

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

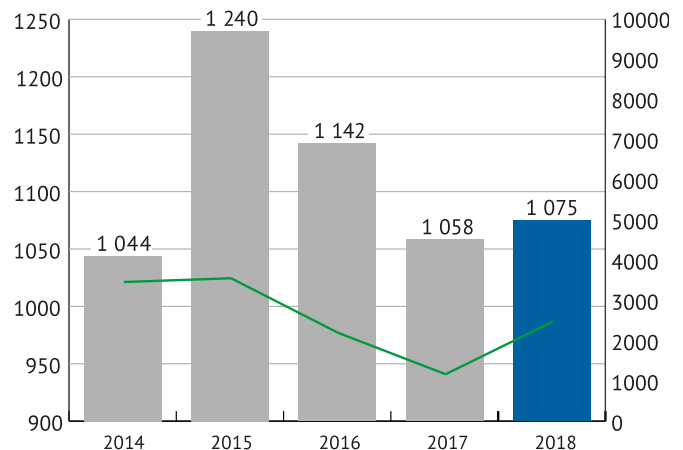
MILLION

TCE revenue for 2018 (up 1.6% from 2017)

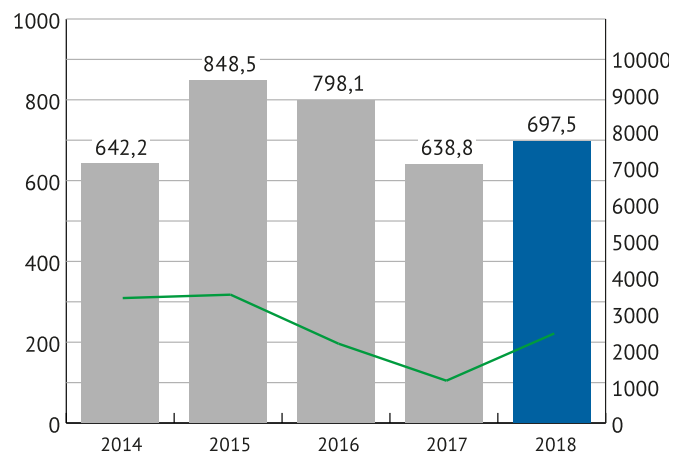
Sovcomflot Group cooperates with both foreign and Russian customers. In the reporting year the Group continued to meet Russian foreign trade requirements: its vessels participated in transportation of oil and petroleum products from different Russian ports, including Novorossiysk, Murmansk, Primorsk, 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)



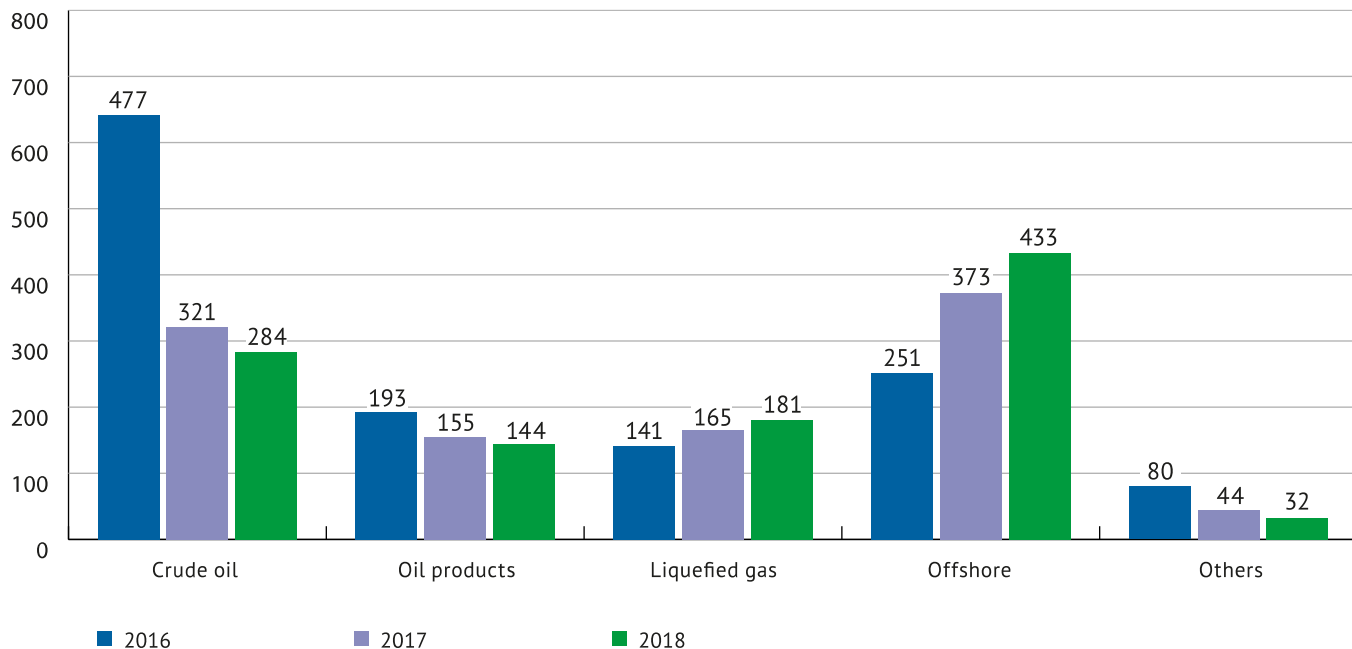
1. See the Glossary.

2. See the Glossary.

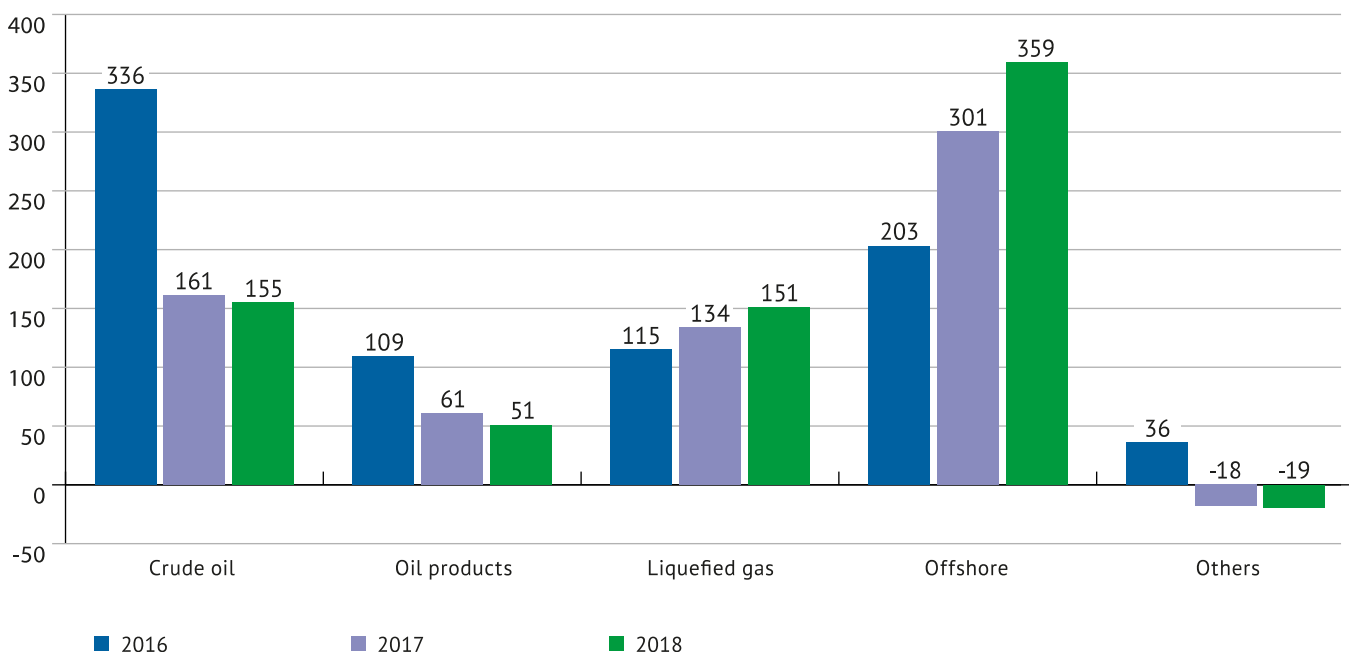
Fleet performance indicators by lines of business

The Group's key operating performance indicators by main operating segments exhibited differently directed dynamics in 2018 - negative in conventional segments and positive in industrial segments.

Dynamics of TCE revenues by operating segments, 2016-2018, USD million¹



Dynamics of the Net earnings from vessels' trading by operating segments, 2016-2018, USD million²



1. The breakdown into segments is provided in accordance with the IFRS financial statements.

2. The breakdown into segments is provided in accordance with the IFRS financial statements.

The commissioning of new tonnage and further development of industrial projects had a positive impact on the Company's results.

The decrease in TCE revenues and Net earnings from vessels' trading in the segment of crude oil and petroleum products transportation was due to the negative impact of a decline in freight rates in the global freight market.

57 % THE SHARE OF REVENUES

from the servicing of offshore oil and gas production by SCF vessels and maritime transportation of gas in total TCE revenue (vs. 51 % in 2017)

The increase in TCE revenues in the segment of offshore services was driven by the commissioning of new vessels.

The increase in TCE revenues in the segment of liquefied gas transportation occurred mainly due to the fact that the Company commenced servicing a new industrial project in 2017 and continued operations under the project in 2018.

In the "Others" segment, which in 2018 included two bulkers and two seismic research vessels, revenues declined by 27% compared to 2017, resulting in a loss from vessels' trading of US\$18.9 million. This result was due to unfavourable conditions in the global offshore seismic exploration market and the impact of certain other factors.

3.2. INVESTMENT ACTIVITIES

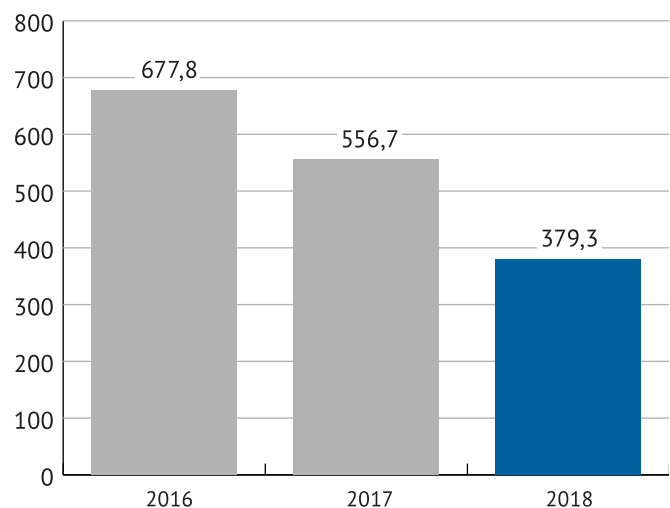
3.2.1. Dynamics of investments

The investment activities of Sovcomflot Group are performed as part of the Long-Term Development Strategy of the Group. Every specific project is developed and evaluated according to the Company's internal regulations.

With due regard for the Group's strategic priorities, the Investment Programme chiefly focuses on the implementation of highly profitable industrial projects in the field of transportation of liquefied gas and the servicing of offshore hydrocarbon fields. In 2018 most investments were directed to these segments. Investments were also made in the repair and modernisation of the existing fleet of the Group.

In 2018 investment projects financing amounted to US\$379.3 million, which is 32% less than in 2017.

Dynamics of Group investments, 2016-2018, USD million¹



Investment projects of Sovcomflot Group in 2018

Client / project	Target	Number	Implementation stage (as of 31 December 2018)
Total	Construction of an Atlanticmax LNG carrier	1	The vessel is under construction
Sakhalin Energy / Sakhalin-2	Construction of multifunctional ice-breaking vessels	4	The vessels have been put into operation ²
Gazprom Neft / Novy Port	Construction of an MR Arctic shuttle tanker	1	The vessel is under construction
Rosneft	Construction of dual-fuel Aframax tankers ³	2	The vessels are under construction
Shell ⁴	Construction of dual-fuel Aframax tankers	6	Three tankers have been put into operation, another three vessels are under construction
Shell	Construction of Atlanticmax LNG carriers	2	The vessels are under construction

1. Investments are as reported in the cash flow statement in the consolidated financial statements of PAO Sovcomflot prepared under IFRS.

2. Three vessels of the series were added to the fleet in 2017 and one in 2018.

3. The vessels were ordered by a VEB-Leasing Group company and are to be subsequently transferred to SCF Group for operation after completion of construction.

4. Sovcomflot Group and Shell entered into long-time charter contracts for two vessels of the series in February 2018.