);</li> <li>5. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
22	On transition by JSCs to primarily domestic software	Paragraphs 4 and 6, Section II of Minutes No. 1 of the meeting of the Governmental Commission on the Use of Information Technologies dated 9 February 2018	Russian Government Directives No. 10068p-P13 dated 6 December 2018	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 29 January 2019 (Minutes No. 178);</li> <li>2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187);</li> <li>3. Meeting of the Board of Directors dated 9 December 2020 (Minutes No. 202);</li> <li>4. Meeting of the Board of Directors dated 17 March 2021 (Minutes No. 204);</li> <li>5. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>



Item No.	Subject	Order	Shareholder's directives	Results of implementation
23	On the procedure for approval by the Russian Ministry for Development of the Far East of investment programmes and other infrastructure development plans implemented by state corporations, state-owned companies and other entities with state participation	Russian Government Resolution No. 1502 dated 27 December 2016	Russian Government Directives No. 3538p-P13 dated 25 May 2017	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 31 July 2017 (Minutes No. 164);</li> <li>2. Meeting of the Board of Directors dated 3 October 2017 (Minutes No. 166);</li> <li>3. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
24	On implementing partnership programmes with small and medium-sized businesses	Sub-clause c, Clause 1 of Russian Presidential Order No. Pr-2763 dated 31 December 2017, Russian Government Order No. DM-P13-77 dated 13 January 2018	Russian Government Directives No. 7377p-P13 dated 7 December 2013	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 30 May 2014 (Minutes No. 135);</li> <li>2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187);</li> <li>3. Meeting of the Board of Directors dated 9 December 2020 (Minutes No. 202);</li> <li>4. Meeting of the Board of Directors dated 17 March 2021 (Minutes No. 204);</li> <li>5. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
25	On the procedure for approval by the Russian Ministry for Development of the Far East of investment programmes and other infrastructure development plans implemented by state corporations, state-owned companies and other entities with state participation	Clause 3 of Russian Government Resolution No. 1502 dated 27 December 2016	Russian Government Directives No. 8860p-P13 A dated 29 October 2018	Not applicable
26	On volumes of contracts for procurement of civilian products for the fuel and energy complex concluded by military-industrial complex enterprises	Clause 2 of Russian Government Order No. RD-P7-4168 dated 28 June 2017	Russian Government Directives No. 7923p-P13 dated 27 September 2018	Not applicable

Item No.	Subject	Order	Shareholder's directives	Results of implementation
27	On drafting programmes to improve procurement management quality	Russian Presidential Decree No. 204 dated 7 May 2018 "On National Goals and Strategic Objectives for the Development of the Russian Federation for the Period up to 2024", which defines the areas for development of small and medium-sized businesses, and in pursuance of Paragraph 4.2, Section 3 of the Federal Project "Acceleration of Small and Medium-Sized Businesses".	Russian Government Directives No. 1519p-P13 dated 20 February 2019	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 10 April 2019 (Minutes No. 180);</li> <li>2. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
28	On expanding the practice of using factoring when performing agreements for the supply of goods (performance of work, rendering of services)	Russian Presidential Decree No. 204 dated 7 May 2018 "On National Goals and Strategic Objectives for the Development of the Russian Federation for the Period up to 2024", which defines the areas for development of small and medium-sized businesses, and in pursuance of Paragraph 4.2, Section 3 of the Federal Project "Acceleration of Small and Medium-Sized Businesses".	Russian Government Directives No. 4111p-P13 dated 8 May 2019	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 31 October 2019 (Minutes No. 185);</li> <li>2. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
29	On electing chairmen of the boards of directors of the joint-stock companies with state participation not included in the Special List, which were formed in the respective corporate year	Activity plan of the Federal Agency for State Property Management for 2018 and the 2019 and 2020 planning periods relating to the implementation of the State Programme of the Russian Federation "Management of Federal Property".	Directives No. IP-11/21449 of the Federal Agency for State Property Management dated 25 June 2019	Not applicable
30	On drafting JSCs' innovative de-velopment programmes	Minutes No. ADP36-153pr of the Russian Government dated 1 October 2014, Russian Government Order No. DM-P36-7563 dated 7 November 2015	Russian Government Directives No. 3262p-P13 dated 27 April 2018	Not applicable

Item No.	Subject	Order	Shareholder's directives	Results of implementation
31	On comparison by JSCs of the level of technological development and current values of KPIs with the development level and indicators of leading similar companies in accordance with Methodological Recommendations	Russian Government Order No. ISh-P13-1925 dated 5 April 2018 Paragraph 9, Section III of Minutes No.1 of the meeting of the interdepartmental working group on the implementation of innovative development priorities at the Presidium of the Russian Presidential Council for Economy Modernization and Innovative Development dated 14 April 2014 and Letter No. 32225-OF/D01i from the Russian Ministry of Economic Development dated 13 November 2017	Russian Government Directives No. 3262p-P13 dated 27 April 2018	Not applicable
32	On taking an inventory of intellectual property rights with a view to then organise measures to ensure that the identified property items the rights to which belong to the JSC are afforded legal protection and these rights are recognised on the balance sheet as intangible assets for subsequent introduction into economic circulation and valuation of the rights thereto.	Russian Government Order No. ISh-P13-1925 dated 5 April 2018	Russian Government Directives No. 7050p-P13 dated 30 August 2018	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 9 October 2018 (Minutes No. 176);</li> <li>2. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
33	On updating KPIs	Russian Government Order No. 1388-r dated 27 June 2019	Russian Government Directives No. 9054p-p13 dated 2 October 2019	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 31 October 2019 (Minutes No. 185);</li> <li>2. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187);</li> <li>3. Meeting of the Board of Directors dated 9 December 2020 (Minutes No. 202);</li> <li>4. Meeting of the Board of Directors dated 17 March 2021 (Minutes No. 204);</li> <li>5. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
34	On procurement of Russian products used in national projects and an integrated plan to modernise and expand backbone infrastructure	Clause 6 of Order No. DK-P9-81pr of Deputy Chairman of the Government of the Russian Federation D.N. Kozak dated 13 May 2019	Russian Government Directives No. 9984p-P13 dated 1 November 2019	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 10 December 2019 (Minutes No. 187);</li> <li>2. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>

Item No.	Subject	Order	Shareholder's directives	Results of implementation
35	On the possibility of transition by JSCs to tax control in the form of tax monitoring	Clause 4 of Russian Government Order No. DM-P13-8pr dated 13 February 2019	Russian Government Directives No. 11528p-P13 dated 13 December 2019	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 7 April 2020 (Minutes No. 192);</li> <li>2. Relevant materials and information are placed on the Interdepartmental Portal on a regular basis</li> </ol>
36	On increasing labour productivity	Paragraph 1, Section I of Minutes No. SA-P13-25pr of the extended meeting on monitoring the implementation of national projects "Labour Productivity and Employment Support", "Small and Medium-Sized Entrepreneurship and Support of Individual Entrepreneurial Initiative" and "International Cooperation and Export" dated 5 March 2019	Russian Government Directives No. 12153p-P13 dated 25 December 2019	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 7 April 2020 (Minutes No. 192);</li> <li>2. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
37	On assessing the existence or absence of major investment projects being implemented or scheduled for implementation	Russian Presidential Decree No. 204 dated 7 May 2018, Russian Government Order No. DM-P13-4513 dated 21 July 2018 (Paragraph 3.7. of the Action Plan to accelerate fixed capital investment and increase its share of gross domestic product to 25 percent approved at the meeting of the Government of the Russian Federation on 12 July 2018 (Minutes No. 20, Section I)	Russian Government Directives No. 12119p-P13 dated 25 December 2019	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 7 April 2020 (Minutes No. 192);</li> <li>2. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
38	On preventing corruption risks	Russian Presidential Order No. Pr-113 dated 17 January 2012, Russian Government Orders No. VP-P13-459 dated 27 January 2012 and No. ISh-P13-7501 dated 7 December 2012	Directives No. OD-11/12116 of the Federal Agency for State Property Management dated 22 March 2013	Not applicable

Item No.	Subject	Order	Shareholder's directives	Results of implementation
39	On supplementing the procurement regulations to establish priority of procurement of products using aluminium and/or semi-finished aluminium from Russian enterprises	Paragraph 2 of Minutes No. DK-P13-100pr of the meeting held by Deputy Chairman of the Government of the Russian Federation D.N. Kozak dated 29 May 2019	Russian Government Directives No. 6574p-P13 dated 18 July 2019	Not applicable
40	Participation in the preparation of regulatory documents for holding professional excellence championships based on Worldskills standards	Sub-clause d, Clause 1 of List of Orders of the President of the Russian Federation No. Pr-1921 dated 21 September 2015	No directives have been issued	Not applicable
41	"On the non-imposition of penalties and the possibility of extending contracts and adjusting prices in 2020 in the event of a breach of obligations due to consequences of the spread of new coronavirus disease"	Russian Government Order No. MM-P13-2166 dated 21 March 2020	Russian Government Directives No. 2850-P13kv dated 3 April 2020	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 24 April 2020 (Minutes No. 193);</li> <li>2. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
42	Provision of information about compliance with the requirements of Russian Government Resolution No. 439 "On establishing requirements for the conditions and	Russian Government Order No. MKh-P16-3596kv dated 17 April 2020		<ol style="list-style-type: none"> <li>1. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
43	periods for deferral of rent payments under real estate lease agreements" dated 3 April 2020	Russian Presidential Decree No. 204 dated 7 May 2018, Russian Government Order No. DM-P13-4513 dated 21 July 2018 (Clause 3.5), Government Order No. SA-P13-10176 dated 21 November 2019 (Standard charter for evaluation of the LTDP implementation)	No directives have been issued	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 29 January 2020 (Minutes No. 189);</li> <li>2. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>

Item No.	Subject	Order	Shareholder's directives	Results of implementation
44	On creating a federal talent pool for military-industrial complex enterprises	Set of measures to ensure that military-industrial complex entities have highly qualified specialists to fill the positions of heads and deputy heads of these entities in 2020, approved by Yury Borisov, Deputy Chairman of the Government of the Russian Federation (Russian Government Directives No. 1500p-P7 dated 25 February 2020)	Russian Government Directives No. 7887p-P7 dated 28 August 2020 - a limited list of joint-stock companies - on the issue of creating a federal talent pool for military industrial complex enterprises	Not applicable
45	On the ownership of assets located in the Russian Federation through foreign legal entities		Russian Government Directives No. 5945p-P13 dated 25 August 2017	<ol style="list-style-type: none"> <li>1. Meeting of the Board of Directors dated 3 October 2017 (Minutes No. 166);</li> <li>2. Relevant materials and information are posted on the Interdepartmental Portal on a regular basis</li> </ol>
46	On intensification of the production and sale of high-tech civilian and dual-purpose products, including by using employee motivation tools	List of Orders of the President of the Russian Federation No. Pr-288 dated 17 February 2018; List of Orders of the President of the Russian Federation No. Pr-2326 dated 5 December 2016; Russian Government Order No. YuB-P7-4221 dated 12 July 2018	Russian Government Directives No. 9715p-P7 dated 19 October 2020	Not applicable

## 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 Audit 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 Audit 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. The PAO Sovcomflot Code of Corporate Ethics
14. Regulations on the Audit Committee of the PAO Sovcomflot Board of Directors
15. Regulations on the Committee for Innovative Development and Technical Policy of PAO Sovcomflot
16. Regulations on the HR and Compensation Committee of the PAO Sovcomflot Board of Directors
17. Regulations on the Strategy Committee of the PAO Sovcomflot Board of Directors
18. The Anti-Corruption Policy of PAO Sovcomflot
19. The Information Policy of PAO Sovcomflot
20. Regulation on Disclosure of Information of PAO Sovcomflot
21. Regulations on the Internal Audit Department of PAO Sovcomflot
22. Regulations on the Corporate Secretary of PAO Sovcomflot
23. Regulations on the Procedure for Procuring Goods, Works and Services for the Needs of PAO Sovcomflot
24. Regulations on the Professional Training/Retraining and Raising the Qualifications Level of PAO Sovcomflot Personnel
25. Regulations on Wages and Material Incentives for PAO Sovcomflot Employees
26. The Long-Term Motivation Programme for PAO Sovcomflot Employees
27. Programme on the Sale of PAO Sovcomflot Non-Core Assets
28. The PAO Sovcomflot Energy Conservation and Energy Efficiency Programme
29. The PAO Sovcomflot Project Management Regulations
30. The Standard for Auditing the Implementation of the PAO Sovcomflot Long-Term Development Programme
31. The Technical Policy of PAO Sovcomflot
32. Regulations on the PAO Sovcomflot Risk Management System
33. Regulations on the Finance Department - Treasury of PAO Sovcomflot
34. Regulations on Sponsorship and Charity of PAO Sovcomflot
35. Regulations on Investment Activities and Increasing the Investment Efficiency of PAO Sovcomflot
36. Regulations on the Quality Management System of PAO Sovcomflot

## 8. Non-Core Asset Sale Programme

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 PAO Sovcomflot Non-Core Asset Disposal Programme was approved and the register of PAO Sovcomflot non-core assets, which also included 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.

The register of PAO Sovcomflot non-core assets has been updated in accordance with the decisions of the PAO Sovcomflot Board of Directors dated 10 December 2019 (Minutes No. 187) and 27 March 2020 (Minutes No. 191). In accordance with the decision of the PAO Sovcomflot Board of Directors dated 10 December 2019 (Minutes No. 187), the assets owned by PAO Novoship were removed from the register pursuant to the methodological guidelines for identifying and disposing of non-core assets. The sale of these assets is controlled through the management and supervisory bodies of PAO Novoship.

One core asset, 0.3% interest in AKB «NRBank» (AO), was sold during the reporting period in accordance with the approved action plan for the sale of non-core assets of PAO Sovcomflot for 2020 and the actual register of PAO Sovcomflot non-core assets through the acceptance of the mandatory offer received from the State Transport Leasing Company (PAO GTLK), which purchased a controlling interest in AKB «NRBank» (AO). The actual sale value of the asset exceeded its book value by RUB 15,807,877.

### Information on the sale of non-core assets of PAO Sovcomflot in 2020

Item No.	Asset	Means for identifying the asset	Activity using the asset	Book value, RUB	Actual sale value, RUB
1	0.3% interest in Joint-stock commercial bank "National Reserve Bank" (AKB "NRBank" (AO))	Registration number 10102170B	Banking	5,116,000	20,923,877

Following the disposal of shares in AKB «NRBank» (AO), there were no non-core assets belonging to PAO Sovcomflot by right of ownership in the register of PAO Sovcomflot non-core assets as at 31 December 2020.

In accordance with the Regulations on the Sale of PAO Sovcomflot Non-Core Assets and the PAO Sovcomflot Non-Core Asset Disposal Programme, the Company continues the process of identifying non-core assets according to the established procedures.

## 9. General information about PAO Sovcomflot

<b>Full name of the Company</b>	PAO Sovcomflot
<b>Number and date of issue of the certificate of state registration as a legal entity</b>	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).
<b>Place of registration</b>	3A Moyka River Embankment, St. Petersburg, 191186, Russia
<b>Address of the standalone division in Moscow</b>	6 Gasheka Street, Moscow, 125047, Russia
<b>Contact telephone</b>	+7 (495) 660 40 00
<b>Fax</b>	+7 (495) 660 40 99
<b>E-mail address</b>	info@scf-group.ru
<b>Website</b>	http://www.scf-group.ru/
<b>Main lines of business</b>	<p>Consultancy services, including:</p> <ul style="list-style-type: none"> <li>• Planning and organising the transport of cargo and passengers;</li> <li>• Advising on the current status and development outlook of different segments of the shipping market;</li> <li>• Developing promising projects in the shipping sector;</li> <li>• Advising on vessel purchase and sale transactions;</li> <li>• Marketing, studying the state of the market and working with cargo owners;</li> <li>• Advising on insurance issues and arranging insurance coverage;</li> <li>• Participation in negotiations to achieve operational goals and preparing corresponding draft documents and agreements; preparing draft corporate and contractual documents;</li> <li>• Reviewing draft documentation regarding different types of contracts, transactions, including vessel purchase and sale financing, ordering from shipyards, refinancing, etc.;</li> <li>• Conducting legal analysis of issues in dispute;</li> <li>• Organising audit;</li> <li>• Managing payments and advising on financial issues;</li> <li>• Representing the client at conferences and seminars dedicated to the shipping industry and transport systems;</li> <li>• Other business development activities.</li> <li>• Participation in other entities</li> </ul> <p>Participation in other entities</p>
<b>Information on the inclusion in the list of strategic enterprises and joint-stock companies</b>	The company 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"
<b>Company headcount</b>	109 (at the end of the reporting period)
<b>Full name and address of the registrar</b>	Joint-Stock Company "Independent Registrar Company R.O.S.T." 18 Stromynka Str., bldg 5B, Moscow 107076, Russia
<b>Amount of authorised capital</b>	2,374,993,901 roubles
<b>Total number of shares</b>	2,374,993,901 shares
<b>The number of ordinary shares; par value of ordinary shares</b>	2,374,993,901 ordinary registered uncertified shares with a par value of 1 (one) rouble each
<b>State registration number of the issue of ordinary shares and date of state registration</b>	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

<b>State registration number of the additional issue of ordinary shares and date of state registration</b>	1-01-10613-A; 22 November 2008
<b>The number of preferred shares; par value of preferred shares</b>	PAO Sovcomflot did not issue preferred shares.
<b>Number of shares owned by the Russian Federation</b>	1,966,697,210 shares
<b>Share of the Russian Federation in the authorised capital (ordinary shares and preferred shares)</b>	The Russian Federation owns 82.8% of the ordinary shares of PAO Sovcomflot. The Company did not issue preferred shares
<b>Existence of the special right of the Russian Federation to participate in the company's management (the "Golden Share").</b>	The Russian Federation does not have the special right to participate in the management of PAO Sovcomflot (the "Golden Share").
<b>Full name and address of the Company's auditor</b>	Ernst & Young Limited Liability Company, 77 Sadovnicheskaya Embankment, bldg. 1, Moscow 115035, Russia
<b>Servicing bank</b>	VTB Bank (PAO), Saint Petersburg
<b>Legal advisors</b>	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. Jurinflot Law Firm, Russia Pepelyaev Group LLC, Russia Shchekin & Partners LLC, Russia
<b>Code of the Issuer's principal economic activity according to OKVED (Russian Classification of Economic Activities)</b>	70.22
<b>Operating period of the Company in the respective sector</b>	32 years

# 10. Glossary

## Abbreviations

<b>EBITDA</b>	Earnings before Interest, Taxes, Depreciation and Amortization - an analytical indicator equal to the amount of earnings before interest, taxes, depreciation, and amortisation
<b>Adjusted EBITDA</b>	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; gain/loss on sale of subsidiaries; foreign exchange gain/loss; gain/loss on sale of equity investments; other operating income and expenses; other income from written off dividends not claimed by shareholders
<b>LTIF</b>	Lost Time Injury Frequency
<b>TRCF</b>	Total Recordable Cases Frequency
<b>SCF</b>	Sovcomflot
<b>ANO</b>	Autonomous non-profit organisation
<b>NF</b>	Naval forces, naval fleet
<b>DWT</b>	Deadweight
<b>LTDP</b>	Long-term development programme
<b>FESRC</b>	Far Eastern Shipbuilding and Ship Repair Centre
<b>KPI</b>	Key performance indicators
<b>ISMS</b>	Integrated safety management system
<b>LIBOR</b>	London Interbank Offered Rate
<b>MARPOL</b>	International Convention for the Prevention of Pollution from Ships
<b>ISM Code</b>	International Safety Management Code
<b>IFRS</b>	International financial reporting standards
<b>VAT</b>	Value added tax
<b>R&amp;D</b>	Research and development
<b>NCA</b> s	Non-core assets
<b>PAO</b>	PAO
<b>LTMP</b>	Long-term Motivation Program
<b>SUR</b>	Seafarers' Union of Russia
<b>RAS</b>	Russian accounting standards
<b>RSPP</b>	Russian Union of Industrialists and Entrepreneurs
<b>LNG</b>	Liquefied natural gas
<b>LPG</b>	Liquefied petroleum gas
<b>SMS</b>	Safety management system
<b>the Bank of Russia</b>	Central Bank of Russia

## Definitions

<b>Group</b>	Sovcomflot Group
<b>Deadweight</b>	The total weight of payload carried by the vessel, measured in tonnes
<b>MARPOL 73/78 Convention</b>	International Convention for the Prevention of Pollution from Ships
<b>Non-core assets</b>	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.
<b>PAO Sovcomflot</b>	Public Joint-Stock Company Sovcomflot, parent company of Sovcomflot Group
<b>Time charter equivalent, TCE</b>	The regular average daily revenue of a vessel operating on a voyage charter that the ship owner should earn on any shipment destination
<b>Chartering of a vessel</b>	The agreement to hire a vessel for a specific shipment (voyage) or the hiring of a vessel for a specific time period
<b>Shuttle tanker</b>	A crude oil tanker that makes regular trips between a producing field and an onshore terminal or oil refinery
<b>International ISO standards</b>	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
<b>Backwardation</b>	A situation where the futures price is below the spot price of the underlying asset
<b>Contango</b>	A situation where the futures price is above the spot price of the underlying asset
<b>ClarkSea Index</b>	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