




# Message from the President and Chief Executive Officer

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**SCF**  
Safety Comes First




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

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

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

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

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



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USD **1,519.9**  
million  
gross revenue

USD **187.3**  
million  
operating profit

USD **8.4**  
billion  
total contracted future  
revenue

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

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

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

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

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

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

**Sergey Frank**  
President and Chief Executive Officer,  
Chairman of the Executive Board  
PAO Sovcomflot