

SCF®

Sovcomflot

**ANNUAL
REPORT**
2014

RUSSIA'S **LARGEST** **SHIPPING COMPANY,** ONE OF THE WORLD LEADERS IN ENERGY SHIPPING



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Key events and achievements of 2014

January

- Naming ceremony of the LNG carrier *Velikiy Novgorod* built as part of a long-term agreement with Gazprom Global LNG (a subsidiary of OAO Gazprom)

March

- Sovcomflot wins the prize “Deal of the Year 2014” in “Project Financing”, awarded by the publication *Marine Money*

May

- The international SCF Black Sea Tall Ships Regatta 2014, organised on the initiative of PAO Sovcomflot, is a resounding success. It was held for the first time on Russia’s Black Sea coast
- Sovcomflot holds its 13th Annual Business Partners Meeting in Sochi



February

- New tanker *SCF Shanghai* (320,000 tonnes DWT) is the second tanker in the Svet series (the largest vessels in Russia’s commercial fleet)
- The Group completes the reconstruction and construction of the coastal infrastructure facilities of Sochi Seaport as part of the preparations for hosting the Sochi 2014 XXII Winter Olympic Games

April

- The *Mikhail Ulyanov* Arctic shuttle tanker completes the first shipment of oil from the Prirazlomnoye platform, Russia’s first offshore hydrocarbon project on the Arctic Shelf
- Agreement signed with Sakhalin Energy Investment Company Ltd for the construction and long-term operation of a multifunctional icebreaking supply vessel for the Sakhalin-2 offshore platforms



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July

- As part of the Sakhalin-2 project PAO Sovcomflot and Sakhalin Energy Investment Company Ltd. sign an agreement on the construction and long-term operation of three multifunctional icebreaking supply vessels for Sakhalin-2 offshore platforms
- The United States Coast Guard (USCG) confirms that 20 Sovcomflot Group vessels have been added to the list of participants in its Qualship 21 programme (Quality Shipping for the 21st Century)

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August

Anichkov Bridge is the first large capacity tanker to complete the passage via the Northern Sea Route in 2014

The oil product tankers *SCF Yenisei* and *SCF Pechora* start shipments of the first oil from the Novoportovskoye Oilfield located in the Gulf of Ob

Naming ceremony of the new LNG carrier *Pskov* built as part of the long-term agreement with Gazprom Global LNG (a subsidiary of OAO Gazprom)

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The crew of the tanker *SCF Krasnodar* rescue Brazilian yachtsmen after they spend two days adrift in the open sea due to their yacht breaking up

October



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September

- Steel cutting for the pioneering LNG carrier for Yamal LNG project
- Research vessel *Professor Khlustin* sets sail on an expedition of the Russian Geographical Society organised by PAO Sovcomflot as part of the "Floating University" project
- PAO Sovcomflot is a finalist in the international Platts Global Energy Awards 2014 in the category "Industry Leadership"

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November

- PAO Sovcomflot is named "Company of the Year" at the 2014 Korea-Russia Business Awards for the development of the mutually beneficial cooperation for maintenance of the new technologies for ice-class vessels aimed to work in harsh climatic conditions

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December

PAO Sovcomflot concludes USD 319 million 10-year credit facility with a consortium of leading European banks. The funds will be used to finance the construction of two new ice-class LNG carriers

A naming ceremony is held for the LNG carrier *SCF Melampus*, another tanker in the series of state-of-the-art vessels, which are being built under the joint project of PAO Sovcomflot and the shipyard STX Offshore & Shipbuilding. The vessel has been chartered by Royal Dutch Shell

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Chairman's Statement



The past year was a successful one for Sovcomflot Group. We achieved significant growth in our trading and financial indicators, we implemented a large number of major transport and service support projects to develop offshore hydrocarbon fields, and we reinforced our position in the global markets for the shipment of oil, petroleum products and liquefied natural gas (LNG).

The Company's success is primarily attributable to the consistent and effective implementation of its Development Strategy, which requires the achievement by Sovcomflot of higher growth in the most profitable market segments, in particular as an integrated provider of maritime oil and gas production and LNG transportation services. Other factors also contributed to our success in 2014, such as adopting a balanced freight policy, which ensures the effective use of the fleet at different development stages of the tanker market cycle, and constantly expanding the range of our services and increasing the quality of services provided to customers, including through the adoption of innovative and energy-saving technologies in the construction and operation of our fleet.

Against the backdrop of a continuing challenging environment in the global and domestic economies throughout the reporting period, the Group exceeded all its budget targets by finishing the year in the black. The Group also has adequate financial resources to implement its investment development programme forming part of its strategy.

During 2014 our fleet modernisation and upgrade programme was implemented in full, which primarily impacted the Group's liquefied natural gas business segment. Sovcomflot continues to pay special attention to expanding mutually beneficial cooperation with Russian shipbuilding companies, and assists in the transfer of state-of-the-art technologies to these companies. In addition, the Company contributes to increasing the level of localised production of vessels and maritime technology in Russia. PAO Sovcomflot is one of the largest customers of Russia's civilian shipbuilding industry, and intends to continue working with Russian shipbuilders.

As part of PAO Sovcomflot's preparations to access the public capital markets, the Company has taken significant steps to further improve its corporate governance and risk management system.

Management continues to focus on retaining, consolidating, and developing the talent pool of the Group. Sovcomflot employs 8,500 Russian seafarers, provides wide-ranging support for Russia's maritime colleges, and makes a significant contribution to developing Russia's coastal regions.

Sovcomflot today is a modern, dynamic and developing company which operates successfully in a competitive global market. The Company is rightfully considered a global leader in the tanker industry, and looks to the future with confidence.

I should like to express my sincere thanks to all our customers, partners and employees, and above all to the captains of Sovcomflot Group's vessels for the invaluable contribution that they continue to make to the Company's successful development.

Ilya Klebanov

Chairman of the PAO Sovcomflot
Board of Directors

Chief Executive Officer's Statement



The past year was marked by a number of significant events, both for the global shipping industry and for Sovcomflot Group. Shipping companies continued to operate against a backdrop of enduring instability in the global economy and trade, and at a time when non-market forces made their presence felt. At the same time, however, 2014 saw clear signs of recovery in global tanker market freight rates. Even though the ClarkSea Index has still not reached its average historic highs, it demonstrated positive dynamics – especially in the bulk oil tanker segment.

In the reporting period the Group consistently implemented its development strategy, which is focused on achieving qualitative and long-term growth by increasing the Group's participation in high-yield industrial projects in promising segments, such as liquefied gas transportation and the servicing of offshore fields.

A clear development strategy, positive market dynamics alongside a balanced freight policy, and the consistent implementation of efficiency improvements were all key growth drivers for Sovcomflot Group in 2014. These enabled us to achieve a marked improvement in financial and trading indicators compared with the previous year. For example, the gross revenue of the Group totalled USD 1,387.4 million (up 9.9%), net revenue (time-charter equivalent) was USD 1,044 million (up 19.6%), and EBITDA stood at USD 538.2 million (up 40.9%). The operating results of Sovcomflot Group in the first quarter of 2015, as well as our own estimates for developments of the freight market, give us grounds to believe that the positive industry trends will be reinforced in 2015.

Operating a state-of-the-art and technically sophisticated fleet, Sovcomflot Group retained its position as one of the world's largest tanker companies, consolidated its leadership in a wide range of market segments (such as servicing oil and gas projects on the continental shelf in complex icy conditions, where Sovcomflot Group has a high level of expertise) and also achieved qualitative growth in the area of marine seismic exploration.

In the reporting period our programme to supplement the fleet with high-yield technically sophisticated vessels was implemented in full. The fleet includes three new vessels: two new cutting-edge liquefied natural gas carriers, *Velikiy Novgorod* and *Pskov*, with an ice class of ICE-2 and a cargo capacity of 170,000m³ each, and the VLCC tanker *SCF Shanghai*, which has a deadweight of 321,220 tonnes and is now the largest vessel in Russia's commercial fleet. PAO Sovcomflot's shipbuilding programme includes 10 state-of-the-art vessels with an aggregate deadweight of over 400,000 tonnes. Most of the fleet being built is intended for use in complex ice conditions, as part of long-term projects with leading Russian oil and gas companies. These projects are expected to generate USD 5 billion in future revenue.

In 2014 Sovcomflot Group continued its work to increase the efficiency and quality of our client services, maintaining the high technical operating standards of the fleet, and made further investments into both developing cutting-edge engineering solutions and implementing innovative technologies – aimed at increasing the energy efficiency of the fleet, enhancing further its navigational safety, and protecting the environment.

Our human resources remain one of the key competitive advantages of Sovcomflot Group. The high standards of professionalism of our captains and crews remains the foundation upon which the excellent work of our fleet is based. As in the past, during the reporting period, the Group paid particular attention to the professional training of its seafarers, making consistent improvements to their working conditions, and increasing the social security benefits for their families. We welcome the decision of the Board of Directors to have the best captains and engineering officers from our fleet included in the list of participants in the Group's long-term employee incentive programme. I am grateful to our captains and crews and to our onshore personnel for the dedication that they showed during the year and the substantial contribution they made to the successful development of PAO Sovcomflot.

On behalf of the Executive Board of PAO Sovcomflot, I should also like to express my thanks to the customers and partners of the Company – we cherish and are proud of these longstanding and mutually beneficial relationships.

Sergey Frank

President and Chief Executive Officer
of PAO Sovcomflot –
Chairman of the Executive Board



About Sovcomflot Group

NO SMOKING



- Sovcomflot Group consistently implements a strategy aimed at attaining qualitative growth in premium shipping segments, such as LNG transportation and servicing offshore oil & gas projects, including those in harsh climatic conditions. The company retains its leadership in the segment of conventional tanker shipping
- Developing effective and open communications with partners and clients is one of the key components of the successful implementation of the Sovcomflot Group Development Strategy. The stakeholder communications system is based on the principles of transparency, integrity, and trust
- The Sovcomflot Group risk management system is built on an integrated approach and the unconditional observation of the fundamental principle of the company – ‘Safety comes first’
- The Group respects the history of Russian naval schools and the maintenance of their traditions, meanwhile training of the next generation of Russian seafarers and ensuring their professional development remain priorities for Sovcomflot Group
- As a socially responsible company, Sovcomflot Group takes an active role in improving the work conditions on ships and ashore, raising the social benefits of personnel and improving their motivation. SCF provides comprehensive support to the regions where its operations are based

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Sovcomflot Fleet Structure

The Group's fleet comprises:

- Crude oil tankers of VLCC, Suezmax, Aframax and Panamax sizes, including shuttle tankers
- LNG and LPG carriers
- Product tankers of Handysize, MR, LR I and LR II types
- Ice-breaking supply vessels
- A research vessel for offshore geophysical exploration
- Panamax bulk carriers
- Smaller-tonnage chemical tankers and ships for transporting asphalt and bitumen
- Port tugs

The PAO Sovcomflot fleet management structure comprises five divisions: Oil Tankers; Oil Product Tankers; Gas Carriers; Offshore, and Offshore Seismic Exploration.

Sovcomflot Group operates vessels in segments which attract the most demand from leading Russian and international oil and gas companies. Our in-house capabilities and set of advanced technologies, especially related to shipments in extreme weather conditions, are unique for a shipping company, and enable our Group to satisfy the various requirements of our customers and to provide them with a reliable and efficient transport service.

Fig.1 Sovcomflot fleet structure¹



¹ For more details about the Company's performance in the reporting year, see the Overview of Operating Activities section.



2,500 NAUTICAL
MILES

the distance of a high-latitude route
from Murmansk to Pevek

Sovcomflot crews possess unique expertise and
experience of harsh climatic conditions

Market Overview

Tanker market

In 2014 the state of the freight market in the oil tanker segment improved markedly compared to 2013; the growth in freight rates reached 90% for Aframax vessels and rates were up 153% for VLCC vessels. A different picture emerged in the petroleum products market during the first half of 2014 and part of the third quarter. Average rates for product carriers in 2014 were approximately 9.2% down on 2013; however, the markets recovered to 2013 levels thanks to an increase in rates in the final quarter of 2014.

The increase in demand for tonnage, both on the spot and time-charter markets, was attributable partly to the increasing demand for oil and also to falling marine fuel (bunker) prices. During 2014 the tanker freight market index was up 31.9% compared with the preceding year.

Based on the results achieved in 2014, the average daily time-charter equivalent for tanker tonnage was on average 94% higher than the same indicator in 2013. The situation was slightly different for tanker product carriers: whereas rates increased for tankers with a deadweight of 70,000-110,000 tonnes (LR1 and LR2), they were on average lower by 2% for tankers with a deadweight of 37,000-50,000 tonnes.

The situation in the time-charter market was similar to that of the spot market: rates trended upwards, notwithstanding fluctuations during the year.

Value of assets dynamics

Due to the increase in freight rates, market prices for bulk oil tankers rose during 2014, while prices for MR product carriers contracted slightly during the first three quarters before stabilising in the fourth quarter. Prices for standard vessels, such as five-year-old Suezmax-5, went up by 28% during the year, by 35% for Aframax and LR2 vessels, and by 13% for LR1 vessels. The cost of five-year-old MR tankers during the year declined by 11%.

Tanker market outlook

Since the end of 2013, tanker markets (both oil and petroleum products) have been characterised by cyclical growth. We expect the positive results of 2014 to improve slightly in 2015, and for price volatility to potentially be even higher than in 2014.

Despite the short-term fluctuations in rates, the further development of tanker markets in 2015 is likely to be accompanied by continuous growth.

Competitive position in the market

According to Clarksons, at present the Group has the following positions in the global rankings of tanker ship owners:

Global ranking	Parameter
1	ARCTIC SHUTTLE TANKER FLEET
1	TOTAL DEADWEIGHT OF AFRAMAX FLEET
1	NUMBER OF AFRAMAX TANKERS IN TANKER FLEET
2	SIZE OF TANKER FLEET
3	TOTAL DEADWEIGHT OF PRODUCT CARRIER FLEET
3	SHUTTLE TANKER FLEET
3	TOTAL DEADWEIGHT OF TANKER FLEET
4	TOTAL DEADWEIGHT OF SUEZMAX TANKER FLEET
4	NUMBER OF SUEZMAX TANKERS IN TANKER FLEET

According to Clarkson Research Group at the end of 2014.

Fig.2 Dynamics of spot tanker freight market rates

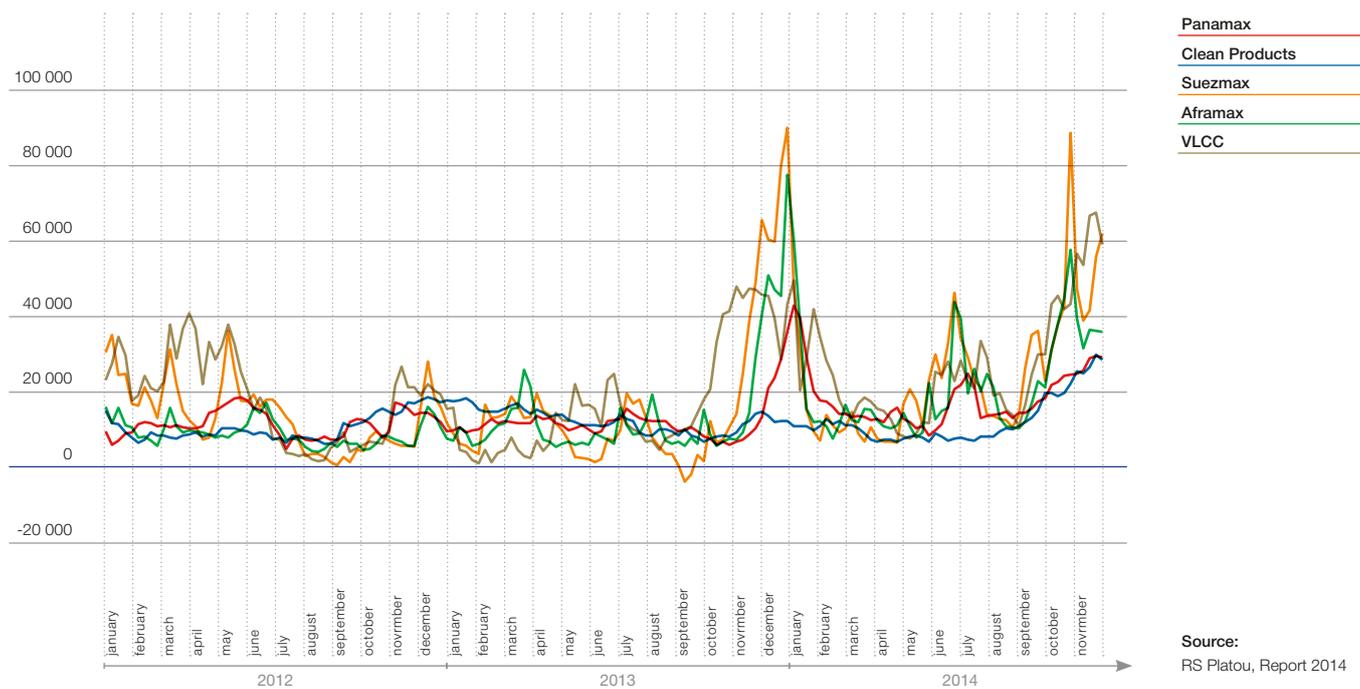
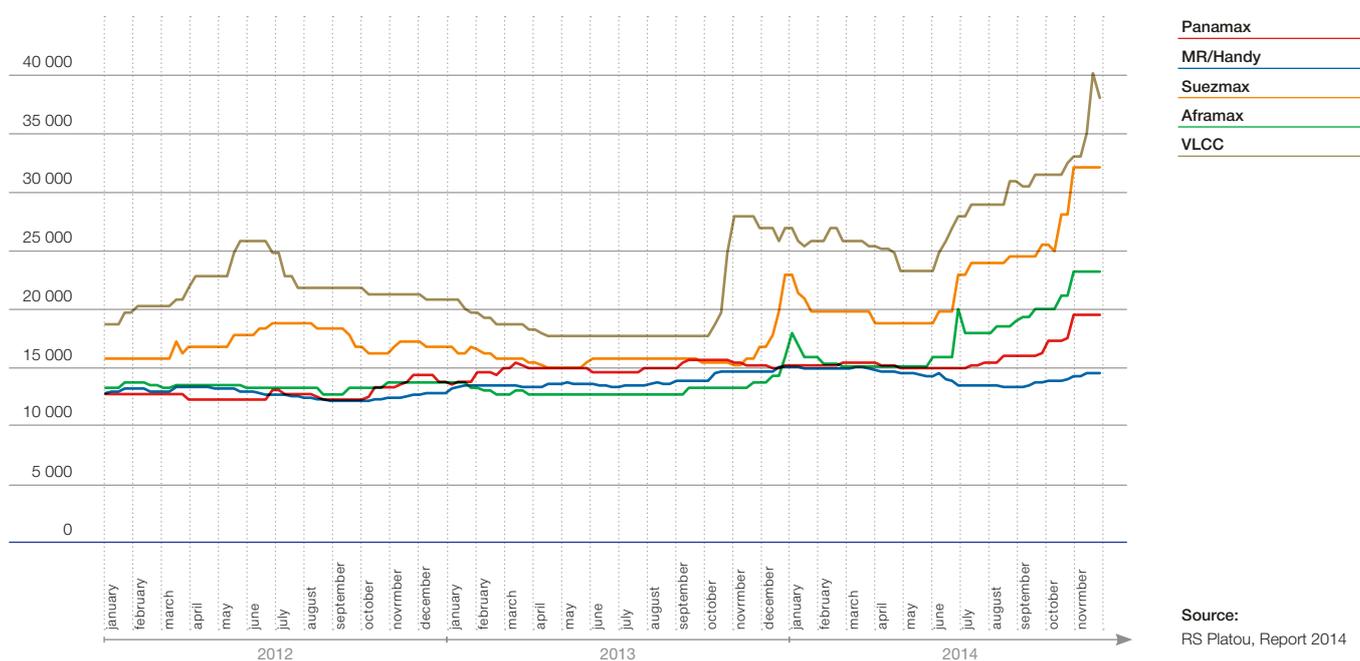


Fig.3 Dynamics of the time charter tanker freight market rates



Development Strategy

DEVELOPMENT OF SOVCOMFLOT GROUP

The Development Strategy for the Period to 2017 was approved by the PAO Sovcomflot Board of Directors in 2011². In 2013 the parameters of the Strategy were updated, with the planning horizon extended to 2018³.

The main strategic areas and goals of the Group are presented in Table 1.

The Strategy also formalises the Group's sustainable development priorities: ensuring navigational safety, reducing adverse environmental impacts, improving the professionalism of personnel, and placing a focus on technical and innovation development⁴.

The Group's objectives for 2014 reflect the general areas set forth in the Development Strategy, and in particular included:

- Maximising income from the operation of the conventional fleet (oil and petroleum product

tankers), taking into account the state of the freight market, seasonal factors, and emerging local "peak" freight rates in separate geographic markets:

- Further optimising the composition of the fleet, factoring in the state of the market for second-hand tonnage, and realising opportunities to revamp existing vessels (as part of the innovative strategy) in order to reduce operating costs and to increase competitiveness
- Implementing current and launching new Russian and international projects involving the transportation of liquefied gas, the shuttle transportation of oil, and servicing offshore hydrocarbon fields in order to increase the share of long-term project business in total revenue and the aggregate assets of the Group
- In 2014 the Group continued to implement its Development Strategy. It is assumed that the strategic priorities of Sovcomflot Group in 2015 will not as a whole change significantly compared to 2014

² Minutes No. 113 of QAO Sovcomflot Board of Directors meeting dated 12 September 2011.

³ Minutes No. 127 of QAO Sovcomflot Board of Directors meeting dated 20 March 2013.

⁴ More detailed information on the Group's sustainable development goals and activities is set out in the Sustainable Development section.

Table 1. Strategic development areas of the Group up to 2018

Qualitative growth	Maintaining leading positions on tanker shipping market	Expansion of LNG transportation activities	Expansion of offshore projects	Development of activities in complex climatic conditions
Growth in net revenue, retaining the high rate of return on investments.	Maintaining the Group's status as one of the leading ship owners and conventional tanker fleet operators, with due account of the current state of the industry and fleet enhancement opportunities	Increasing the gas tanker fleet, operating under long-term contracts with leading Russian and international LNG producers Positioning Sovcomflot Group as the main participation partner in promising Russian LNG export projects	Growth of the shuttle tanker fleet operating as part of offshore projects in Russia and abroad	Further development of business areas related to servicing hydrocarbon fields on the continental shelf (delivery of drilling/production platforms, maritime seismic exploration) Recognition that Sovcomflot Group is a global maritime services leader in working in complex climatic conditions



Long-term development programme

In 2014 the Long-Term Development Programme (LDP) of Sovcomflot Group was drafted.

The development programme is based on the latest Strategy of PAO Sovcomflot, while the main development areas of the Group, pursuant to the LDP, comply with the development areas approved as part of the Strategy. Consequently, the LDP is an updated document of the approved Development Strategy of the Group. The LDP is intended for the period up to 2020.

The main quantitative targets established by the LDP were formulated in a set of financial and industry key performance indicators (KPIs), with the targets approved for each of them for the effective term of the programme. In accordance with methodological recommendations from the Russian Ministry of Economic Development, the LDP and the KPIs resulting from it are presented in a baseline scenario, with an attachment of alternative scenarios based on an analysis of key related risks and opportunities. The activities of the Group aimed at implementing the LDP will start in 2015.

Fig. 4 Organizational and strategic decision-making structure





10 ULTRAMODERN SHIPS

will be built for Sovcomflot Group in the coming years

STAKEHOLDER COMMUNICATIONS

The stakeholders of Sovcomflot Group are institutions, organisations, or individuals whose interests are related to the activities of the Group, and which have an impact in turn on its performance.

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

The key stakeholder groups identified by Sovcomflot Group, as well as the mechanisms for corresponding stakeholder communications, are set out in table 2.

In the reporting period Sovcomflot Group actively communicated with the above stakeholders, performing work in parallel aimed at expanding and developing existing platforms and mechanisms for joint dialogue.



Annual Business Partners meetings of PAO Sovcomflot, Sochi, May 2014

Honoured guests: Igor Levitin – Aide to the Russian President, Maxim Sokolov – Minister of Transport, Alexey Rakhmanov – Vice-Minister of Industry & Trade, Evgeny Moskvichev – Chairman of the State Duma Transport Committee.

Table 2. Mechanisms for stakeholder communications

Stakeholder		Methods of communication
Shareholder and investors	Shareholder	– General Meeting of Shareholders
	Investors	– Presentations, conference calls, meetings between management and the investment community, analyst and investor days – Publication of press releases and other materials as part of the disclosure of information on Sovcomflot Group activities – Disclosure of information and reporting
Business partners	Group customers	– Audit of suppliers in order to confirm their good faith and solvency
	Suppliers and contractors	– Development of tender procedures for the procurement of goods and services – Implementation of anti-corruption procedures – Meetings with clients, including industry conferences and seminars – Publication of market overviews – Conducting research among consumers
Employees	Group employees	– Meetings between HR department representatives and employees – Notifying employees through an intra-corporate communications system – Use of feedback tools, employee surveys – Consideration of filed appeals and complaints – Material and non-material incentive programmes – Development of the fleet personnel training system
State	Russian legislative and executive state authorities	– Participating in the activities of working groups and expert councils established under Russian state executive authorities
Society	Academic institutions	– Charitable assistance to educational and health care institutions
	Health care institutions	– Programme for target preparation of students of maritime universities
	Industry veterans	– Regular meetings with students
	Local population in the regions where the Company has a footprint	– Organising internships for teachers of maritime universities – Sponsoring sports events and competitions
Russian international professional organisations and NGOs	Industry non-governmental organisations	– Participation in the activities of working groups and boards of professional non-governmental organisations
	Business associations	– Supporting projects and discussing documents
	NGOs	– Implementing joint projects with the maritime community – Participating in events aimed at increasing navigation safety
The media	Print publications	– Regular publication in the media of materials dedicated to important events in the Group's activities
	Electronic media (including television, the internet, and radio)	– Interviews with the Group's 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

Risk Management



Sovcomflot Group pays particular attention to risk management issues. Management and employees are responsible for establishing and operating the risk management system at all management levels. The Group has created an Audit Committee affiliated to the Board of Directors, whose responsibilities include risk management. The Executive Board has set up a number of committees (including strategy, maritime safety, environmental protection, finance, investment and development, freight, social policy and human resources, operations, and information technologies), which consider risks and the possible ways of mitigating them when taking decisions.

The Strategic Planning and Development Directorate coordinates risk management activities.

Key risks

The Group has a register of risks which is regularly updated and can be referred to in order to help assess how risk management activity should be carried out.

In addition, the Company is implementing regular and one-time actions to minimise risks. Such actions include the following: monitoring global freight markets; the construction and commissioning of state-of-the-art vessels and the offloading of obsolete ships; the planning and implementation of necessary environmental measures; monitoring amendments to shipping industry regulations; and improvements to HR policies⁷.

The implemented risk management measures together with adopting a proactive response to emerging threats enabled the Group to prevent the occurrence of identified risks in the reporting period.

⁷ Table 3 describes the most material risks identified and the measures to minimise such risks, and risk management methods and the key risk management actions implemented by the Group.

Table 3. Sovcomflot Group – Key risks⁵

Type of risk	Risk factors	Risk mitigation measures
Economic risks	Changes to freight and charter rates on the international freight market	Draft and approve the Development Strategy of the Group and regularly update the document in connection with changes in the market and the external environment; identify the optimal ratio of revenues from long-term and spot contracts
	Seasonal and regional changes to the supply of and demand for tonnage	Monitor global freight markets for the adoption of timely decisions on the optimal distribution of the fleet
	Strong competition from other carriers	Leverage the Group's accumulated experience on 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 to technological requirements on shipments	Build and commission state-of-the-art dedicated vessels; promptly sell obsolete fleet
	Quantitative and qualitative changes to global fleet composition	Diversify the Group's activities and break into new, promising segments
Environmental risks	Accidents having a negative environment impact	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 discharge of waste water and different types of refuse	Implement integrated governance and control systems based on international safety and quality standards
Regulatory and legal risks	Changes to the norms of international legislation and shipping industry regulations, customs and tax law, licensing, and environmental protection	Monitor changes in shipping industry regulations, be proactive in response to such changes, and maintain a constructive dialogue with the regulatory authorities
	The introduction of stringent requirements on vessels by leading certification companies, as well as international oil and trading companies	Draft and implement best-practice design and technological solutions which comply with current and future potential requirements
	Seizure of the vessels of Group companies, in respect of which maritime liens or maritime claims may arise	Monitor the likelihood of claims and other legal encumbrances in respect of the Group's vessels; proactively respond to potential actions in this area
	Inadequate insurance coverage of the Group's vessels	Insure the Group fleet using leading international and Russian companies
Operational risks	Mechanical faults and damage to vessels; maritime casualties	Improve technical management systems and procedures, implement an across-the-board critical analysis of the reasons for breakages and emergencies, increase the professional level of fleet personnel and onshore support
	Delays and defaults on obligations by main counterparties	Conclude contracts with reputable and highly reliable counterparties
	Suspension of activities owing to labour disputes	Promptly consider the legal interests of Group employees and introduce a culture which promotes the joint resolution of issues as they arise
	Dependence of the Group on hiring and retaining qualified personnel	Improve HR policies, create a high-performing team united by common goals and valid material and moral incentives
Country risks	Adverse changes to the political and economic situation in countries and regions where the Group operates	Draft anti-crisis action plans if adverse scenarios arise
	Negative impact of restrictions imposed against Russia by a number of Western countries	Diversify the customer base, project portfolio and areas of activities, and sources of Group financing
	Pirate attacks on the Group's vessels	Organise security for the Group's vessels in dangerous regions, ramp up cooperation with respective international and national authorities, introduce and adjust the rules to be applied by vessels during crises
Financial risks	Changes to the exchange rates of foreign currencies, 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
	The permitted debt burden on the Group's balance sheet is exceeded	Improve the procedures for ensuring the optimal structure of assets and liabilities, in conjunction with an operational analysis of changes in the financial environment



Operating Results

The Group's success in 2014 can be attributed to the consistent implementation of its development strategy, which stipulates a breakthrough growth in profitable market segments, as well as having a balanced freight policy, a constant expansion of the range of services, and increasing the quality of services provided to the Company's customers.



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SHUTTLE TANKER *YURY SENKEVICH* MOORED BY THE *SOKOL SMP*,
SAKHALIN-1, DE KASTRI, Khabarovsk Region.

Overview of Operating Activities

STATE OF THE GROUP'S FLEET IN 2014

In the reporting year Sovcomflot Group continued to hold leading positions compared to its competitors in terms of both fleet size and having state-of-the-art, technically superior vessels within its fleet.

At the end of 2014 the Group had a fleet of 152 vessels. However, total deadweight fell by only 42,000 tonnes, or 0.3%.

The average age of vessels at the end of 2014 was 8.05 years (compared to eight years at the end of 2013), and Sovcomflot Group continues to be one of the "youngest" tanker companies globally based on the age of its vessels. The Group constantly implements a fleet renewal programme.

The Strategy and Long-Term Development Programme of PAO Sovcomflot stipulate the disposal of older vessels, as prescribed under conventions, registries, and other national and international requirements, including those of the International

Maritime Organisation, shipping registries, Port State Control authorities, and charterers. In 2014 nine vessels, with a total deadweight of 554,300 tonnes, were sold on the secondary market.

In 2014, three new vessels with a total deadweight of 509,100 tonnes were commissioned, including two gas Atlanticmax ice-class carriers, the *Velikiy Novgorod* and *Pskov* (which will transport LNG under long-term time charters with Gazprom Global LNG, a subsidiary of OAO Gazprom), and the VLCC-class tanker SCF Shanghai, which is used to transport crude oil under a long-term time charter with the Chinese company PetroChina International⁸.

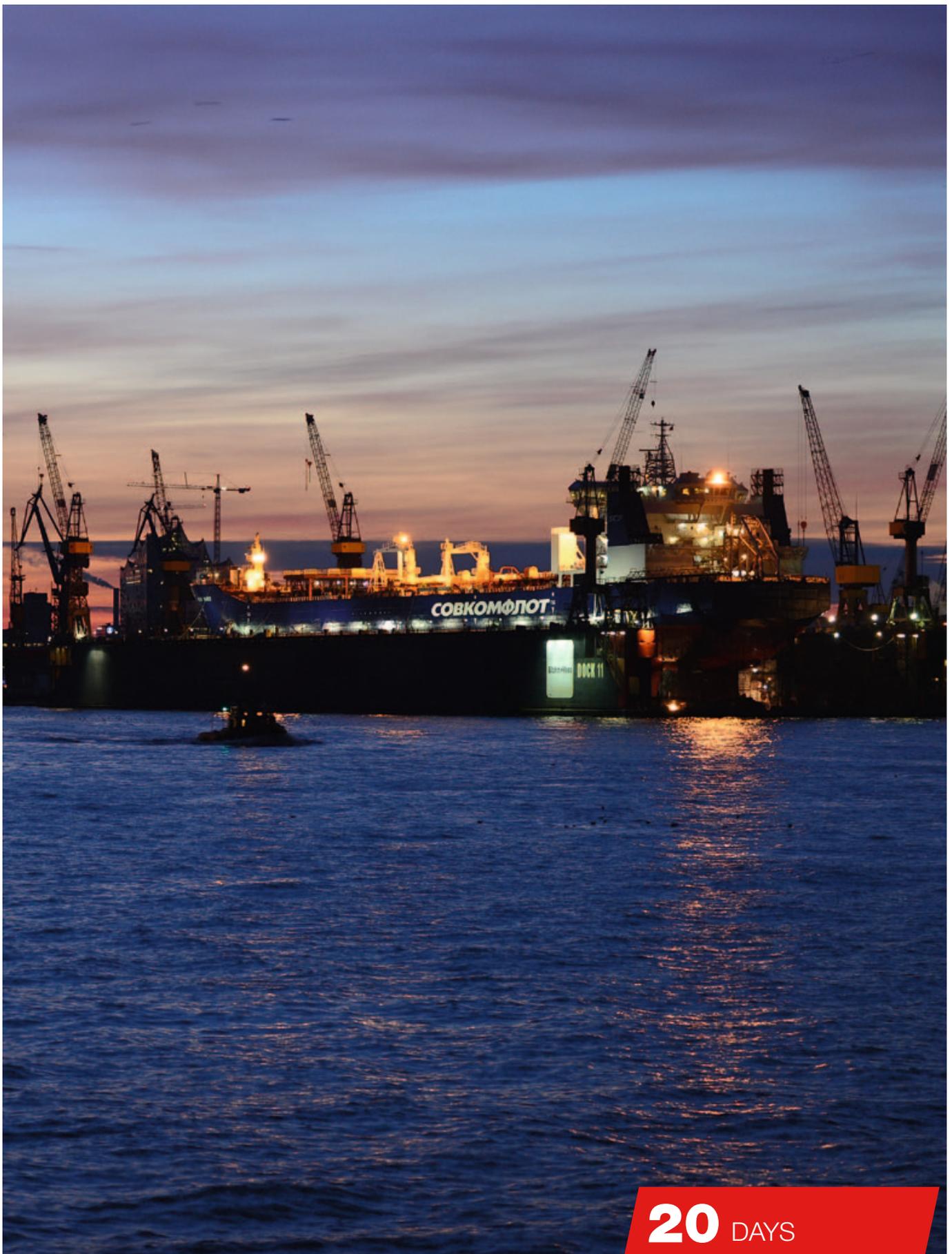
The new vessels are more fuel-efficient, equipped with state-of-the-art engineering tools, and are unique both within the Group and the Russian fleet in general.

⁸ For more details, see the Overview of investments section.

Table 4. Breakdown of Sovcomflot Group fleet

Types of vessels	Number of vessels at year-end (units)			Total deadweight at year-end, '000 tonnes		
	2012	2013	2014	2012	2013	2014
Oil products and petroleum product tankers	134	131	125	11,635	11,972	11,822
Gas tankers	8	10	10	452	498	604
Bulk carriers	2	3	3	144	218	218
Ice-breaking supply vessels	3	4	4	13	17	17
Seismic exploration and service vessels	1	1	1	2	2	2
Chartered tankers	0	0	0	0	0	0
Fleet/tonnage of the Group owned by the Group and JVs	148	149	143	12,246	12,706	12,664
Vessels leased to Rosneftflot	9	9	9	2	2	2
TOTAL	157	158	152	12,248	12,708	12,666

* Owned and chartered vessels including vessels in joint ownership with third parties.



20 DAYS

Once every 5 years is the average
time in dry dock for a tanker

Arctic shuttle tanker *Mikhail Ulyanov* at Blohm & Voss
shipyard, Hamburg, Germany.

Fig 5. Dynamics of increase in the time charter equivalent of the Group, 2012–2014, USD million

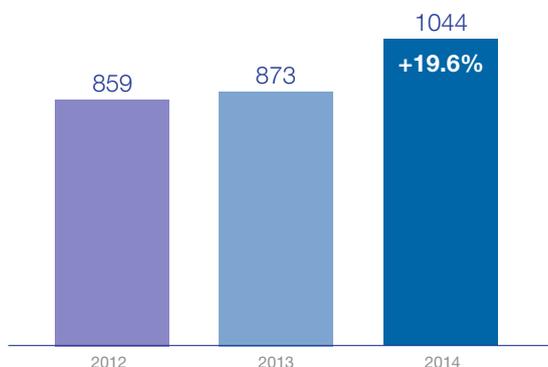


Fig 6. Dynamics of increase in the operating profit of the Group, 2012–2014, USD million

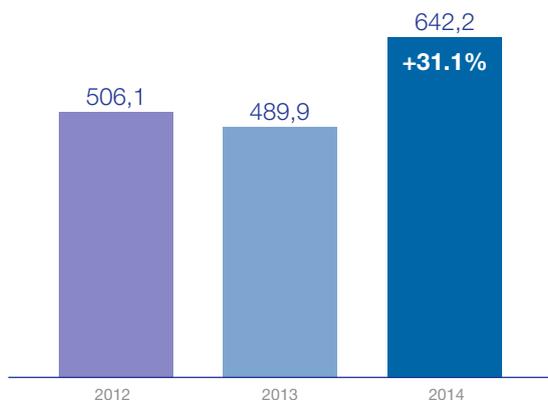
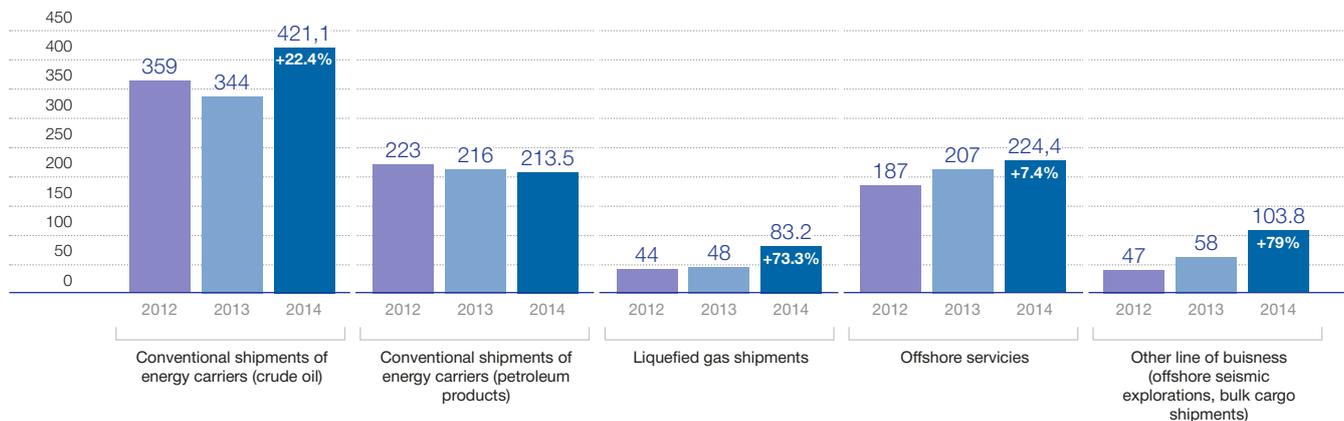


Fig 7. Dynamics of the time charter equivalent by lines of business, 2012–2014, USD million



OPERATING RESULTS FOR 2014

Overall results for Sovcomflot Group

In 2014 the main operating results were a marked improvement on those in 2013, thanks to measures taken to renew and modernise the fleet, the application of a balanced freight policy (which ensures the effective use of the fleet at different development stages of the tanker market), and working with high-profile customers.

The value of the time-charter equivalent of the Group in 2014 rose by 19.6% compared to 2013 and totalled USD 1,044 million. The operating profit of the Group also rose significantly (up 31.1%), equalling USD 642.2 million in 2014.

Sovcomflot Group works with both international and Russian customers. In the reporting year the Group continued to meet Russian foreign trade requirements: its vessels participated in shipments of crude oil and petroleum products from different Russian ports, including Novorossiysk, Murmansk, and Vladivostok, as well as transit freight passing through ports of the former USSR. 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 2014 the Group carried 52,012,000 tonnes of Russian export and transit cargoes exported through Russia. This cargo accounted for 35% of total cargo shipments performed by the Group’s vessels in 2014.



35 %

of total cargo shipments of Sovcomflot Group were export and transit cargoes exported through Russia

Fleet performance indicators by lines of business

Positive dynamics of the main operating indicators were also observed in the breakdown of the Group's main operating segments in 2014.

The increase in time charter equivalent and operating profit in the crude oil transportation segment was achieved due to a market upturn and the optimal distribution of the large-capacity fleet between work in time charters and on the spot market in traditional regions of the Atlantic Basin (Black Sea, Mediterranean Sea, Baltics), as well as the maximum participation in premium markets where Sovcomflot Group enjoys traditional competitive advantages, including from ice-class vessels shipping from the Primorsk and Ust-Luga ports during the winter period.

In the LNG shipment segment, growth in time-charter equivalent revenue and operating profit was achieved through efficiency improvements in the operations of long-term charter vessels.

The time-charter equivalent revenue in the petroleum product shipment segment was down slightly on the previous year.

The increase in net revenues and operating profit is also noteworthy in relation to other lines of the Group's business, including seismic exploration. At year-end the Group has three major completed Russian offshore projects, and two Indian offshore projects.

Given the tight navigation deadlines, a number of projects were implemented in partnership with one of the global leaders in this industry, CGG.

In 2015 the priority line of business of the division remains dominating seismic 3D exploration in the Russian market, in particular in the Arctic regions.



97.68 %

Coefficient of operating time exposure in 2014

OPERATION OF THE FLEET

The fleet operates in accordance with the Integrated Safety Management System (the ISMS) in effect at the Group. Sovcomflot Group manages the operation of the fleet based on the provisions of the Technical Policy drafted in 2008. This policy is a set of measures and actions which enables SCF Group to achieve operational advantages in the maritime transportation and service market sectors.

In accordance with the ISMS, the Group strives to optimise the system of providing vessels with the required financial and material resources to maintain them in excellent working order, and it also applies advanced methods to monitor and

analyse the technical condition of each vessel and its equipment.

In 2014 time losses due to technical reasons fell significantly, by 69.1%. Taking these time losses into account, net operating time saw a slight decrease of 2.3% compared to 2013.

Within the structure of operating expenses the majority are attributable to crew upkeep (59%), while technical operations and insurance account for 22% and 7%, respectively.

Under the ISMS the Group carries out regular maintenance and repairs of vessels, which is a key criterion for the safe and reliable operation of a vessel. The Technical Policy stipulates:

- A five-year classification survey period in docks as the main method of optimising maintenance and repair work
- A scheduled preventive maintenance plan for each vessel, approved in accordance with the class of vessel
- Monitoring that the technical condition of individual types of vessel and critical equipment complies with PAO Sovcomflot requirements
- Maintaining at a high level the external appearance of vessels

The Technical Policy also prescribes the following actions to ensure the high quality of maintenance work and the repair of 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
- The inspection of vessels by registration bodies, which ensures a high degree of supervision over the technical condition of vessels

In 2014, 22 vessels were dry docked and repaired. One of the goals of the Group under the Technical Policy is to ensure longer periods between repairs. For example, in 2014 interim in-water inspections were conducted for 20 vessels, without any need for dry docking.

During the reporting period there were 11 operational accidents, which resulted in damage to hull structures and vessel equipment, and required the decommissioning of vessels for repairs. The Group works proactively to reduce the number of accidents, and performs detailed analyses of them to prevent any repeats of incidents.

Fig 8. Dynamics of actual operating expenses for 2012–2014, '000 USD,

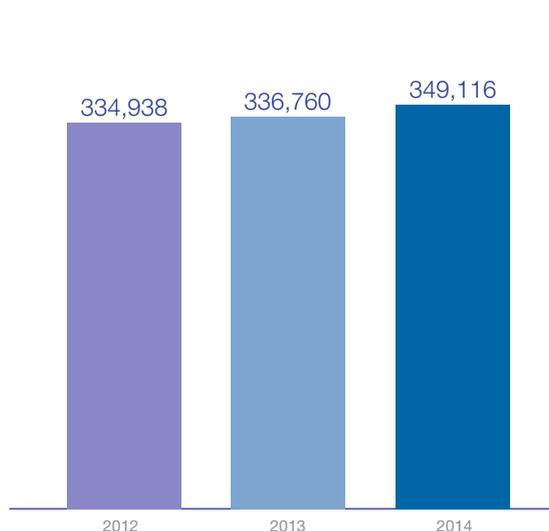
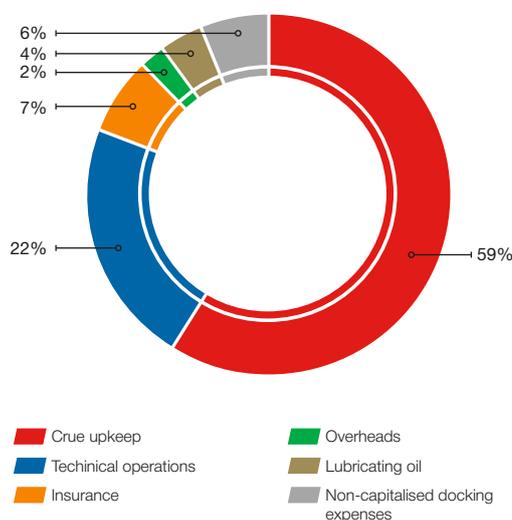


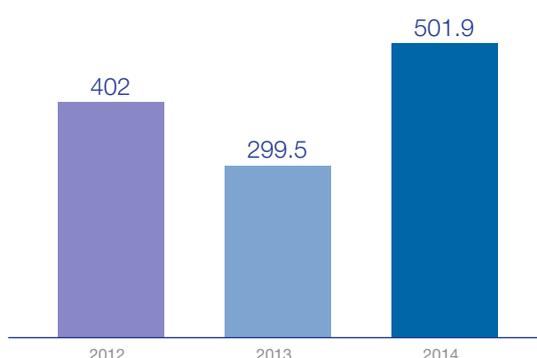
Fig 9. Structure of operating expenses in 2014, %



Overview of Investment Activities

The investment activities of Sovcomflot Group are performed as part of its Development Strategy and the Long-Term Development Strategy of the Group, intended for the period up to 2020. The investment programme approved by the Board of Directors on 19 May 2011 (Minutes No. 110 of the Board of Directors dated 23 May 2011) (the Investment Programme) is a component of the Long-term Development Programme and covers the same period. At the same time, each specific project is drafted and documented separately in accordance with the internal Project Management Regulation adopted in 2012.

Fig 10. Dynamics of Group investments, 2012–2014, USD million



Implementation of investment projects in 2014 – Key results



Large-capacity VLCC tankers for PetroChina

At the end of 2013 / start of 2014 the Group's fleet was augmented by the first VLCC tankers in the history of the Russian commercial fleet with a deadweight of 320,000 tonnes – *Svet* and *SCF Shanghai*. The tankers are employed under long-term time-charter agreements to transport crude oil with the Chinese company PetroChina International (a subsidiary of one of the world's largest oil companies, CNPC).



LNG gas carriers for Gazprom and Shell

In 2014 the construction of the *Velikiy Novgorod* and *Pskov* gas carriers, ordered for operations under a long-term agreement with Gazprom Global LNG, was completed. In addition, under a long-term contract with Shell, the Group is building two Atlantic-Max LNG gas carriers. The first vessel of the *SCF Melampus* series was added to the Group's fleet in January 2015, while delivery of the second vessel is scheduled for April 2015.



Arctic shuttle tankers for the Novoportovskoye project

This project involves the construction of an offshore oil terminal near the New Port village in Yamalo-Nenets Autonomous District. Oil will be shipped by specialised reinforced ice-class shuttle tankers. In 2014 an agreement was concluded on the construction of the first three tankers, with delivery scheduled for 2016.



LNG gas carrier for Yamal LNG project

This project involves the development of the South Tambej gas condensate field and includes construction of a liquefied natural gas plant and the transportation of LNG by reinforced ice-class gas carriers along Northern shipping routes. The Group, participating in the transportation component of the project, plans to build and operate unique gas carriers, which were designed specifically for this project and which currently have no global equivalents. In 2014 an agreement was concluded on the construction of the first gas carrier. The Group is continuing negotiations on the construction and operation of additional vessels for the project.



Multifunctional ice-breaking supplier vessels for Sakhalin-2 project

As part of the Sakhalin-2 project, oil, gas and condensate reserves are being developed on the northeast shelf of Sakhalin Island, including the Piltun-Astokhskoe oil and Lunsk gas fields. To meet the project's requirements, since 2009 the Group has been providing specialised reinforced ice-class supply vessels under a long-term time charter. The development of Sakhalin-2 entails the construction of four more supply vessels. In 2014 an agreement was concluded on the construction of these vessels and their delivery in 2016–2017.



With due regard for the Group's strategic priorities, the Investment Programme chiefly focuses on the implementation of high-yield industrial projects in the area of liquefied gas transportation and the servicing of offshore hydrocarbon fields. These segments are key investment areas in the period to 2020. Investments in the repair and modernisation of the Group's existing fleet are also prescribed.

The cost effectiveness of the investment projects approved for implementation at Sovcomflot

Group is assessed based on unified criteria which stipulate that the internal rate of return should exceed 10%, net of the risk premium calculated with due account of the particular aspects of a specific project. As a rule, investment projects are financed 20-30% from the Group's internal funds and 70-80% from debt financing.

The Investment Programme of the Group for 2014 was performed in full. In 2015 total investments will increase to USD 612.3 million, or by 22% compared to 2014.

Table 5. Total investments broken down by current and planned investment projects of Sovcomflot Group

No	Client / project	Goal	Implementation stage	Investments in 2014 (USD million)
1	PetroChina	Construction of two VLCC tankers	One tanker was delivered in 2014 (the other tanker was delivered at the end of 2013)	32.1
2	Gazprom (GGLNG)	Construction of two LNG carriers	Both carriers were delivered in 2014	322.0
3	Shell	Construction of two LNG carriers	One carrier was delivered at the start of 2015, while the other is still being built	7.4
4	Yamal LNG	Construction of LNG carriers	One carrier is being built, while negotiations continue on the construction of a further five	66.5
5	SEIC/ Sakhalin-2	Construction of four supply vessels	The vessels are being built	28.3
6	Gazpromneft/ Novy Port	Construction of three shuttle tankers	The tankers are being built	45.7
TOTAL				501.9

Table 6. Shipbuilding portfolio of the Group as at 1 January 2015

No.	Name of vessel	Type of vessel	Deadweight	Ice class	Commissioning date
1	SCF Melampus	LNG tanker	94,700	Ice2	3 January 2015
2	SCF Mitre	LNG tanker	94,700	Ice2	15 April 2015
3	SCF Yamal	LNG tanker	98,800	Arc7	29 February 2016 [†]
4	Hull № 511	Supplier vessel	3,000	Icebreaker ICE-15	10 June 2016
5	Hull № 2132	Shuttle tanker	42,000	Arc7	30 June 2016
6	Hull № 2133	Shuttle tanker	42,000	Arc7	31 August 2016
7	Hull № 511	Support vessel	2,000	Icebreaker ICE-15	21 September 2016
8	Hull № 2134	Shuttle tanker	42,000	Arc7	31 October 2016
9	Hull № 511	Support vessel	2,000	Icebreaker ICE-15	12 January 2017
10	Hull № 511	Support vessel	2,000	Icebreaker ICE-15	17 March 2017
TOTAL			423,200		

Implementation of shipbuilding programme

During 2012–2014 the Group worked with shipbuilding companies based in Russia, Finland, the Republic of Korea, and the People's Republic of China, and commissioned 15 vessels (three in 2014), with a total deadweight of 1,642,000 tonnes.

In 2014 there were several initiatives to place orders to construct a number of state-of-the-art ships at Russian shipbuilding companies and partner companies. Based on the results of this work, in 2014:

- Technical documentation for gas tankers to transport liquefied natural gas (with a capacity of 170,000 cubic metres) was prepared and provided to specialists of Far Eastern Shipbuilding and Ship Repair Center
- Technical documentation was fully elaborated and prepared for the construction of supply vessels and oil platform support vessels under the Sakhalin Energy project. Shipbuilding contracts were signed with a Russian-Finnish joint venture
- An audit of the Zvezda shipyard (Bolshoi Kamen) was performed in order to ascertain the potential of the company and whether the Group could place orders with the shipyard
- Technical documentation enabling gas tankers to transport liquefied natural gas (with a capacity of 170,000m³) was prepared and provided

to specialists of the Far East Shipbuilding and Ship Repair Centre

- Technical documentation for oil platform supply vessels to support long-term development projects for the Arctic Shelf was prepared and provided to specialists of the Far East Shipbuilding and Ship Repair Centre
- The requirements of a Sovcomflot client who placed an order for a ship were prepared and brief technical specifications were received for Aframax tankers with tri-fuel main engines (heavy fuel oil/diesel fuel and gas)
- The ship owner's requirements were elaborated and prepared for a tender order by OAO Yamal LNG of Arctic shuttle tankers for the export of gas condensate from the port of Sabetta

Fleet development plans of the Group for 2015–2017

As at 1 January 2015 Sovcomflot Group's order portfolio was 10 vessels, with a total deadweight of 423,200 tonnes.

Taking into account the newly built vessels, the total deadweight of the Group's fleet should exceed 13 million tonnes within three years.

16 SOVCOMFLOT SHIPS

were built in Russian shipyards in recent years

[†] Delivery from the shipyard on 29 February 2016, transfer of the gas carrier to the ship owner "172K m3 Yamal LNGC" (Hull No. 2418) will be performed after ice trials on 30 June 2016.

Overview of Innovation, Research & Development

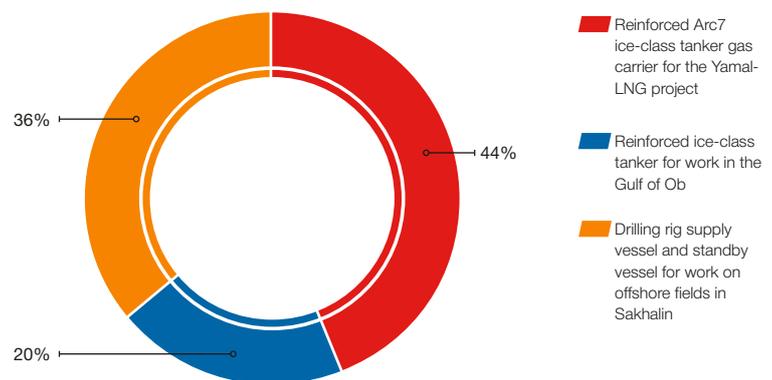
Sovcomflot Group's innovative activities are organised in accordance with Russian Ministry of Economic Development requirements and methodological guidelines for state companies and joint-stock companies with state participation. In May 2011 the Innovation Development Programme of Sovcomflot (the Innovation Development Programme) was drafted and approved by the Board of Directors. The programme determined the main areas for performing innovative activities in the area of fleet renewal, staff training, expanding the range of services provided by the Group, the performance of R&D, and experimental and design work. In 2015, in accordance with Russian Ministry of Economic Development recommendations, the Innovation Development Programme will be updated in order to take into account attained KPIs.

The Group reports annually to the Ministry of Economic Development, the Ministry of Regional Science, and the Russian Transport Ministry on the implementation of Innovation Development Programme actions.

When building new vessels during 2012–2014, innovative technical developments and solutions were actively financed and applied. As a result, the Group's fleet has been supplemented by vessels which boast unique technical and operating characteristics that can deliver a competitive advantage.

Sovcomflot Group has accumulated a wealthy operational experience in challenging climatic conditions. Based on this expertise, aiming to raise the quality of services, maintain high standards of maritime safety, ensuring efficient fleet operations and improve the company's competitive strength, SCF's own Engineering centre was opened and started its work in 2012 in the St. Petersburg headquarters office.

Fig. 11. Financing of innovative activities and R&D by area, 2014, %



In 2014 the following formed the main areas of the Group's innovative activities:

- Drafting innovative designs, taking into account new requirements on the durability of the hull
- The design of vessels capable of operating in the most challenging working conditions of the North Atlantic in the winter period was based on a service life increased to 25 years (equivalent to a 40-year service life of a vessel operating in other parts of the world's oceans)
- Application of new rules governing the construction of vessels during research into the structural and fatigue performance characteristics of the hull design
- Research, calculations, and experiments on the selection of optimal forms of hulls and the parameters of rudder propeller units
- Research, calculations, and experiments on the selection of optimal parameters of the energy units of vessels from the perspective of energy efficiency and a reduction in environmental impacts

The above actions were performed for a number of Group vessels (see diagram 12).

Projects:

Prirazlomnoye project

On 18 April 2014 the first consignment of oil was shipped from the Prirazlomnoye platform – the first project in Russia involving the maritime production of hydrocarbons on the Arctic continental shelf. The project was launched by the Russian President Vladimir Putin, who participated in the ceremony via video link-up. The operation was overseen by Chairman of the OAO Gazprom Management Board, A. B. Miller.

The first consignment of oil was carried by the Arctic shuttle tanker *Mikhail Ulyanov*. This will work with the *Kirill Lavrov* tanker under long-term oil shipment agreements between PAO Sovcomflot and Gazpromneft Shelf. In total, approximately 300,000 tonnes of crude oil were transported in 2014.

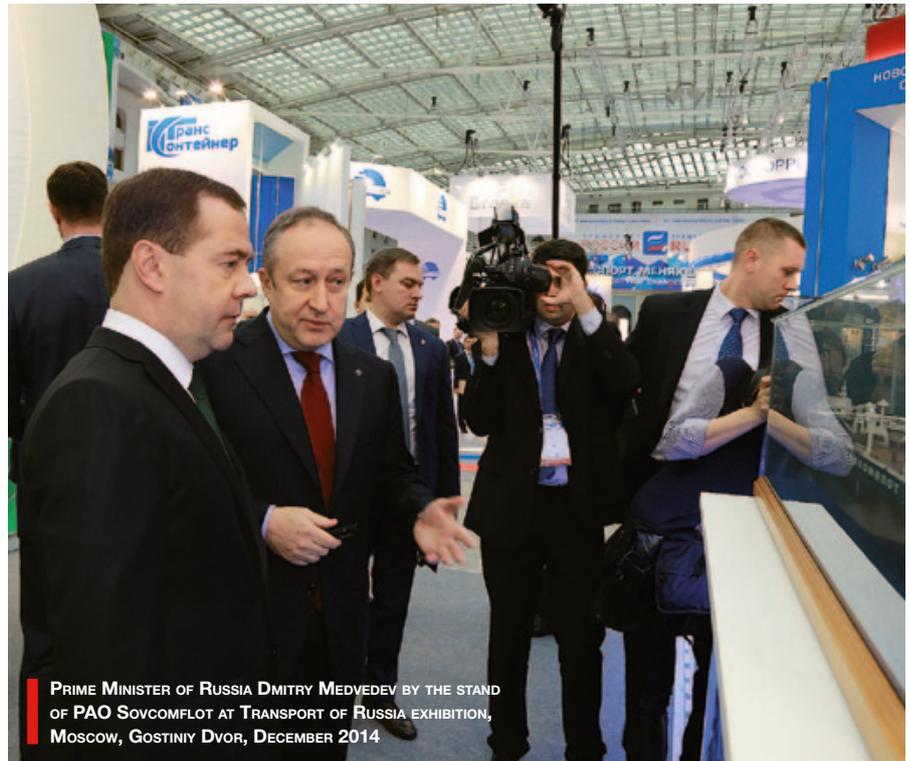
The stationary offshore ice-resistant platform Prirazlomnoye and two unique Arctic shuttle tankers of the Group, together with support vessels, constitute a unique production and transport complex capable of ensuring the reliable and safe delivery to the global market of up to 6 million tonnes of crude oil, with round-the-clock navigation at low temperatures and in challenging ice conditions in the Arctic Sea basin.

Supply fleet for Sakhalin-2 project

On 18 April 2014 Sovcomflot Group signed a 20-year time charter contract to operate an ice-breaking supply vessel, and on 16 May 2014, for the same length of time, for another three standby ice-breaking vessels with Sakhalin Energy, the Sakhalin-2 SPA operator. Under these agreements, four multifunctional ice-breaking supply and support vessels will be built to provide services under the long-term charter contract. Corresponding shipbuilding contracts were signed at the same time as the signing of time charter agreements with a company that is part of United Shipbuilding Corporation.

Novoportovskoye project

In 2014 Sovcomflot Group signed a 12-year time charter contract to operate three Arc7 ice-breaking shuttle



PRIME MINISTER OF RUSSIA DMITRY MEDVEDEV BY THE STAND OF PAO SOVCOMFLOT AT TRANSPORT OF RUSSIA EXHIBITION, MOSCOW, GOSTINYI DVOR, DECEMBER 2014

tankers to export oil round-the-clock from the Novoportovskoy Field for the needs of OAO Gazpromneft. The tankers were designed jointly with South Korean ship builders; respective shipbuilding contracts were signed with them.

Varandey project

The Varandey project is a system of crude oil production and shipping in Russia's Arctic region. Its operator is OOO LUKOIL-Komi, an affiliate of OAO LUKOIL. The project includes the development of the Timano-Pechorskoe and other adjacent oil fields, and also the operation of an export terminal in the Varandey region of the Barents Sea. Heavy-tonnage exports of crude oil from the Varandey terminal began in June 2008. Shipping from Varandey to the Kola Bay is undertaken by three of SCF's Arctic shuttle tankers: *Vasily Dinkov*, *Timofey Guzhenko*, and *Kapitan Gotsky*. These ships, each with a deadweight of 70,000 tonnes, shipped nearly 70 million tonnes of oil in total during the time of their work.

Oil & gas shipment under Sakhalin-1 and Sakhalin-2 offshore projects

Sovcomflot Group vessels had exported more than 100 million tonnes of oil and approximately 12 million tonnes of LNG by the end of 2014. Approximately 1,000 round trips were performed from the ports of

Prigorodnoe and De-Castri in the direction of the main recipients of Sakhalin hydrocarbons, such as South Korea, Japan, China, and other countries of the Asia-Pacific Region.

LNG shipping projects

In 2014 construction of the ice-class LNG carriers (*Velikiy Novgorod* and *Pskov* LNG carriers) was completed for Shell Tankers (Singapore) Pte Ltd. In December 2014 the *Pskov* LNG carrier was used for the board-to-board transshipment of gas in Malaysia's coastal waters. Such operations require the highest professionalism of the crew and the streamlined work of two vessels. Based on the results of the work, the tanker's crew received positive feedback from the charterer.

Sovcomflot Group provided advisory services to OAO Yamal LNG related to the design development of LNG carriers and the optimisation of expenses on the logistical support of the project (Russian Government Instruction No. 1713-r dated 11 October 2010). The Group also participated in a tender on the order and construction of ships. Based on the results of the tender, on 14 February 2014 a shipbuilding contract and time charter agreement were signed for the chartering of the pilot reinforced ice-class Arc 7 LNG carrier, with a capacity of 172,600m³, to transport LNG from the port of Sabetta, as part of the Yamal LNG project.

Overview of Financial Performance

The financial statements of Sovcomflot Group were prepared according to IFRS standards and are submitted as an appendix hereto, together with corresponding comments and clarifications. We present below a brief overview and analysis of the key financial indicators of the Group.

Key financial indicators

In 2014 the key financial indicators of the Group remained stable. The total book value of the fleet increased by 1.4%, from USD 5,206.15 million as at the end of 2013 to USD 5,278.98 million at the end of the reporting period.

Shareholder equity at the end of 2014 totalled USD 3,157.48 million, 1.5% up on the previous period. In total, the Group's assets equalled USD 6,438.72 million at the end of 2014, 0.6% up on 2013.

The investment programme and operating activities were financed through secured bank loans (as at 31 December 2014, total debt to banks amounted to USD 2,175.90 million), revenues from the placement at the end of 2010 of USD 800.0 million worth of unsecured Eurobonds, and operating cash flow.



In the reporting period the Group concluded two loan agreements for a total amount of USD 374 million, including a project finance transaction.

Table 7. Development dynamics of capital structure, USD million

Name	2013	2014
Secured loans	1,961.5	1,982.6
Obligations under financial lease	202.1	193.3
Other loans	798.0	842.9
Minus: cash and cash equivalents	(281.5)	(284.5)
Net debt	2,680.2	2,734.3
Share capital	3,111.3	3,157.5
Total capital	5,791.5	5,891.7
Net debt/equity ratio	46.3%	46.4%

Table 8. Profit indicators, USD million

Name	2013	2014	% Δ
Gross revenue	1,262.8	1,387.4	9.9
Time-charter equivalent	872.6	1,044.0	19.6
EBITDA	382.1	538.2	40.9
Net profit/(loss)	(39.2)	83.9	-

Consequently, notwithstanding the instability of financial markets, the Group successfully obtained the new credit facilities required to develop and maintain its activities. In the reporting year, Sovcomflot Group borrowers and guarantors discharged in full all the requirements and terms and conditions (“covenants”) of corresponding loan agreements.

The Group carefully monitors its capital structure, including through the analysis of net debt ratios, whose development dynamics are presented in the table below.

The current level of the debt burden is acceptable by shipping industry standards, given the high capital-intensive nature of new projects, particularly at a time of freight market volatility.

Indicators from the income statement

The freight market, which has been in a state of recession since 2009 due to surplus tonnage, demonstrated the first signs of recovery, and had a positive impact on the production results of Sovcomflot Group. The addition of new vessels to the fleet also made it possible to increase the Group’s overall revenues and profit.

The Group increased its operating margin and recorded net profits of USD 83.9 million.

28% of financing expenses comprised servicing the Eurobond coupon yield of 5.375%, while 72% comprised servicing current bank debt at interest rates calculated according to the LIBOR rate plus margin.

Liquidity indicators

The Group has a liquidity cushion, which acts as a significant stabilising factor. Freely available cash on bank accounts and deposits totalled USD 257.7 million at the end of 2014, in line with the

Group’s cash management policy. The Group also disposes of a reserve of unused revolving credit facilities and accessible special-purpose credit facilities of USD 360.3 million.

Credit rating of the Group (as at 31 December 2014)

During 2014 Sovcomflot Group continued to work with international rating agencies. Owing to increased geopolitical risks, the agencies conducted an additional assessment and analysis of the Group’s level of solvency during the year. Against this backdrop, the evident positive dynamics of the Group’s credit metrics enabled the impact of geopolitical factors to be to some extent mitigated.

Moody’s Investors Service maintained a corporate credit rating for the Group of Ba2. At the end of the year the agency put the rating on the watchlist, while the unsecured debt rating was downgraded to B1, with the outlook “on watchlist”⁸. The international ratings agency Fitch confirmed the Group’s rating at BB-, but at the same time raised its ratings outlook to “stable”. Meanwhile, Standard & Poor’s (S&P) kept the Group’s credit rating at BB+, with a “stable” outlook. Sovcomflot Group also has a long-term rating on the national scale of Moody’s Interfax Rating Agency, which was downgraded to A2. ru, with the outlook “on watchlist”, and a ruAA+ rating according to the S&P national scale.

In 2014 the unfavourable geopolitical backdrop placed material pressure on the quotations of the bonds of Russian issuers, including Sovcomflot Group. For example, the yield to maturity of the Group’s bonds at the end of the year was 13.7%.

⁸ The ratings were confirmed at current levels on 1 April 2015.

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 plans to access public capital markets makes the development of corporate governance practices a priority task.

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Corporate Governance System

PAO Sovcomflot seeks to ensure that its corporate governance system complies with internationally recognised standards – this requires complete adherence to both legislative requirements and to best practice standards related to corporate behaviour and ethical norms.



Mechanisms related to managing sustainable development and social responsibility are embedded in the PAO Sovcomflot corporate governance system. During their activities, management bodies assess a number of issues, including those related to occupational health and safety, HR management, charity work, and environmental impacts.

THE CORPORATE GOVERNANCE CODE FORMALISES THE UNDERLYING CORPORATE GOVERNANCE PRINCIPLES OF PAO SOVCOMFLOT

PAO Sovcomflot (represented by the management bodies and employees) ensures compliance with current Russian law requirements, including those related to combatting corruption.

The general policy for regulating conflicts of interest involving PAO Sovcomflot is determined by its Board of Directors. The mechanism for notifying the management bodies of Sovcomflot of any conflicts of interest is determined by the Regulations on the Board of Directors, as well as the current Corporate Code of Conduct.

■ Fig.12. Structure of the management and control bodies of PAO Sovcomflot⁹



⁹ In 2014 no changes took place to the structure of PAO Sovcomflot management bodies.

General Meeting of Shareholders

In accordance with Clause 5 of the Regulations on the Management of the Federally Owned Shares of Open Joint-Stock Companies and Exercising the Special Right for the Participation of the Russian Federation in the Management of Open Joint-Stock Companies (the “Golden Share”), approved by Russian Government Resolution No. 738 dated 3 December 2004, the rights of the shareholder – the Russian Federation – are exercised by the Federal Agency for State Property Management, as agreed with the Russian Transport Ministry.

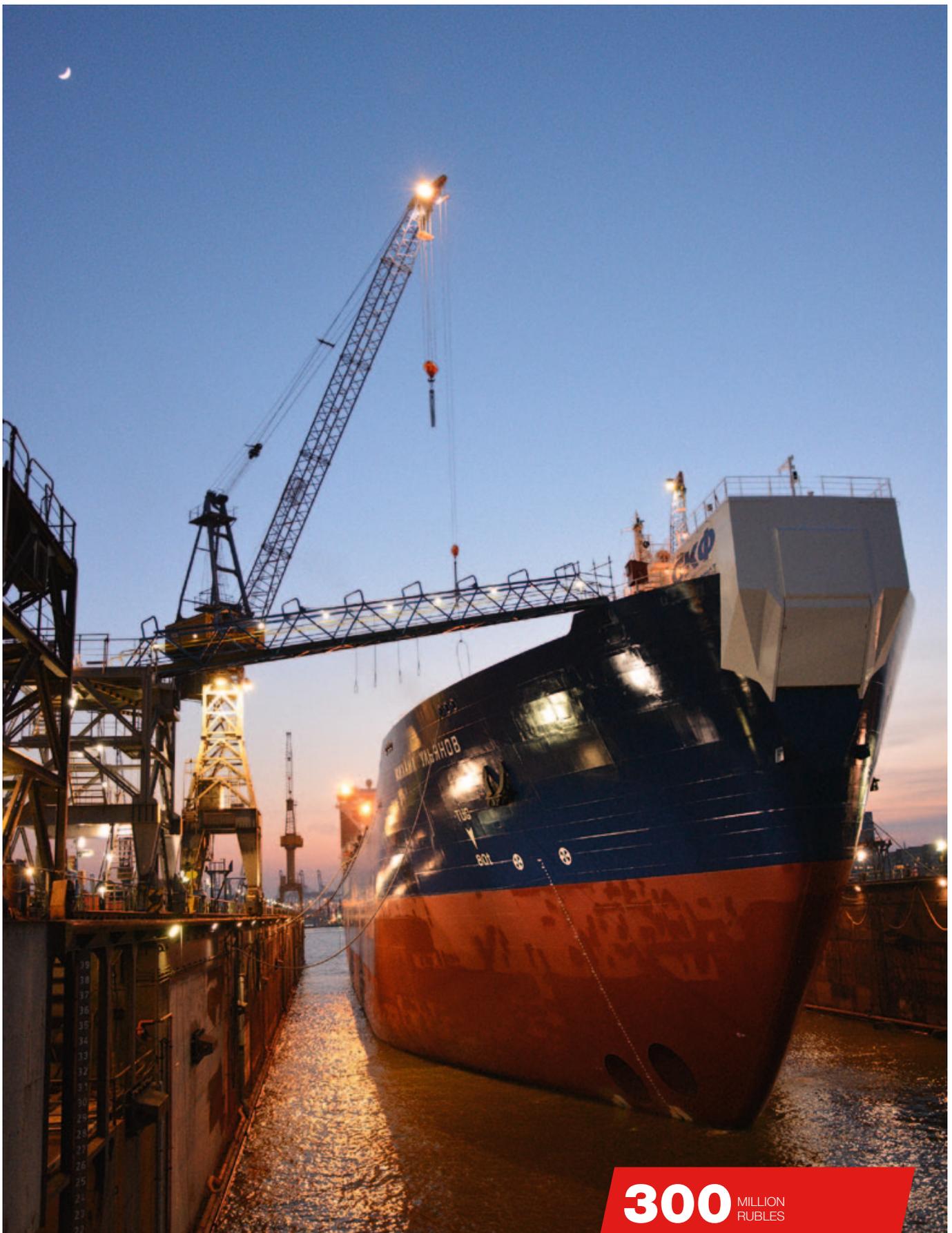
At the same time, the position of the shareholder – the Russian Federation – is determined by a decision of the Russian Government, the Russian Prime Minister, or on his instructions by the Russian First Deputy Prime Minister or the Russian Deputy Prime Minister.

30 June 2014 the OAO Sovcomflot General Meeting of Shareholders was held, which approved the operating performance of OAO Sovcomflot for 2013 and the annual financial statements, along with other questions. The details on the decisions of the General Meetings of Shareholders are available on the company’s website.

20 November 2014 an extraordinary General Meeting of OAO Sovcomflot Shareholders was held. In accordance with law requirements, the company’s name was amended from Open Joint-Stock Company Modern Commercial Fleet (OAO Sovcomflot) to Public Joint-Stock Company Modern Commercial Fleet (PAO Sovcomflot).



PRESIDENT OF RUSSIA VLADIMIR PUTIN, AIDE TO PRESIDENT IGOR LEVITIN AND MINISTER OF TRANSPORT MAXIM SOKOLOV VISITING THE EXHIBITION OF SCF SHIPS ONBOARD THE TRAINING TALLSHIP *MIR*, SOCHI, MAY 2014.



300 MILLION
RUBLES

was allocated for dividend
payments in 2013

All the decisions of the Sovcomflot Board of Directors as per 31 December 2014 were executed.

Andrey Sharonov

Member of the Board
of Directors

Anna Belova

Member of the Board
of Directors

Marlen Manasov

Member of the Board
of Directors (Independent
director)

Ilya Klebanov

Chairman of the Board
of Directors

Mikhail Poluboyarinov

Member of the Board
of Directors



Board of Directors PAO Sovcomflot*

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 determining the vision, mission, and strategic development of the Group.

Sergey Frank

Member of the Board of Directors,
President & CEO of
PAO Sovcomflot

Charles Ryan

Member of the Board
of Directors

Aleksey Klyavin

Member of the Board
of Directors (Independent
director)

David Moorhouse

Member of the Board
of Directors (Independent
director)



Chief Executive Officer and the Executive Board

The day-to-day activities of PAO Sovcomflot are managed by the Chief Executive Officer (sole executive body) and the Executive Board (collegiate executive body).

In accordance with directives of the Russian Government, Sergey Frank was elected Chief Executive Officer on 4 October 2014 by a PAO Sovcomflot Extraordinary General Meeting of Shareholders. The powers of Sergey Frank as PAO Sovcomflot Chief Executive Officer were extended for three years by a Resolution of the Extraordinary General Meeting of Shareholders (Instructions No. 770-r of the Federal Agency for State Property Management dated 7 June 2012).

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 dated 26 December 1995 "On Joint-Stock Companies", other legal acts of the Russian Federation, the Charter, Regulations on the Management Bodies, the internal regulations of PAO Sovcomflot, and contracts determining the rights and obligations of the Chief Executive Officer and members of the Executive Board concluded by each of them with PAO Sovcomflot¹⁰.

The Chief Executive Officer exercises the functions of President of the Executive Board, acts without a power of attorney on behalf of PAO Sovcomflot, and approves internal regulations governing production and technology, 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 organises the implementation of resolutions of the General Meetings of Shareholders, as well as decisions of the PAO Sovcomflot Board of Directors.

Fig. 13. Number of Executive Board meetings, 2013-2014

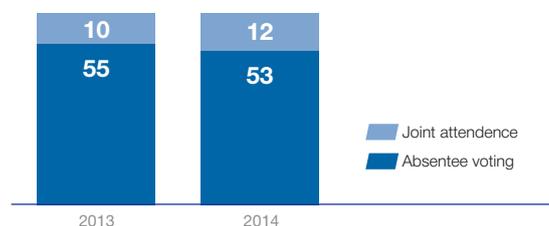
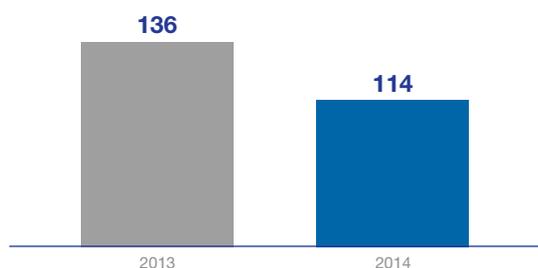


Fig. 14. Number of issues considered by the Executive Board, 2013-2014



¹⁰ More details on the regulations on the management bodies can be found in the Corporate Governance section on the Group's website: www.scf-group.com



Sergey Frank

President and Chief Executive Officer, Chairman of the PAO Sovcomflot Executive Board (main place of work)



Evgeniy Ambrosov

Senior Executive Vice-President, Member of the PAO Sovcomflot Executive Board (main place of work)



Igor Tonkovidov

Executive Vice-President, Technical Director of SCF Group, Member of the PAO Sovcomflot Executive Board (main place of work)



Nikolay Kolesnikov

Executive Vice-President, Chief Financial Officer, Member of the PAO Sovcomflot Executive Board (main place of work)



Alexey Ostapenko

Vice-President, Administrative Director, Member of the PAO Sovcomflot Executive Board (main place of work)



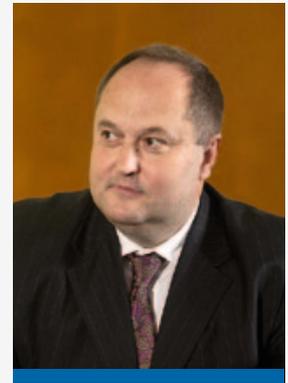
Alexander Kurtynin

Vice-President, Head of the Management and Development Division of the Seismic Exploration Fleet, Member of the PAO Sovcomflot Executive Board (main place of work)



Vladimir Emelianov

Vice-President, Head of Strategic Planning and Development, Member of the PAO Sovcomflot Executive Board (main place of work)



Sergey Popravko

Managing Director of Unicom Management Services (Cyprus) Limited (main place of work)



Yury Tsvetkov

President of OAO Novoship (main place of work), Member of the PAO Sovcomflot Executive Board



Callum Ludgate

Managing Director of Sovcomflot (UK) Limited (main place of work), Member of the PAO Sovcomflot Executive Board



Marios Orphanos

Managing Director of Sovcomflot (Cyprus) Limited, Unicom Management Services (Cyprus) Limited (Limassol) (main place of work), Member of the PAO Sovcomflot Executive Board



Internal Audit Committee

The Internal Audit Committee 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 Internal Audit Committee are determined by the Regulations on the Internal Audit Committee¹¹, approved by the PAO Sovcomflot General Meeting of Shareholders and Instructions No. 838-r of the Federal Agency for State Property Management dated 30 June 2009. The payment of compensation and the reimbursement of expenses to Internal Audit Committee members is performed on the basis of the Instructions of the Federal Agency for State Property Management, in accordance with the Regulations on the Payment of Compensation and the Reimbursement of Expenses to Members of the PAO Sovcomflot Internal Audit Committee (approved by Instructions No. 1046-r of the Federal Agency for State Property Management dated 13 August 2013).

The Internal Audit Committee is elected by the annual General Meeting of Shareholders until the following annual General Meeting of Shareholders and consists of no fewer than three people (Clause 17.2 of the PAO Sovcomflot Charter). During the reporting period, the Internal Audit Committee operated in the following compositions, which were elected by:

1. The annual General Meeting of Shareholders of 13 August 2013 (Instructions No. 1046-5 of the Federal Agency for State Property Management dated 13 August 2013) elected: A.L. Voronkova, T.E. Kirina, and A.V. Tikhonov
2. The annual General Meeting of Shareholders of 30 June 2014 (Instructions No. 696-r of the Federal Agency for State Property Management dated 30 June 2014) elected: I.M. Babenkova, A.B. Volchkov, and A.V. Tikhonov

¹¹ For more details, the Regulations can be found on the Corporate Governance section of the Group's website: www.scf-group.com

Internal and External Audit

Internal audit

Sovcomflot Group has built a system of internal controls and audit, which facilitates the effective implementation of the internal business processes of the Group. The system of internal controls and audit is managed by the Audit Committee of the Board of Directors, the Internal Audit Committee¹², and the PAO Sovcomflot Internal Audit Department. The reliability of the internal controls system is also bolstered by having three independent directors on the Board of Directors.

The Internal Audit Department, exercising control-internal audit and expert analytical functions, is an independent structural division of PAO Sovcomflot and operates in accordance with the regulations approved by the PAO Sovcomflot Chief Executive Officer. The activities of the Internal Audit Department help to increase the reliability and effectiveness of internal controls and the risk management process, and also assist management in ensuring the effective functioning of PAO Sovcomflot.

The main objectives of the Internal Audit Department are to:

- Implement the preliminary, current, and subsequent internal audit of the financial and business and production activities of PAO Sovcomflot Group and their structural divisions
- Assess the adequacy, sufficiency and effectiveness of the internal control system for financial and business and production activities
- Assess the Internal Control Service in terms of the reliability of accounting and reporting and financial and management information

- Review the execution of financial plans/budgets and cost estimates; ensure the rational expenditure of funds
- Analyse corporate risks related to current PAO Sovcomflot Group activities, as well as the preparation and implementation of separate projects
- Assess the effectiveness of internal controls in relation to the safekeeping of assets and the effective use of Group resources
- Participate in drafting recommendations on how to improve the risk management and internal control systems

The Internal Audit Department reports administratively to the Chief Executive Officer and is run by its head, who is appointed and discharged by the PAO Sovcomflot Chief Executive Officer. Functionally the Department reports to the Audit Committee of the Board of Directors. The department has three employees.

The Internal Audit Department works with the Audit Committee of the Board of Directors, the Internal Audit Committee, and the internal and external auditors of subsidiaries and associates. The Internal Audit Department interacts with the external auditors of PAO Sovcomflot to coordinate joint actions, and when exchanges of information are necessary to resolve tasks.

To increase the quality of the internal audit function, an external assessment of it is performed on a regular basis, further to a decision of management of the Group. For example, in 2012 Ernst & Young performed such an external assessment as

¹² For more details, see the Board of Directors and Committees and Internal Audit Committee sub-sections



part of the audit of the overall diagnostics of the internal audit and risk management function and the internal control system from the perspective of compliance with the key requirements of the regulatory authorities. The internal audit function is analysed each year as a component of the Internal Control Service during the annual audit of the financial statements of the Group, based on the results of the year.

In 2014, as part of the approved LDP, the Board of Directors adopted the Standard for the Audit of the Implementation of the Long-Term Development Programme of PAO Sovcomflot, aimed at improving the risk management and internal control system.

External audit

In accordance with legislative requirements¹³, PAO Sovcomflot holds an annual tender to appoint an auditor to conduct an independent audit of the financial statements of PAO Sovcomflot prepared under Russian accounting law, 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 the procedures which govern the holding of public tenders are carried out.

The tender is open, and the notice on its holding and related tender documentation are published under the procedure established by law. Interested participants meeting Russian law requirements on auditors are invited to participate. The winner is deemed to be the audit firm that has collected 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 is deemed to be the winner.

Since 2013 OOO Ernst & Young has audited the financial statements of PAO Sovcomflot prepared in accordance with Russian accounting law and the consolidated financial statements prepared in accordance with IFRS. In the reporting year the auditors did not provide any advisory services to PAO Sovcomflot.

¹³ Federal Law No. 307-FZ dated 30 December 2008 “On Auditing” and Federal Law No. 44-FZ dated 5 April 2013 “On the Contract System in the Area of Procurements of Goods, Work and Services to Meet State and Municipal Needs”.



Structure of the Share Capital

The authorised share capital of PAO Sovcomflot as at 31 December 2014 amounted to RUB 1,966,697,210 and consists of 1,966,697,210 ordinary registered shares with a nominal value of one rouble each

In 2014, further to a resolution of the annual PAO Sovcomflot General Meeting of Shareholders dated 30 June 2014 (Instructions No. 696-r of the Federal Agency for State Property Management dated 30 June 2014), it was decided that the authorised capital should be increased by the placement of an additional 280,956,743 ordinary registered shares. As part of implementing this resolution, the PAO Sovcomflot General Meeting of Shareholders (Minutes No. 141) approved on 17 December 2014 a resolution on the additional issue of ordinary registered uncertified shares of PAO Sovcomflot, as

well as the securities prospectus for these shares. These documents were registered with Bank of Russia in 2015.

All PAO Sovcomflot shares are federally owned. The Russian Federation, represented by the Federal Agency for State Property Management, is the sole shareholder of PAO Sovcomflot.

Expenditure of Net Profit and Dividend Policy

Information on the 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.

In 2014 the net profit of the Group was USD 83.9 million¹⁴. A resolution regarding how net profit should be allocated in the reporting year, including on dividend payments for 2014, will be adopted at the annual General Meeting of Shareholders in 2015.

Dividend policy

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

On 14 December 2012 the OAO Sovcomflot Board of Directors approved the Dividend Policy, which establishes that dividends at a level no lower than 25% of the net profit attributable to the equity stake of the PAO Sovcomflot shareholder, in accordance with the audited consolidated financial statements prepared under IFRS, and converted into roubles at the CBR exchange rate at the end of the reporting period.

Table 9. Main areas of expenditure of net profit obtained in 2013

Area	Amount	Comment
Payment of declared (accrued) dividends on shares	0	Not applicable
Amount of dividends transferred to federal budget	RUB 300 million	Paid from retained earnings of previous years
Amount allocated to reserve fund	0	Reserve fund is fully formed
Amount allocated to other funds in 2014, indicating names of the funds	0	There are no other funds
Amount allocated in 2014 to implement investment projects	0	Owing to the adverse financial performance in 2013, investment projects were not financed from net profit
Other areas of the use of net profit of 2013 in 2014	RUB 335 million	Repayment of credit obligations ¹⁵

¹⁴ The amount that remained at the disposal of PAO Sovcomflot after the distribution of dividends for 2013 is indicated.

¹⁵ For more details on profit indicators, see the Overview of the Financial Results sub-section.

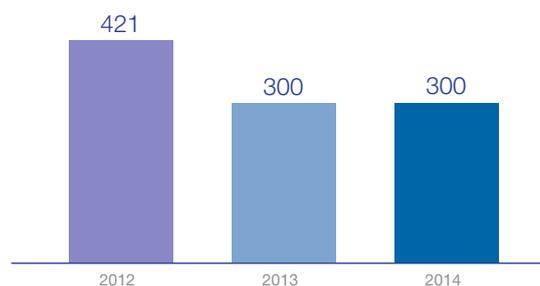


On 30 May 2014 the Board of Directors recommended that the General Meeting of Shareholders allocate RUB 300 million in dividend payments, based on the 2013 results, retaining the size of the dividends paid based on the 2012 results, despite the loss recorded in the consolidated financial statements prepared in accordance with IFRS. The indicated amount of dividends accounted for 47.2% of the net profit according to the PAO Sovcomflot financial statements prepared under RAS. On 30 June 2014 the annual PAO Sovcomflot General Meeting of Shareholders 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 15 July 2014. Dividends based on the operating results for 2013 were paid in 2014 in full and by the deadlines stipulated under Russian law.

As at 31 December 2014 PAO Sovcomflot had no debt related to dividend payments.

Fig. 15

Dynamics of dividend payments to the Russian Federation, 2012-2014, RUB million



Sustainable Development

- The occupational health and safety activities of Sovcomflot Group are based on compliance with the principle “Safety Comes First”
- The cornerstone of the success of Sovcomflot Group is the professionalism and coordinated work of its top specialists; primarily the captains and crews of its vessels, as well as onshore personnel in Russia and abroad
- The sponsorship and charity work of the Group are aimed at preserving our historical legacy, taking care of the health and physical development of the next generation, and supporting the national educational cluster



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Occupational Health and Safety

The occupational health and safety activities of the Group are based on the principle “Safety Comes First” – one of the key priorities of Sovcomflot Group. The Group seeks to comply not only with Russian legislation, but also with best practices and international standards pertaining to occupational health and safety

Occupational health and safety management system

Occupational health and safety management is performed at all levels of Sovcomflot Group. For example, the Board of Directors has set up the Committee for Innovative Development and Technical Policy, which conducts a preliminary review, analysis, and elaboration of recommendations on how the safety management system can be improved. The PAO Sovcomflot Executive Board

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.

The fleet is operated in accordance with an integrated safety management system based on the standard methods for ensuring the effective and safe technical operation of vessels and vessel equipment, approved as part of the International Safety Management Code (ISM Code), the standards ISO 9001 and ISO 140 001, the Ship Safety Management System based on the ISM Code, and corresponding requirements of the Flag Administration, the Group and best seamanship.



“SAFETY COMES FIRST” –

A KEY PRINCIPLE OF SOVCOMFLOT GROUP IN THE AREA OF SUSTAINABLE DEVELOPMENT

Since 2013 the Group has implemented a unified safety management system. The unification process began in 2009, with policies and basic practices. Subsequently, organisational structures were adapted so that they aligned with the unified standards.

PAO Sovcomflot maritime safety and quality specialists perform R&D work aimed at studying the specifics of Arctic shipping, and support innovative projects, participate in developing industry regulations, and regularly participate in meetings of the Russian Chamber of Shipping Association Maritime Safety Committee.



5 TIMES LOWER

SCF Group's fleet overall accident frequency rate compared with the industry average

Key occupational safety and accident incidence rate indicators in 2014

1. Ship accidents

The number of serious accidents (causing damage of more than USD 250,000) fell from 19 incidents in 2013 to 11 in 2014.

Based on the results of analysing mechanical breakdowns, the Group approved an Action Plan to improve the quality of technical management and accident prevention measures. The Committee for Navigation Safety, Environmental Protection, Quality, and New Technologies of the PAO Sovcomflot Executive Board regularly drafts recommendations that contain a list of actions to improve the quality of technical management on vessels.

2. Occupational safety and work-related accidents

Compared to the previous year, the frequency of accidents involving a loss of work time (the LTIF ratio for the Group in 2014 was 0.17) dropped by 57% and amounted to 25% of the average figure for the global tanker fleet (according to Intertanko). The overall accident frequency rate contracted by more than a third (37.5%), which is almost five times lower than the industry average. In 2014 the TRCF ratio for the group was 0.68. In 2014 there were no fatal work-related accidents.

Employees

HR POLICY

All vessels in the fleet are manned by highly professional and competent crews, who fully understand their official duties and are able to work effectively as a team. An important role in the attainment of Group goals is also played by the professionalism of the employees of onshore units; in particular, senior and middle management responsible for the adoption and subsequent implementation of management decisions.

The Group has developed and implements a system of internal HR regulations to attract, train, and develop personnel. For example, in the area of professional development and employee motivation, the Group has adopted Regulations on Wages and Material Incentives for Employees and Regulations on the Professional Training / Retraining and Raising the Qualifications Level of Personnel.

In the reporting period Sovcomflot Group carried out active work in HR management in the following main areas:

- Increasing the appeal of working on the Group's vessels and improving the system for selecting and training the competent fleet personnel required for vessels
- Increasing the social security system of seafarers and other personnel against a backdrop of financial turbulence
- Providing additional material incentives for middle management
- Improving the personnel motivation system and increasing the objectivity of appraising contributions made by employees in the attainment of end results

The Group's employees can be split into two categories: fleet personnel and onshore personnel. In connection with the nature of the Group's activities, the number of fleet personnel



1311 PEOPLE

were employed by
SCF Group in 2014

significantly exceeds the number of onshore personnel, amounting to 91% of total Group headcount (7,467 people as at the end of 2014). In the reporting period 1,289 fleet personnel and 22 onshore personnel were hired, making up 18.9% and 3.4%, respectively of the total number of employees of the respective categories.

Sovcomflot Group pays special attention to the career growth and professional development of its employees. For example, a performance appraisal of the Group's employees is regularly conducted: in 2014 all fleet and onshore personnel underwent such appraisals. Based on the results of the work and appraisals, the Group promoted 518 employees, including 390 fleet personnel and 128 onshore personnel.

The Group also drafted a programme to lower the average age of senior command staff, through promoting the most talented first officers and second engineering officers to the positions of captain and engineering officer.

The high retention rate of senior command staff demonstrates that Sovcomflot Group is considered a good employer that is capable of retaining its professional staff. The retention rate of command staff in 2013 was 95%, and of senior command staff 97%.

PROFESSIONAL DEVELOPMENT OF SENIOR STAFF

Highly skilled employees are the foundation upon which the effective functioning of a company is built. Hence the Group actively encourages and participates in the professional development of its staff.

The Group regularly organises seminars for fleet officers on the exchange of professional experience. In the reporting year, 496 fleet officers participated in these seminars. Internships were organised for 32 senior fleet officers at the offices of the management companies of Unicom Management Services (Cyprus) Limited, Limassol and SCF Novoship Technical Management, Novorossiysk.

The Group's operating specifics create the need for subject matter specialists. As part of staff training and retraining, training is performed both through cooperation with maritime educational institutions and at its own training centres.

To attract young skilled specialists, Sovcomflot Group fosters cooperation with Russian maritime educational institutions. Currently, related contracts have been concluded with the country's three main maritime universities: Admiral Ushakov Maritime State University, Admiral Makarov State University of Maritime and Inland Shipping, and Admiral Nevelskoy Maritime State University. The cooperation programme includes participation in the preparation and training of future specialists, the annual organisation of navigation practice, and the regular holding of meetings with cadets.

Fig. 16 Main types of cooperation with maritime educational institutions





95%

of the Group's employees are members of the Russian Professional Union of Seafarers

As part of its mutually beneficial collaborations with universities, the Group plans to continue the practice of allocating funds for classroom equipment and the acquisition of additional teaching aids.

Sovcomflot Group plans to continue to develop its own fleet personnel training system, which complies with the highest international standards. Two of its own training centres will serve as the basis of this system:

- The Sovcomflot Training Centre in St. Petersburg, which received a licence and became operational in 2013. A full range of maritime operations can be reproduced at the centre; for example, the servicing of oil platforms, navigation in northern latitudes, and navigation in ice – both independently and accompanied by ice-breakers. In 2014, 549 people received training in all areas.

- TEC Novoship Training in Novorossiysk, which has been operational for more than 10 years. Today this is one of Russia's leading maritime training centres. The centre has been certified by DNV for compliance with international standard ISO 9001:2008 (Quality Management). According to 2014 results, 5,911 people were trained at TEC Novoship Training (including sailors from other companies).

To continuously raise the level and quality of knowledge and skills, short- and long-term upgrade programmes are implemented, both in Russia and abroad, for senior executives, managers, and senior officials. The ability to participate in these programmes reinforces the professional motivation of employees and their value as highly skilled members of staff.

PERSONNEL MOTIVATION

The Group develops and implements various incentive and motivational programmes.

The Group regularly concludes Collective Bargaining Agreements between the Russian Professional Union of Seafarers (RPUS) and Sovcomflot Group Management Companies. A collective bargaining agreement is an effective tool for guaranteeing a decent wage, safe working conditions, and providing medical insurance to the Group’s employees. Last year a new unified Collective Bargaining Agreement was concluded for three years.

Approximately 95% of the Group’s employees are members of the Russian Professional Union of Seafarers and are covered by collective bargaining agreements (including 100% of fleet personnel). The Group discusses the following matters with the union:

- Increasing wage levels
- Preserving jobs
- Ensuring safe working conditions

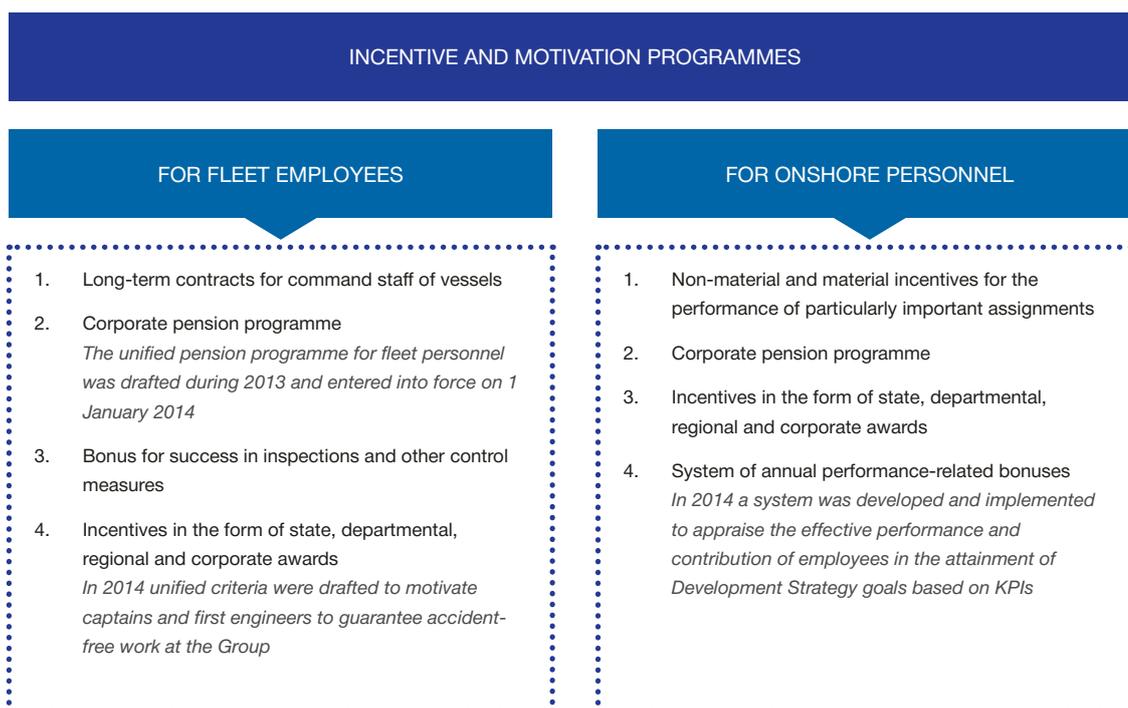
- Insuring the fleet personnel of Sovcomflot Group from accidents during scheduled maintenance
- New Year presents to children
- The pension support programme (one-off financial assistance, spa treatment certificates, certificates of merit, and souvenirs)

Employee awards

One area of non-material motivation relates to awards to employees for professional achievements. In 2014, 169 onshore Sovcomflot Group personnel received state, departmental, and corporate awards.

Among the employees of the Group who received state and departmental awards were individuals who participated directly in reconstructing the maritime facilities in Sochi (the facilities of the Olympic Programme), as well as Prirazlomnoye – the first oil and gas project in the Arctic.

Fig.17 Incentive and motivational programmes broken down by personnel categories





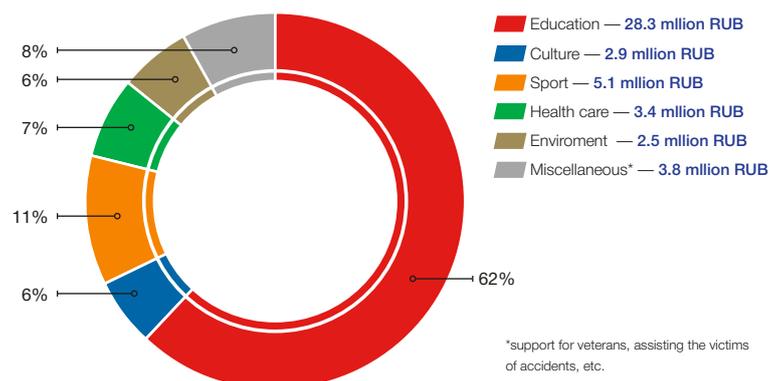
Charity and Sponsorship

In accordance with the Regulations on Sponsorship and Charity work approved by the Board of Directors in 2008, the Group implements a number of charitable and sponsorship projects.

In 2014 the Group's expenses related to sponsorship and charity work stood at RUB 46.0 million (USD 1,189,700). Education accounted for the largest share of these expenses (RUB 28.3 million, or USD 732,400).

Fig. 18

Distribution of Group investment in sponsorship and charity work, 2014



Key areas of sponsorship and charitable assistance

HEALTH CARE

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

Over the past eight years Sovcomflot Group has been supporting St. Olga's Children's Hospital in St. Petersburg. During this time the intensive care and anaesthesiology ward of the hospital has been given specialised equipment which helps save the lives of new-born children. Children come for treatment at the hospital not only from various Russian regions, but also from neighbouring countries. The acquired equipment has made it possible to reduce the infant mortality rate at the hospital to less than 1%.

EDUCATION

Safonova educational orphanage boarding school

At present 89 orphans and children deprived of parental care reside at the Safonova state-financed boarding school. Sovcomflot Group helps the staff of the orphanage prepare the children for independent lives, and make the upbringing of the orphans and children deprived of parental care as similar as possible to the conditions found in a family and at home.

With the support of the Group, the main premises used for the study and residence of the children have been renovated, the classrooms and places of residence have been fitted with necessary equipment, basic necessities have been procured, leisure activities for the children are organised during holidays, and the children get the chance to meet interesting people.

Far-Eastern Floating University

At present, as part of the Far-Eastern Floating University project of the Russian Geographical Society, it has proved possible, with active assistance from PAO Sovcomflot, to keep in service a unique training ship of the Admiral Nevelskoy Maritime State University (Vladivostok). The ship is designed to enable up to 100 cadets to undergo practical training, prepare specialists for working in the harsh conditions of the Far Eastern and Arctic Seas, and to conduct research on studying the continental shelf of the Far East and Arctic. In 2014, sponsorship was provided as part of this project to hold the third wide-ranging expedition to monitor radiation levels in the seas of Russia's Far East.



ENVIRONMENT

Support for the Autonomous Non-Profit Organisation Eurasian Centre for the Preservation of Far Eastern Leopards

The Far Eastern Leopard (Amur Leopard) is an endangered predator cat. There are approximately 60 such cats left in Russia today. Approximately 90% of these predators live in the Land of the Leopard national park.

The goal of the charitable project is to study, protect, and restore the Amur Leopard species population, which is endangered. Pursuant to a decision of the Executive Board, the regular financing of the project has been extended to 2020. Stable population growth has been observed since the creation of the park. As part of the project, a whole range of biotechnical measures have been conducted, and an electronic database has been created on all species of this animal, while an international genetic molecular database is being created.



1.3 MILLION PEOPLE

visited the events of the SCF Black Sea Tall Ships Regatta

SPORT

International Sailing Regatta SCF Black Sea Tall Ship Regatta 2014 – successful Sovcomflot Group sponsorship project in 2014

This event, which promotes healthy lifestyles, enhances the prestige of the maritime profession and the level of domestic maritime professional education, and also popularises sailing sports. It attracts widespread publicity, both in Russia and abroad. The holding of the Black Sea Tall Ship Regatta in May 2014 was organised with support from the Russian Transport Ministry along the Varna-Novorossiysk-Sochi-Constanta route, with the participation of the Russian Class-A sailing ships Kruzenshtern, Mir, Nadezhda, and Sedov. The world's largest training ships entered the Black Sea basin for the first time in the history of these legendary international competitions, and visited Russia's two Black Sea ports Novorossiysk and Sochi.

Based on the results of the two stages of the regatta, the Class-A tall ships category was won by the Russian training ship Nadezhda (Admiral Nevelskoy Maritime State University, Vladivostok, which is also sponsored by Sovcomflot Group). The Nadezhda received a special award for making the longest voyage, which took 100 days.

The event was highly praised by the Russian Government Maritime College.

International Vladimir Salnikov Cup Swimming Tournament

Sovcomflot Group has been a sponsor of the tournament since 2009. The Vladimir Salnikov Cup is an international swimming tournament featuring the strongest swimmers from Russia and the world. This prestigious tournament (held for the eighth time in 2014) is becoming more and more popular, and helps strengthen international cooperation in the sport.

In 2014 the tournament attracted 360 participants from various countries, who competed for 35 sets of awards.

During the history of the tournament swimmers have repeatedly set new world and national records, as well as personal records. In 2014 the Cup was no exception, with the Russian Vladimir Morozov winning the 100-metre distance in the medley race, setting a Russian record of 50.77 seconds.

Support for the All-Russian Yachting Association

As part of support for children's and youth sailing sport Sovcomflot has, since 2010, sponsored the All-Russian Yachting Association. During this period new schools and sections have been

organised in Russian regions and major children's tournaments have been held regularly, such as the Russian Open Sailing Championship in the Optimist class. In addition, integrated and general preparations were carried out for the Russian Paralympics.

CULTURE

Russian America Project (Fort Ross, US)

The goal of the project is to preserve for history and future generations the historical memorial Fort Ross, which represents a unique item of Russian culture heritage and history in the US. Sponsorship for this project is provided on an annual basis jointly with OAO AK Transneft and Chevron. Fort Ross is a former Russian settlement and fortress on the coast of Northern California, founded in 1812 by the Russian-American Company for hunting and trading in furs. This is the most southern Russian settlement in North America, and currently a historic park in California. As part of the support activities annual conferences are held, with the participation of researchers, politicians, and public figures from different countries. With the support of the project participants a documentary was created on the history of the settlement and its current status. The documentary was well received, both by specialists and the public at large.



OAO NOVOSHIP FLEET VETERANS AT THE FESTIVE PROCESSION ON THE EVE OF THE VICTORY DAY. NOVOROSSIYSK, 2015.

SUPPORT FOR VETERANS

Victory Day-London project

The project Victory Day-London is dedicated to the Arctic Convoys which served during the Second World War to deliver military cargo along corridors from Great Britain and the US to the northernmost ports of the USSR: Arkhangelsk and Murmansk. With the support of Sovcomflot Group, Russian convoy veterans have an opportunity to meet up each year with their British counterparts during commemorations on the legendary Belfast cruiser-museum – the last surviving witnesses of the “fiery flights”, as the convoys were called in those days. The project symbolises how the navies of the USSR and Britain joined forces, and made an invaluable contribution to defeating fascism.

Environmental Protection

As part of the long-term Development Strategy, Sovcomflot is implementing a range of different organisational and technical measures aimed at permanently maintaining the environmental safety of the fleet. The Group adheres in its trading activities to a number of international legislative acts and regulatory requirements on environmental protection¹⁶.



Sovcomflot Group seeks to minimise its adverse impacts on the environment by introducing innovations, reducing energy consumption, and increasing staff qualifications. The vessels used by the Group comply with modern international requirements on navigational safety and environmental protection. Virtually all the Group's new tankers have an additional class symbol that meets the highest environmental safety standards, which attests to the responsible attitude of PAO Sovcomflot to environmental issues. This is also confirmed by there being no significant spills of chemical substances, oil, or fuel in 2014.

¹⁶ The International Convention for the Prevention of Pollution from Ships (MARPOL 73/78) including corresponding annexes, the International Safety Management Code, International Convention for the Control and Management of Ships' Ballast Water and Sediments of 2004, Council Directive No. 2012/33/EU of the European Union "On a Reduction in the Sulphur Content of Certain Liquid Fuels", 2001 Guidelines for the Control and Management of Ships' Biofouling to Minimise the Transfer of Invasive Aquatic Species, The Montreal Protocol on Substances that Deplete the Ozone Layer of 1987, and the International Safety Guide for Oil Tankers and Terminals.

Environmental protection policy

The PAO Sovcomflot environmental protection policy is included in the general management system of the safe operation of vessels and the prevention of pollution, established in accordance with the International Safety Management Code.

The main goals of the PAO Sovcomflot environmental protection policy are to increase the level of environmental safety of the fleet and to increase the capitalisation of the Group, by ensuring the reliable and environmentally safe provision of services related to the maritime transport of cargo. Under the Environmental Protection Policy the Group implements the following measures:

- 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 main production activities
- Environmental risk management programmes, which include risk identification and assessment, the implementation of environmental protection measures, and monitoring and assessing the adequacy of adopted actions

The PAO Sovcomflot environmental management system was developed and is now up and running. The system was established in accordance with the principles, goals and objectives of the Environmental Protection Policy, and encompasses all structural units, from ships' crews to top management.

Atmospheric emissions

The downward trend in pollutant emissions is attributable to the Group constantly supplementing the fleet with energy efficient and environmentally safe new generation vessels involving the extensive use of innovative technologies, developing a Ship Energy Efficiency Plan (SEEMP) for each ship in order to control energy efficiency and emissions of hazardous substances from exhaust fumes, and implementing EU Council Directive N2012/33/EU "On a Reduction of the Sulphur Content of Certain Liquid Fuels", using ship fuel with a reduced sulphur content.

Fig. 19 Dynamics of carbon dioxide emissions, CO₂, thousand tonnes

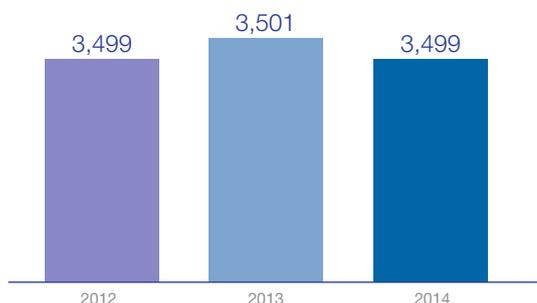


Fig. 20 Dynamics of Sox emissions, thousand tonnes

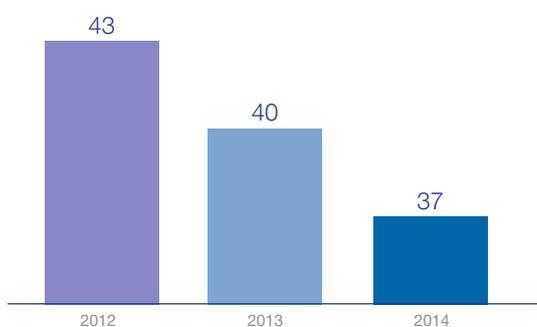
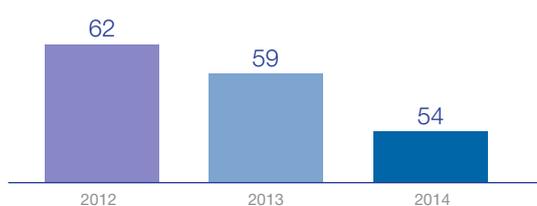


Fig. 21 Dynamics of NO_x emissions, thousand tonnes

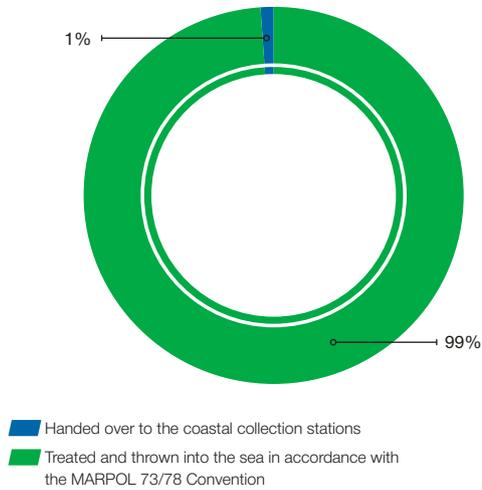


Wastewater and waste management

One of the main environmental impacts resulting from the operation of the Sovcomflot Group fleet is wastewater and waste, which are discharged into oceans during the movement of ships. The activities of the Group to reduce the level of wastewater and waste discharges into the oceans are implemented pursuant to the internal procedures of the Group, which encompass the requirements of both international and domestic legislation.

At present a combined waste treatment method is applied on the Group's ships, comprising mechanical, physical and chemical (including electrolysis) and biological methods. All the ship's plants have the approval of the country of the flag of the vessel on the compliance of the wastewater treatment plants with the requirements of Annex IV of

Fig. 22. Wastewater management in 2014, m³



the MARPOL 73/78 Convention. The quality of discharged water is confirmed by a wastewater plant certificate (type approval certificate). In order to minimise discharges of treated wastewater from vessels within a 12-mile coastal zone and in harbours, Sovcomflot Group vessels are equipped with additional tanks to hold wastewater and to subsequently deliver it to onshore collection stations.

In 2014, 426m³ (1%) of wastewater was delivered to onshore collection stations, whereas 32,186m³ (99%) of pre-treated effluent was dumped into the ocean. No unscheduled discharges of wastewater took place in 2014.

In 2014 there was a significant reduction in the amount of waste discharged into the open sea, in accordance with the MARPOL 73/78 Convention (down 31% compared to 2013). In addition, the amount of waste incinerated in ships' incinerators contracted by 2% compared to the previous year. The amount of waste delivered to onshore collection stations rose in the reporting period by 12% vs. the previous year. These results demonstrate that Sovcomflot Group adheres to the principles of mitigating adverse environmental impacts during waste management.

Fig. 24. Consumption of fuel in 2014

Type of fuel	Quantity, thousand tonnes	Cost, million dollars
Fuel oil	987	539.9
Diesel fuel	58	48.5
Natural gas motor fuel	49	0
Total	1,094	588.5

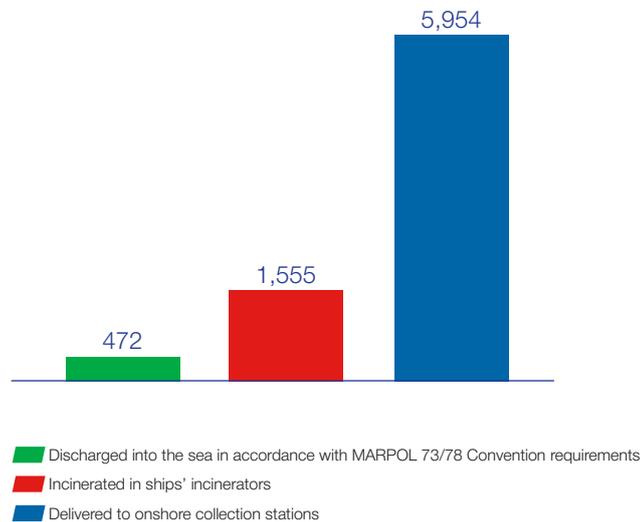
Consumption of energy and energy efficiency

Different types of ship fuel are the main types of energy resources consumed as a result of the production activities of the Group.

Sovcomflot Group is actively engaged in work to implement a state programme to introduce gas engine fuel in transportation. As a result of this work, in 2014 the Group's fleet added three new Velikiy Novgorod-type gas tankers equipped with combustion engines which operate on gas and traditional engine fuels. Another similar gas tanker is currently being built.

In addition, a shipbuilding contract was concluded in 2014 for the construction of the unique reinforced ice class LNG carrier for the Yamal-LNG project. After the commissioning of the new LNG carriers, the share of gas fuel use amongst the Group's vessels accounted for 4.4% of the fleet's total fuel consumption in 2014.

Fig. 23. Waste management in 2014, m³





82 METRES

Makes in the working distance
between the ship and the
Prirazlomnaya platform.

The PAO Sovcomflot environmental protection policy is included in the general management system of the safe operation of vessels and the prevention of pollution, established in accordance with the International Safety Management Code.



■ Table 10. Fuel consumption dynamics, thousand tonnes

Group subsidiaries	2012	2013	2014	Change 2014/2013, %
Novoship	389	393	457	16.3%
Unicom	704	701	635	-9.4%
Total fuel consumption for the fleet	1,093	1,094	1,092	-0.1%

The change in fuel consumption indicators at the Novoship and Unicom subsidiaries during 2013-2014 is attributable to a change in the composition of the fleet and the redistribution of tonnage among these units of the Company. Overall the total fuel consumption of the fleet in 2014 contracted by 0.09% compared to 2013.

Indicators on the use of energy resources by onshore units

During 2014 the onshore units of Sovcomflot Group used energy in the form of heat and electricity in the following volumes: (Table 12)

Sovcomflot Group recognises that reducing energy consumption is crucial in order to minimise adverse environmental impacts. Accordingly, the Group has developed and implemented the Energy Conservation and Energy Efficiency Programme, aimed at the efficient use of fuel and energy resources and at increasing the environmental safety of the fleet. The following actions are being implemented as part of the Programme:

- Using a Slow Steaming policy on ships to reduce fuel consumption and emissions
- Monitoring and optimising the heating and ventilation expenses of ships' living quarters

Table 11. Use of energy resources in 2014

Company name	Heat, GCal	Electricity, kWh
Sovcomflot	290.55	267,013
SCF-Arctic	968.4	567,477
Novoship	1,594.15	2,843,590
Unicom	0	712,940
Total	2,272.0	4,391,020

- 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 ensuring its timely cleaning
- Ensuring that the main engine cylinder lubrication level is not higher than the recommended level
- Replacing incandescent light bulbs with energy-saving bulbs, installing lighting control devices (motion sensors, light sensors, timers)
- Use of the S3ES-Novoship programme to collect and process information on the use of fuels and oils
- Performing energy audits on the Group's ships

The successful implementation of this programme is assessed according to the fuel consumption

rate per tonne (deadweight). In 2014, this indicator was down by 1.2% on the previous year.

The fuel consumption dynamics over the past three years demonstrate a gradual downward trend, which attests to the successful implementation of the Energy Conservation and Energy Efficiency Programme.

Energy audits are conducted regularly on the Group's ships. These make it possible to obtain reliable information on the expenditure of fuel and oil and the energy efficiency performance indicators of ship combustion engines and ship boilers, identify opportunities for energy conservation, and increase the energy and environmental efficiency of ship power plants.

The Group has been very encouraged by the environmental protection results for 2014: atmospheric emissions were reduced, fleet fuel consumption was reduced, and energy and resource efficiency initiatives, as well as rational waste management initiatives, were implemented. Such actions confirm the adherence of the Group to sustainable development principles and make it possible to attain significant positive results in terms of reducing adverse environmental impacts.

Fig. 25. Total fuel consumption for the fleet, thousand tonnes

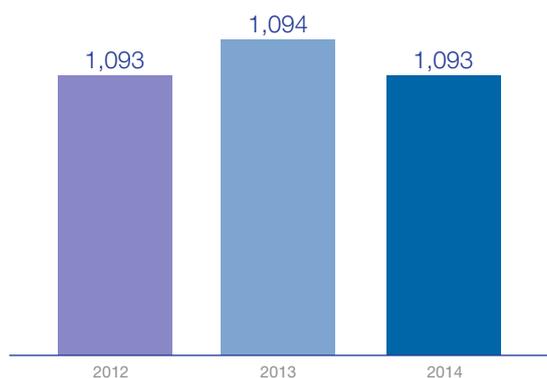
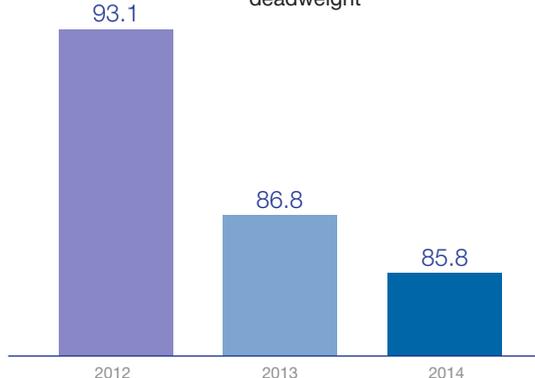


Fig. 26. Fuel consumption rate for the fleet, kg of fuel/tonne of deadweight





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Consolidated Income Statement

Consolidated Income Statement For the period ended 31 December 2014

	Note	2014 USD '000	2013 USD '000
Freight and Hire revenue	6	1,387,366	1,262,816
Voyage expenses and commissions	7	(343,390)	(390,167)
Time charter equivalent revenues		1,043,976	872,649
Direct operating expenses			
Vessels' running costs	8	349,116	336,760
Charter hire payments	43	52,675	46,032
		(401,791)	(382,792)
Net earnings from vessels' trading		642,185	489,857
Other operating revenues	11	31,907	33,390
Other operating expenses	11	(24,553)	(25,551)
Depreciation, amortisation and impairment	9	(321,533)	(314,335)
General and administrative expenses	10	(104,010)	(107,757)
Gain on sale of assets		9,548	1,401
Allowance for credit losses		1,848	(4,614)
Release of provision		(52)	(382)
Share of profits in equity accounted investments	20	12,874	9,629
Operating profit		248,214	81,638
Other (expenses) / income			
Financing costs	13	(138,325)	(136,187)
Interest income		16,672	19,073
Other non-operating income	44	3,402	2,756
Other non-operating expenses	44	(8,620)	(10,558)
Gain on ineffective hedging instruments	23(a)	442	2,054
Gain on derivative financial instruments held for trading	23(b)	6,164	15,228
Foreign exchange differences		(36,970)	(1,517)
Net other expenses		(157,235)	(109,151)
Profit / (loss) before income taxes		90,979	(27,513)
Income tax expense	24	(7,085)	(11,713)
Profit / (loss) for the period		83,894	(39,226)
Profit / (loss) attributable to:			
Owners of the parent		80,058	(39,815)
Non-controlling interests		3,836	589
		83,894	(39,226)
Earnings per share			
Basic earnings per share for the period attributable to equity holders of the parent	25	USD 0.041	(USD 0.020)

■ Consolidated Statement of Comprehensive Income For the period ended 31 December 2014

	Note	2014 USD '000	2013 USD '000
Profit / (loss) for the period		83,894	(39,226)
Other comprehensive income:			
Share of associates' other comprehensive income		(84)	(15)
Share of joint ventures' other comprehensive income	20	2,703	23,344
Exchange differences on translation of foreign operations		(27,954)	(6,906)
Derivative financial instruments recycled and debited to the income statement	23(a)	20,081	19,246
Fair value movement of derivative financial instruments (debited) / credited to other comprehensive income	23(a)	(23,265)	17,137
Other comprehensive income for the period, net of tax to be reclassified to profit or loss in subsequent periods		(28,519)	52,806
Remeasurement gains / (losses) on retirement benefit obligations	38	1,252	(632)
Other comprehensive income, net of tax not to be reclassified to profit or loss in subsequent periods		1,252	(632)
Total other comprehensive income for the period, net of tax		(27,267)	52,174
Total comprehensive income for the period		56,627	12,948
Total comprehensive income attributable to:			
Owners of the parent		55,819	13,162
Non-controlling interests		808	(214)
		56,627	12,948

Consolidated Statement of Changes in Equity for the period ended 31 December 2014

	Share capital USD '000	Share premium USD '000	Reconstruction reserve USD '000
At 1 January 2013	405,012	818,845	(834,490)
(Loss) / profit for the period	-	-	-
Other comprehensive income			
Share of associates' other comprehensive income	-	-	-
Share of joint ventures' other comprehensive income	-	-	-
Exchange differences on translation of foreign operations	-	-	-
Derivative financial instruments recycled and debited to the income statement	-	-	-
Fair value movement of derivative financial instruments credited to other comprehensive income	-	-	-
Remeasurement losses on retirement benefit obligations	-	-	-
Total comprehensive income	-	-	-
Dividends (Note 32)	-	-	-
At 31 December 2013	405,012	818,845	(834,490)
Profit for the period	-	-	-
Other comprehensive income			
Share of associates' other comprehensive income	-	-	-
Share of joint ventures' other comprehensive income	-	-	-
Exchange differences on translation of foreign operations	-	-	-
Derivative financial instruments recycled and debited to the income statement	-	-	-
Fair value movement of derivative financial instruments debited to other comprehensive income	-	-	-
Remeasurement gains on retirement benefit obligations	-	-	-
Total comprehensive income	-	-	-
Dividends (Note 32)	-	-	-
At 31 December 2014	405,012	818,845	(834,490)

Hedging reserve: The hedging reserve contains the effective portion of the cash flow hedge relationships incurred as at the reporting date of the Group including its joint arrangements and associates.

Hedging reserve USD '000	Currency reserve USD '000	Retained earnings USD '000	Attributable to owners of the parent USD '000	Non-controlling interests USD '000	Total \$'000
(141,046)	104	2,701,761	2,950,186	158,869	3,109,055
-	-	(39,815)	(39,815)	589	(39,226)
-	(15)	-	(15)	-	(15)
23,344	-	-	23,344	-	23,344
-	(6,171)	-	(6,171)	(735)	(6,906)
19,246	-	-	19,246	-	19,246
17,137	-	-	17,137	-	17,137
-	-	(564)	(564)	(68)	(632)
59,727	(6,186)	(40,379)	13,162	(214)	12,948
-	-	(9,121)	(9,121)	(1,610)	(10,731)
(81,319)	(6,082)	2,652,261	2,954,227	157,045	3,111,272
-	-	80,058	80,058	3,836	83,894
-	(84)	-	(84)	-	(84)
2,703	-	-	2,703	-	2,703
-	(24,792)	-	(24,792)	(3,162)	(27,954)
20,081	-	-	20,081	-	20,081
(23,265)	-	-	(23,265)	-	(23,265)
-	-	1,118	1,118	134	1,252
(481)	(24,876)	81,176	55,819	808	56,627
-	-	(8,954)	(8,954)	(1,464)	(10,418)
(81,800)	(30,958)	2,724,483	3,001,092	156,389	3,157,481

Currency reserve: The currency reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries, joint arrangements and associates.

Consolidated Statement of Financial Position – 31 December 2014

	Note	2014 \$'000	2013 \$'000	2012 \$'000
Assets				
Non-current assets				
Fleet	15	5,278,983	5,206,150	5,047,029
Vessels under construction	16	237,250	244,584	447,321
Other property, plant and equipment	17	74,646	87,847	73,556
Investment property	18	10,341	16,973	3,723
Other assets under construction	19	-	11,992	23,254
Investments in associates		118	1,130	1,187
Investments in joint ventures	20	82,430	72,507	62,156
Available-for-sale investments		1,012	1,012	1,380
Loans to joint ventures	21	59,942	65,526	65,696
Finance lease receivables	22	71,469	78,908	89,137
Derivative financial instruments	23	7,438	10,356	108
Trade and other receivables	27	17,363	17,765	9,621
Deferred tax assets	24	3,575	2,228	3,213
		5,844,567	5,816,978	5,827,381
Current assets				
Inventories	26	45,825	64,719	70,487
Loans to joint ventures	21	4,750	4,750	4,803
Trade and other receivables	27	161,109	150,955	202,033
Finance lease receivables	22	4,193	3,656	3,124
Current tax receivable		593	2,017	2,951
Cash and bank deposits	28	284,516	281,540	308,453
		500,986	507,637	591,851
Non-current assets held for sale	29	93,163	74,252	17,824
		594,149	581,889	609,675
Total assets		6,438,716	6,398,867	6,437,056
Equity and liabilities				
Capital and reserves				
Share capital	30	405,012	405,012	405,012
Reserves		2,596,080	2,549,215	2,545,174
Equity attributable to owners of the parent		3,001,092	2,954,227	2,950,186
Non-controlling interests	33	156,389	157,045	158,869
Total equity		3,157,481	3,111,272	3,109,055
Non-current liabilities				
Secured bank loans	36	1,587,956	1,598,257	1,685,813
Finance lease liabilities	37	183,810	193,291	202,141
Derivative financial instruments	23	37,808	42,266	71,808
Retirement benefit obligations	38	3,390	7,405	9,183
Other loans	39	842,882	798,092	797,593
Provisions	34	3,244	6,354	26,796
Deferred tax liabilities	24	1,258	2,477	2,244
		2,660,348	2,648,142	2,795,578
Current liabilities				
Trade and other payables	35	190,265	237,420	193,002
Secured bank loans	36	394,652	363,259	276,394
Finance lease liabilities	37	9,481	8,850	19,547
Current tax payable		1,653	3,206	2,887
Derivative financial instruments	23	24,836	26,718	40,593
		620,887	639,453	532,423
Total equity and liabilities		6,438,716	6,398,867	6,437,056

Approved by the Executive Board
and authorised for issue on 24 March 2015

S.O. Frank
President and Chief Executive Officer

N.L. Kolesnikov
Chief Financial Officer

Consolidated Statement of Cash Flows for the period ended 31 December 2014

	Note	2014 \$'000	2013 \$'000
Operating Activities			
Cash received from freight and hire of vessels		1,372,592	1,279,885
Other cash receipts		44,556	56,886
Cash payments for voyage and running costs		(749,611)	(741,872)
Other cash payments		(168,633)	(157,918)
Cash generated from operations	40	498,904	436,981
Interest received		2,455	7,170
Income tax paid		(10,259)	(9,447)
Net cash inflow from operating activities		491,100	434,704
Investing Activities			
Expenditure on fleet		(26,888)	(49,807)
Expenditure on vessels under construction		(492,434)	(287,683)
Expenditure on assets held for sale		(419)	(4,990)
Interest capitalised	16	(8,157)	(12,366)
Expenditure on other property, plant and equipment		(3,971)	(45,444)
Loan repayments from joint ventures		7,030	6,604
Loans issued to joint ventures		(1,020)	(5,865)
Proceeds from sale of vessels		123,298	50,814
Proceeds from sale of other property, plant and equipment		8,711	3,449
Advances for sale of assets		-	16,032
Capital element received on finance leases	22	4,108	4,897
Interest received on finance leases	22	17,593	22,158
Dividends received from joint ventures	20	2,531	2,112
Bank term deposits	28	391	(1,833)
Security deposits	28	-	10,400
Other receipts		285	39
Net cash outflow used in investing activities		(368,942)	(291,483)
Financing Activities			
Proceeds from borrowings		426,846	286,355
Repayment of borrowings		(361,824)	(284,740)
Financing costs		(7,269)	(6,518)
Repayment of finance lease liabilities		(9,098)	(19,806)
Restricted deposits	28	(400)	1,900
Funds in retention bank accounts	28	(2,062)	1,389
Interest paid on borrowings		(116,643)	(114,143)
Interest paid on finance leases		(13,141)	(13,868)
Dividends paid		(10,192)	(9,830)
Net cash outflow from financing activities		(93,783)	(159,261)
Increase / (decrease) in Cash and Cash Equivalents		28,375	(16,040)
Cash and Cash Equivalents at 1 January	28	256,750	271,807
Net foreign exchange difference		(27,470)	983
Cash and Cash Equivalents at 31 December	28	257,655	256,750

General Information About PAO Sovcomflot

Full name of the company	Public Joint-Stock Company Sovcomflot
Number and date of issue of the certificate of state registration as a legal entity	Registered by the Moscow Registration Chamber on 18 December 1995 (certificate series BB No. 039.329 dated 18 December 1995. Information on state registration was entered in the Unified State Register of Legal Entities on 31 July 2002, primary state registration number (PSRN) 1 027 739 028 712 (series certificate 77 No. 007 866 796 on the entry of a record in the Unified State Register of Legal Entities on a legal entity registered before 1 July 2002).
Place of registration	3a, Moyka River Embankment, St. Petersburg, 191 186.
Address of the standalone division in Moscow	6, Gasheka Street, Moscow, 125 047.
Contact telephone	+7 (495) 660-40-00.
Fax	+7 (495) 660-40-99.
Webpage	http://www.scf-group.ru/
E-mail address	sovcomflot@scf-group.ru
Shareholder	The Russian Federation, represented by the Federal Agency for State Property Management (all PAO Sovcomflot shares are federally owned).
Amount of authorised capital (roubles)	RUB 1,966,697,210 (one billion nine hundred and sixty-six million six hundred and ninety-seven thousand two hundred and ten).
Total number of shares	1,966,697,210 (one billion nine hundred and sixty-six million six hundred and ninety-seven thousand two hundred and ten) shares.
Number of ordinary shares	1,966,697,210 (one billion nine hundred and sixty-six million six hundred and ninety-seven thousand two hundred and ten) shares.
Nominal value of ordinary shares (roubles)	The nominal value of an ordinary share amounts to 1 (one) rouble per share.
State registration number of the issue of ordinary (preferred) shares and date of state registration	1-01-10 613-A; 27 November 2007
Number of shares owned by the Russian Federation	1,966,697,210 (one billion nine hundred and sixty-six million six hundred and ninety-seven thousand two hundred and ten) shares.
Interest of the Russian Federation in the authorised capital, indicating the interest of the Russian Federation in ordinary shares and preferred shares (percentages)	The Russian Federation owns 100% of the ordinary shares of PAO Sovcomflot. PAO Sovcomflot did not issue preferred shares.

Existence of the special right of the Russian Federation to participate in the management of the Company (the “golden share”)	The Russian Federation has no special right to participate in the management of PAO Sovcomflot (the “Golden Share”).
Information on inclusion in the list of strategic enterprises and strategic joint-stock companies	PAO Sovcomflot was included in the list of strategic joint-stock companies by Russian Presidential Decree No. 1009 dated 4 August 2004 “On Approving the List of Strategic Enterprises and Strategic Joint-Stock Companies”.
Full name and address of the registrar	Closed Joint-Stock Company Computershare Registrar, 8 Ivan Franko Street, Moscow, 121 108, Russia.
Full name and address of the Company’s auditor	Limited Liability Company Ernst & Young, Sadovnicheskaya Nab., 77, Bld. 1, Moscow, 115 035, Russia.
Account bank	OAO VTB Bank, St. Petersburg
Legal advisors	Watson, Farley & Williams LLP, London; Ince & Co International LLP, London; Reed Smith LLP, London.
Main lines of business	<p>Advisory and management services, including:</p> <ul style="list-style-type: none"> – Planning and organising the transport of cargo – Advice on the current status and development outlook of different segments of the shipping market – Developing promising projects in the shipping sector – Advice on operations related to the acquisition and sale of vessels – Marketing, studying the state of the market and working with cargo owners – Advice on insurance issues and organising insurance coverage – Participation in negotiations to achieve operational goals and preparing corresponding draft documents and agreements; preparing draft corporate and contractual documents – Audit of draft documentation regarding different types of contracts, transactions, including the financing of the sale and purchase of vessels and orders with shipyards, refinancing, etc. – Analysis of legal disputes – Organising audits – Payment management and advice on financial issues – Representing the client at shipping and transport systems conferences and seminars – Other business development activities <p>Participation in other organisations</p>
Information on inclusion in the list of strategic enterprises and strategic joint-stock companies	PAO Sovcomflot was included in the list of strategic joint-stock companies by Russian Presidential Decree No. 1009 dated 4 August 2004 “On Approving the List of Strategic Enterprises and Strategic Joint-Stock Companies”.
Company headcount	87
Operating period of the Company in the respective sector	27 years.

Glossary

ABBREVIATIONS

EBITDA	Earnings before interest, taxes, depreciation and amortisation	FESRC	Far Eastern Shipbuilding and Ship Repair Centre	VAT	Value-added tax
LTIF	Lost time injury frequency	KPIs	Key performance indicators	R&D	Research and development
SCF	Sovcomflot	ICSS	Integrated control safety system	NCA	Non-Core Assets
TRCF	Total recordable cases frequency	LIBOR	London Interbank Offered Rate	PAO	Public joint-stock company
ANO	Autonomous non-profit organisation	MARPOL	International Convention for the Prevention of Pollution from Ships	SUR	Seafarers' Union of Russia
NF	Naval forces, the navy	ISM Code	International Safety Management Code	RAS	Russian accounting standards
DWT	Deadweight	IFRS	International financial reporting standards	RSPP	Russian Union of Industrialists and Entrepreneurs
LDP	Long-term development programme			LNG	Liquefied natural gas
				CBR	Central Bank of Russia

DEFINITIONS

Group of Companies and Group – Sovcomflot Group

Deadweight – The total weight of net load carried by a ship and measured in tonnes

MARPOL 73/78 Convention – International Convention for the Prevention of Pollution from Ships

Non-Core Assets – a) The non-current assets of the Company regarding the property, plant and equipment classified as immovable property, intangible assets, and construction work in progress, not participating in core and related lines of business, included in the register of non-core assets; b) shares convertible into equity securities, and participation interests in

the authorised (joint) capitals of legal entities, whose businesses/activities are not related to the implementation of core and related lines of business included in the register of non-core assets.

PAO Sovcomflot – Public Joint-Stock Company Sovcomflot, parent company of Sovcomflot Group

Time-charter equivalent – The regular average daily income of vessels during a voyage charter that the ship owner should earn on any shipment destination

Chartering of a vessel – The agreement to hire a vessel to perform a specific shipment (journey) or the hiring of a vessel for a specific time period

Shuttle tanker – Oil tanker performing regular journeys between the operating field and ground terminal or oil refinery

ISO 9000 – Series of international standards describing requirements on the quality management system of organisations and enterprises

ISO 14 000 – Series of international standards on the establishment of an environmental management system