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## Strategy

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The Sovcomflot Development Strategy is to expand the highly profitable industrial business portfolio (long-term contracts with a fixed return) while retaining a leading position in the conventional tanker segment, based on implementation of advanced environmental protection technologies and strengthening of cooperation with key charterers

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## 2.1. DEVELOPMENT STRATEGY OF SOVCOMFLOT GROUP

The Group Strategy up to 2017 was approved by the Board of Directors in September 2011<sup>1</sup>. The strategy parameters were updated in 2013 with the planning horizon extended to 2018<sup>2</sup>.

According to the Strategy, Sovcomflot Group's mission is to manage the portfolio of assets in the segments of maritime transportation of hydrocarbons (crude oil, liquefied gas) and servicing of offshore oil and gas production. The goal of the Company's strategy is to ensure a continuous increase in shareholder value by maximising returns from ownership of assets and fleet operation while maintaining national interests and high quality and operational safety standards.

The main strategic development areas of SCF Group are:

- Services for offshore hydrocarbon exploration and production in harsh climatic and ice conditions;
- Liquefied gas transportation;
- Conventional energy shipping.

The Strategy sets forth the Sovcomflot Group's priorities in sustainable development: ensuring navigation safety, reducing adverse environmental impacts, improving the professionalism of personnel, and placing a focus on technical and innovative development.

The tasks faced by Sovcomflot Group in accordance with the Strategy are as follows:

- Maximising income from the operation of the conventional fleet (crude oil and product tankers), taking into account the prevailing freight market conditions, seasonal factors, and emerging local "peak" freight rates in certain geographic markets;
- Further optimising the fleet size, factoring in the state of the market for second-hand tonnage, and realising opportunities to revamp the fleet in order to reduce operating costs and increase competitiveness;
- Implementing current and launching new Russian and international projects involving the transportation of liquefied gas, shuttle transportation of oil, and servicing of offshore hydrocarbon production in order to increase the share of long-term project business in total revenue and the aggregate assets of the Group;
- Implementing special activities aimed at the development and introduction of promising innovative technologies and ensuring compliance with the requirements of current and prospective environmental legislation.

## 2.2. LONG-TERM DEVELOPMENT PROGRAMME OF SOVCOMFLOT GROUP

The Long-Term Development Programme (LDP) of PAO Sovcomflot intended for the period 2014 – 2020 provides an update on the Company's development strategy. The LDP was approved by the Company's Board of Directors in November 2014<sup>3</sup> after coordination with relevant agencies and review at a meeting held with the participation of representatives of the Government of the Russian Federation.

The main goal of the LDP faced by PAO Sovcomflot is to maximise the Company's shareholder value by expanding the industrial business portfolio (long-term contracts with a fixed high rate of return) in the segments of liquefied gas transportation and servicing of offshore hydrocarbon fields while retaining a leading position in the most strategically and economically attractive sectors of the tanker shipping industry.

The main quantitative targets established by the LDP were formulated as a set of financial and industry-specific key performance indicators (KPIs), with the targets approved for each of them for the effective term of the programme.

The results of implementation of the Sovcomflot Group LDP are subject to independent audit. The auditor's opinion and main conclusions regarding implementation of the LDP are subject to disclosure in the annual report<sup>4</sup>.

LDP 2018 results were audited by AO KPMG. On 2 April 2019, the audit gave a positive opinion. According to the audit opinion, the LDP implementation report is presented fairly, in all material respects, in conformity with the applicable laws, standards, and internal regulations of the Company, gives a true and fair view and is free from material misstatement.

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1. Minutes of the Board of Directors dated 12 September 2011 No. 113.

2. Minutes of the Board of Directors dated 20 March 2013 No. 127.

3. Minutes of the Board of Directors dated 24 November 2014 No. 139.

4. Minutes of the Board of Directors No. 144 dated 19 May 2015.