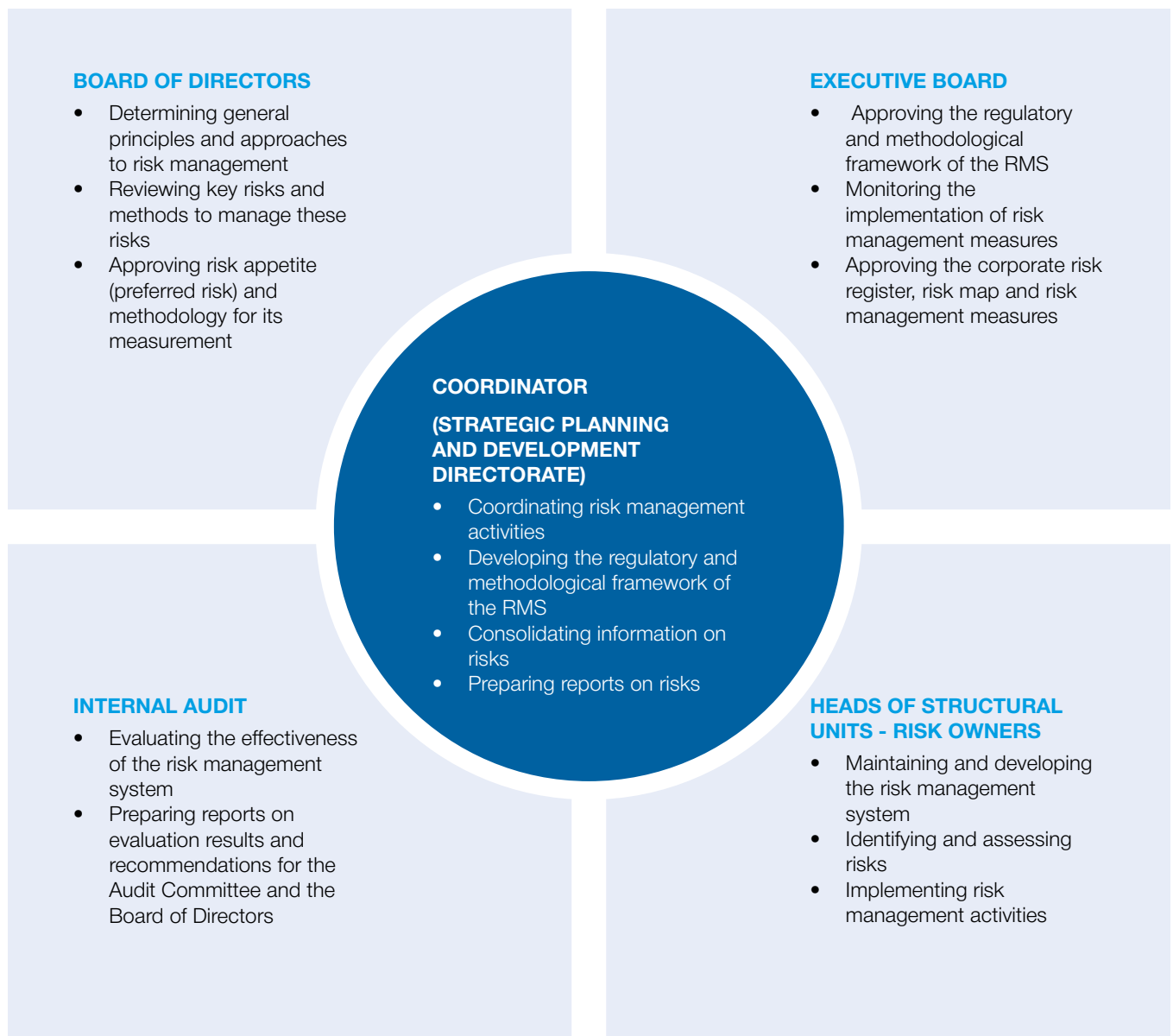


Risk management system and internal control

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)



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 Federation¹ and Guidelines for the Preparation of Regulations on the Risk Management System². The RMS Regulations were approved by the PAO Sovcomflot Board of Directors in November 2015³.

The RMS Regulations constitute a fundamental framework defining the tasks and objectives of the risk management system, the main principles of its operation, the structure of the risk management system, the allocation of responsibility

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.⁴

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.

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

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

³. Minutes of the Board of Directors No. 149 dated 13 November 2015.

⁴. Minutes of the Executive Board No. 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
MATERIALIZED RISKS		
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
INCREASED RISK		
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

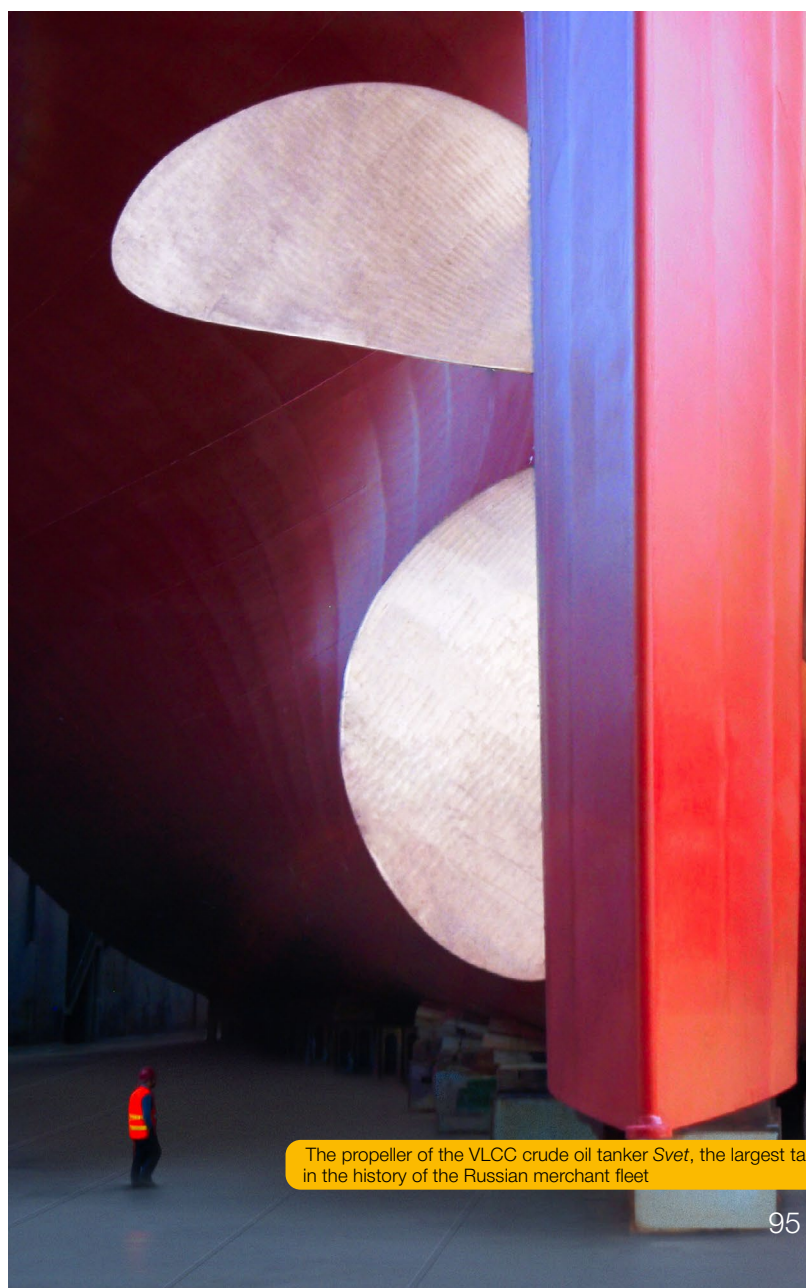
Internal control

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 Company¹.

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 Department².



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

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

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