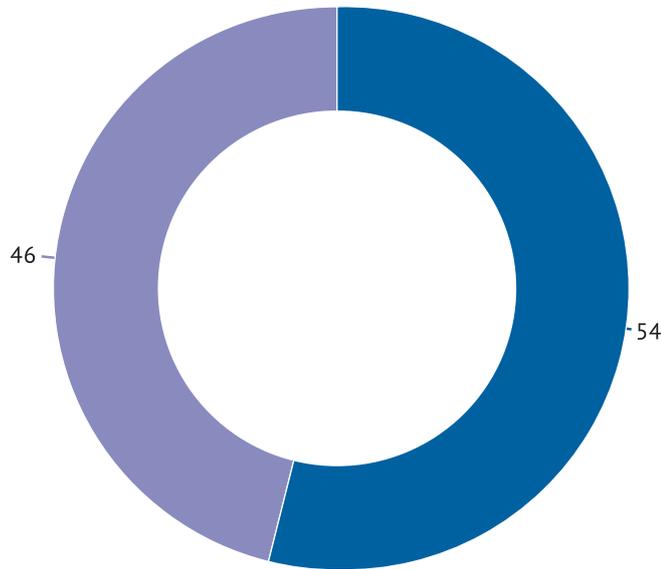


Financing of innovative activities

The financing of R&D, engineering activities, professional training, retraining and skill improvement of PAO Sovcomflot personnel in 2018 amounted to USD5.3 million.

Structure of R&D expenses in 2018, %



- R&D for the construction of new ships
- Targeted personnel training, retraining and skill improvement

3.3.2. Assessment of the innovative development performance

The Company regularly monitors and analyses the integral key performance indicator of innovative development.

114,07%

the value of the integral performance indicator of innovative development of PAO Sovcomflot in 2018

The integral key performance indicator of innovative development includes four elements:

- The level of R&D financing expenditure at PAO Sovcomflot. The target is no less than 0.4% of the annual net revenue;
- The level of navigation safety and the Company's compliance with customer requirements - the average number of observations from inspections by OCIMF member companies for all SCF vessels during the reporting period. The target is no higher than the industry average, which is calculated annually based on ship inspection results according to OCIMF and INTERTANKO data;

- The level of operating expenses per vessel, determined as a percentage of industry average (based on data from independent analytical sources). The target is less than 100%.
- The level of vessel crew costs, determined as a percentage of industry average (based on data from independent analytical sources). The target is less than 100%.

3.4. FINANCIAL RESULTS

3.4.1. Key financial indicators

In 2018 the tanker market remained at one of the lowest levels in the past 25 years. However, in 4Q 2018 there appeared some signs of recovery in freight rates in the tanker market due to a slight increase in cargo base and demand for energy shipping. Against this background, measures taken to diversify the fleet with a focus on the development of industrial business, as well as the Group's balanced freight policy, enabled the Group to maintain a stable financial position in the reporting period.

The financial statements of Sovcomflot Group were prepared according to IFRS and disclosed online. Below is a brief overview and analysis of the key financial indicators of the Group.

The book value of vessels in operation decreased by 2% from US\$6,291.3 million at the end of 2017 to US\$6,165.7 million at the end of the reporting period. Total assets of the Group amounted to US\$7,142.2 million as at 31 December 2018. The share capital at the end of 2018 was US\$3,350,1 million, down 1.7% from 2017.

US\$7,142.2

MILLION

the amount of the SCF Group's assets at the end of 2018

The Group maintains a stable programme of capital investments during all phases of the shipping cycle. Investments in fleet construction¹ in 2018 totalled US\$379.3 million (2017: US\$556.7 million), with the amount payable under current shipbuilding contracts in 2019-2021 at the end of 2018 being US\$690.3 million.

The investment programme and operating activities were financed through secured bank loans (as at 31 December 2018, total debt to banks amounted to US\$2,575.5 million thousand), proceeds from the placement of unsecured Eurobonds amounting to US\$900 million, and operating cash flow.

Despite the continued volatility in financial markets and the unstable geopolitical and economic situation in the world, the Group retained access to both foreign and Russian debt capital markets.

1. Investments are as reported in the cash flow statement in the consolidated financial statements of PAO Sovcomflot prepared under IFRS, which includes the costs of acquiring vessels during the reporting period and the costs of vessel construction in progress.