

3.1.2. Fleet operation

Technical operation of SCF Group's fleet is carried out by the Group companies integrated into a single system under the umbrella brand SCF Management Services.

The system covers all key regions for Sovcomflot. The head office is located in Dubai (UAE) and provides the management of foreign-flagged vessels. The division in St. Petersburg is responsible for the management of Russian-flagged vessels.

Main functions of SCF Management Services: organising fleet operations, controlling the technical condition of ships, repairs and modernisation, equipment service support as well as engineering support for new projects, supervision of ship construction and crewing services. Companies operating under the SCF Management Services brand also provide technical management services for ships of third-party owners.

The SCF fleet operates in accordance with the Integrated Safety Management System (the ISMS) in effect at Sovcomflot Group.

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

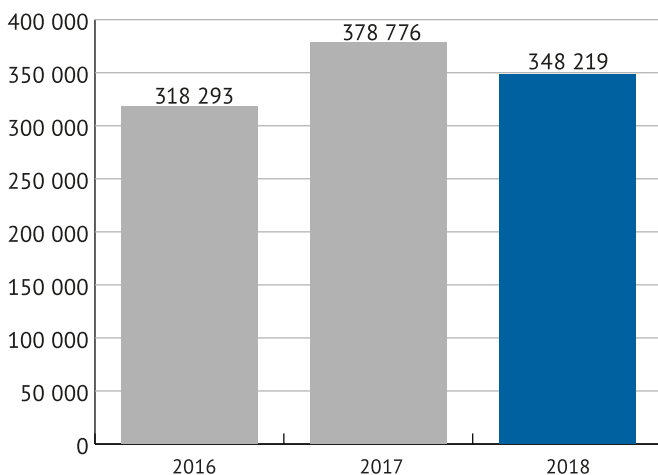
US\$348.2

MILLION

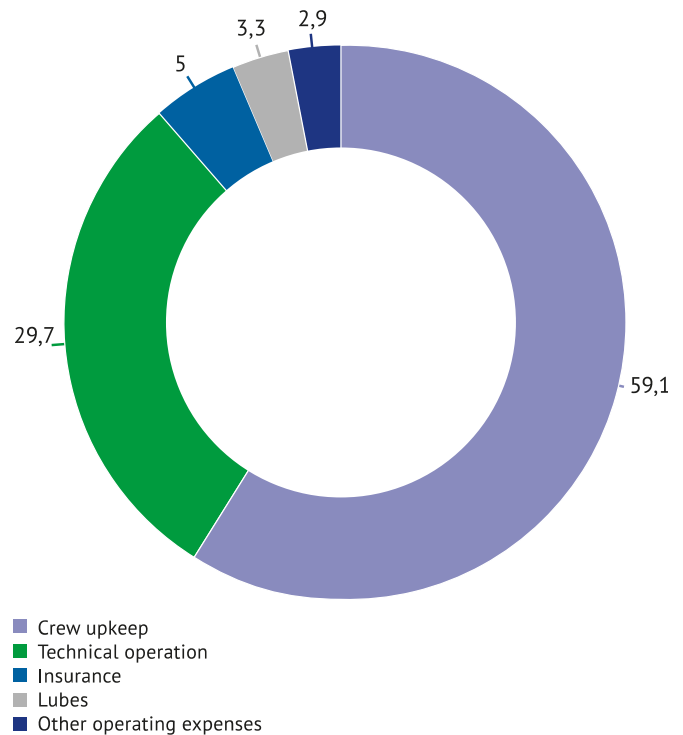
the amount of actual operating expenses in 2018 (down 8% from 2017)

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 good working order, and also applies advanced methods to monitor and analyse the technical condition of each vessel and its equipment.

Dynamics of actual operating expenses for 2016-2018, '000 million



Structure of operating expenses in 2018, %



Within the structure of operating expenses the majority are attributable to crew upkeep (59.1%), while technical operation and modernisation account for 29.7%, insurance for 5.0%, lubes for 3.3%, and other operating expenses for 2.9%.

Under the ISMS the Group carries out regular maintenance and repairs of vessels, which is an essential precondition for their safe and reliable operation.

The Technical Policy stipulates:

- A five-year classification survey period in docks that facilitates optimising maintenance and repair work.
- A scheduled preventive maintenance plan for each vessel, approved in accordance with the class of vessel.
- Monitoring the technical condition of individual types of vessels and critical equipment to make sure that they comply with PAO Sovcomflot requirements.
- Maintaining the external appearance of each ship at a high level.

The Technical Policy also prescribes the following actions to ensure the high quality of maintenance and repair work on vessels and their equipment:

- Competitive selection of the most effective and qualified shipyards.
- Using certified spare parts from original manufacturers when replacing worn-out or faulty components of equipment.
- Inspection of ships by classification societies, which ensures a high degree of supervision over the technical condition of vessels.
- Implementation of a modernisation programme for vessels and shipboard equipment to comply with the requirements of flag administrations and international conventions, and improve ship merchantability.

Maintenance and repair of vessels, 2016-2018

Indicator	2018	2017	2016
Dry dock repairs (number of vessels)	24	38	10
In-water inspections (number of vessels)	30	20	10
Actual expenses for dry docking and repair of vessels ('000 USD)	51,519	64,593	21,457

In 2018 24 vessels were dry docked and repaired (vs. 38 vessels a year earlier). One of the goals of the Group under the Technical Policy is to increase the inter-docking period. In 2018 the intermediate survey for 30 vessels was carried out afloat - without dry-docking.

During the reporting period there were four 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 also performs a detailed analysis of incidents to prevent re-occurrence.

3.1.3. Operating results

Overall results for Sovcomflot Group

Key operating performance indicators improved in 2018 compared to 2017, despite the high volatility in the tanker markets and a sharp fall in freight rates. The main reason for that were measures taken to increase fleet performance, including renewal and modernisation of the fleet, a balanced freight policy, which ensures the effective use of the fleet in different phases of the tanker market, and cooperation with high-profile customers.

Time charter equivalent (TCE) revenue in 2018 increased by 1.6% compared to 2017, to US\$1,074.7 million under IFRS against US\$1,058 million in 2017. The Net earnings from vessels' trading of the Group also increased (by 9.2%), to US\$ 697.5 million.

US\$1,074.7

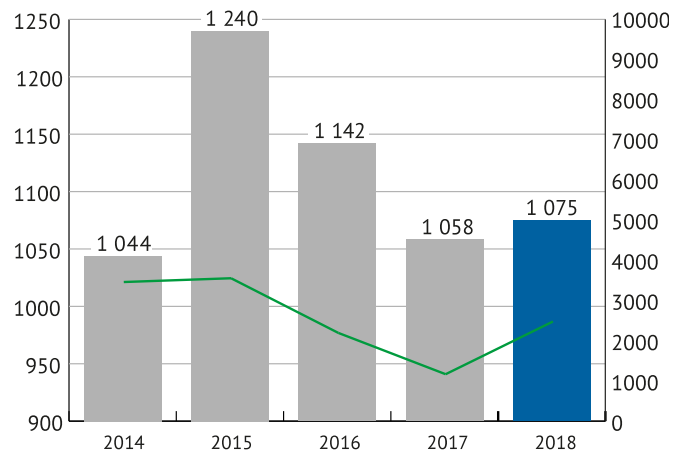
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TCE revenue for 2018 (up 1.6% from 2017)

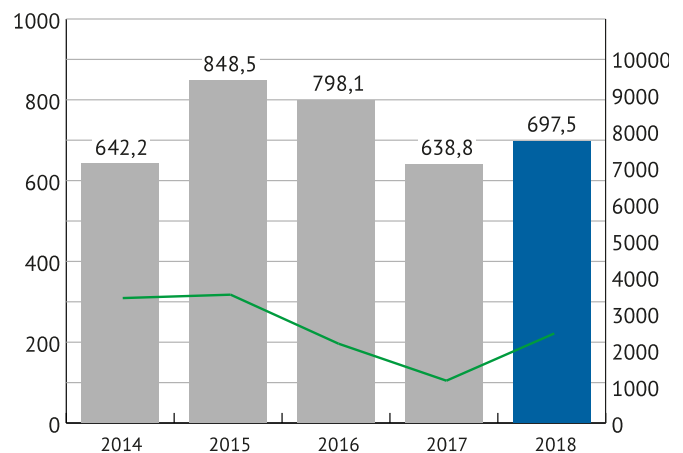
Sovcomflot Group cooperates with both foreign and Russian customers. In the reporting year the Group continued to meet Russian foreign trade requirements: its vessels participated in transportation of oil and petroleum products from different Russian ports, including Novorossiysk, Murmansk, Primorsk, Ust-Luga, Prigorodnoye, and others. In addition, the Group's vessels were used as floating storage units to facilitate the transshipment of export oil and petroleum products from river tanker vessels to sea tankers.

In 2018 the Group carried over 54 million tonnes of Russian export and transit cargo exported through Russia. This cargo accounts for 40.1% of the total cargo transported by the Group's vessels in 2018 (against 49% in 2017).

Dynamics of the Group's TCE revenues (USD million) versus the ClarkSea Index¹ values (USD per day)



Dynamics of Net earnings from vessels' trading of the Group (USD million) versus the ClarkSea Index² values (USD per day)



1. See the Glossary.

2. See the Glossary.