CONTENTS:

Sovcomflot today

SCF Group is Russia's largest shipping company and a world leader in the maritime transportation of hydrocarbons. Sovcomflot provides services for offshore oil & gas projects. Our fleet includes 157 vessels with a combined deadweight of 12 million tonnes. Our reliable team of professionals at sea and ashore numbers over 9300 staff, formed in best traditions of Russian maritime schools. Sovcomflot is engaged in the transportation of oil, a wide range of petroleum products, and liquefied natural gas. Our vessels also conduct complex towage operations and provide offshore geophysical exploration services. The company is registered in Saint-Petersburg and has representative offices in Moscow, Novorossiysk, Murmansk, Vladivostok, London, Limassol, Madrid, Singapore and Dubai.

25-years of successful work

In 2013, Sovcomflot is celebrating its "silver" anniversary. 25 years ago the company became one of the first public joint-stock companies in the history of modern Russia. Operating in the highly competitive global shipping market, SCF was the first Russian shipping company to apply international standards in its work and financial reporting, and became an acknowledged leader in the global maritime society in a whole range of segments of technical and technological development, foremost related to harsh-environment shipping.

Strategy

SCF development strategy, approved by the Board of Directors in September 2011, envisages a qualitative growth based on the company's participation in long-term industrial projects. SCF's main strategic targets for the period up to 2018 are as follows:

- Retain company's status as one of the world's leading shipowners and tanker operators.
- Increase SCF presence on the global LNG shipping market by participating in new international gas projects and prospective Russian LNG export projects.
- Grow SCF's share in the Russian offshore project servicing segment by rapid business development in the segment of marine seismic exploration, marine drilling, platform supply, expansion of shuttle tanker fleet engaged in work on large industrial projects with the world's leading oil & gas companies.

Business model

Sovcomflot provides its clients with safe, first class hydrocarbon shipping services in accordance with the very highest international shipping industry standards. We follow a strategy of long-term, mutually-beneficial cooperation with our partners. We are committed to innovation and are constantly seeking perfection in the work we do: SCF has one of the youngest fleets in the world with an average vessel age of just 7 years. A third of SCF vessels are of a high ice class, which determines the special expertise of the company in the transportation of hydrocarbons in the challenging icy conditions of the Arctic and Far Eastern seas.

Our projects

SCF participates in servicing of the largest offshore energy projects in the world: Sakhalin-I (Russia), Sakhalin-II (Russia), Varandey (Russia), Tangguh (Indonesia), Peregrino (Brazil), Prirazlomnoye (Russia), Yamal LNG (Russia), Escobar (Argentina) etc. Among the project operators and participants are some of the largest oil & gas companies in the world.

Developing the wealth of Russia's North

Sovcomflot is a leader in Arctic shipping. The company was the first to cross the Northern Sea Route with large-tonnage vessels and is consolidating its presence in the Arctic, servicing the largest fields in the region. SCF has accumulated a unique expertise of safe fleet exploitation in harsh environments of the Arctic seas. The company has its own specialized training centre for fleet officers providing training for the whole range of marine operations in the Arctic. In its operations in the Arctic region SCF pays high attention to the environmental safety and support of the indigenous peoples of the North.


OAO SOVCOMFLOT - RUSSIA'S
LARGEST SHIPPING COMPANY
157 vessels
12 million tonnes DWT

Address from Chairman of SCF Board of Directors
Ilya Klebanov

Sovcomflot today is the champion of modern Russia's maritime industry and one of the world leaders in seaborne energy transportation. For the global tanker industry, 2012 was another extremely challenging period. However, Sovcomflot was able not only to achieve favourable financial results, but also to consolidate its leading positions in a whole range of promising sectors, such as: liquefied natural gas transportation, the further development of the Northern Sea Route for hydrocarbon shipping, the servicing and support of offshore fields. SCF significantly expanded its global presence. This year, the company has achieved important results, including: participation in new large-scale

Sovcomflot today is the champion of modern Russia's maritime industry and one of the world leaders in seaborne energy transportation

oil & gas projects both in Russia and overseas, fleet expansion with the introduction of state-of-the-art vessels, and improved standards of maritime safety and quality of service.

This was our first year working under the OAO Sovcomflot-2018 development strategy, that was approved by the board of directors on 12 September, 2011. The main aim of the strategy is to diversify and expand Sovcomflot's project portfolio. First and foremost, we are interested in long-term contracts for hydrocarbon shipping and the provision of services to oil & gas companies engaged in exploration and production on the continental shelf. Sovcomflot's stable financial position allowed us to continue with the implementation of our economic plans and fulfil our social obligations.

Our company regards social responsibility as a top priority – on a par with achieving great operational results. We realise the role we must play in supporting Russian maritime education, science and the environment in all of the regions in which we operate. We support the indigenous peoples of the north as part of projects involving SCF vessels. We provide assistance to children and veterans of the maritime industry, sponsor and support professional education and the development of water sports, and also help preserve Russia's historical and cultural heritage. However, one of the most important goals for us has always been, and still remains, to take care of our captains and crews, shore-based personnel and company subsidiaries.

On behalf of Sovcomflot Board of Directors, I would like to express our highest appreciation to SCF clients and partners for their support throughout this year. On the threshold of our anniversary, SCF Board of Directors would like to say a special thank you to the veterans of OAO Sovcomflot who played a pivotal role in its founding. Your honest and selfless work has made it possible for OAO Sovcomflot to become a leading force in the Russian shipping industry.

Address from SCF President & CEO Sergey Frank

Following its creation a quarter of a century ago, OAO Sovcomflot has been transformed from a mid-sized shipping company into a global enterprise and has become the flagship of the Russian shipping industry. Sovcomflot vessels are in successful operation providing transportation for seaborne hydrocarbons and shipping cargos of oil, oil products and liquefied gas to all four corners of the world. In 2012, freight markets saw little improvement and conditions remained extremely challenging. The shares of public listed tanker companies continued to feel the pinch and the Clarksea Index was down 65% comparing to 2008 level. Profitability figures across all segments of the tanker industry were close to their lowest levels in over ten years. However, even in these negative conditions, the company was still able to make a final profit. Gross revenue for 2012 totalled USD 1,443.4 million (USD 1,438.9 million in 2011). EBITDA was USD 457.0 million and net profit for 2012 was USD 33.2 million. Future contracted revenues currently stand at USD 5.2 billion, which ensures stable financial situation of the company in the medium term. In 2012, SCF Group continued the implementation of its strategy, the main aim of which is to expand and diversify our project portfolio with long-term contracts for the transportation of hydrocarbons and support of

offshore exploration and drilling both in Russia and abroad. SCF Group signed long-term contracts for the construction and operation of ice class LNG carriers with STASCO (a subsidiary of Royal Dutch Shell), as well as with oil-chemical holding SIBUR. SCF Arctic (group of companies) was founded to unite several companies with the fleet, employed in servicing Russian offshore projects. For the first time in its history, Sovcomflot successfully completed a complex towage operation to transport and install the base structure for the Berkut platform at the Arkutun-Dagi field (Sakhalin-I project). State-of-the-art seismic exploration vessel *Vyacheslav Tikhonov* completed her first year of service in profit, furthering Russia's progress in the vital seismic exploration sector.

SCF Group investment has remained focused on upgrading the fleet, which today is one of the youngest in the world. The average age of SCF vessels is just 7.7 years (compared with a global average of 17 years). In 2012, SCF brought 9 new state-of-the-art vessels into active service. One of them is the new multifunctional icebreaking supply vessel *Vitus Bering* which has already started servicing drilling platforms for Exxon Neftegas as part of the Sakhalin-I project. When ordering new vessels, we strive to engage domestic enterprises in their construction to enable the further development of shipbuilding in Russia. During the last period the amount of our investments reached over USD 700 million. OAO United Shipbuilding Corporation (USC) is one of our long-standing partners and helped us build the *Vitus Bering* series. This type of collaboration is beneficial to us all – both to our companies and to the country.

The company fully implemented its programmes aimed at improving maritime safety, promoting environmental protection and reducing environmental risks. It also developed further logistics solutions for transporting hydrocarbons from geographically challenging fields in the Russian Arctic. In line with Sovcomflot's innovative development strategy, a special technical & engineering training centre (TEC) for Arctic projects was opened in 2012. The new TEC will act as a base – providing crews with special training for navigation in challenging climatic conditions.

Dear colleagues and friends! In June 2013 SCF celebrates 25 years since it was founded as a public joint-stock company. On the eve of our company's anniversary I would like to note that Sovcomflot has always stood out for its effective strategy and highly-qualified team of professionals, both at sea and ashore. On behalf of the OAO Sovcomflot Executive Board, I would like to express our gratitude to our shareholders, clients and partners for their support and role in bringing our ambitious plans to fruition. I would also like to say a special thank you to veterans of the company, all SCF Group captains, crews and shore-based personnel - for their professionalism and hard work.

Profitability figures across all segments of the tanker industry were close to their lowest levels in over ten years. However, even in these negative conditions, the company was still able to make a final profit

HISTORY OF SOVCOMFLOT

1973 **THE START OF COMMERCIAL FOREIGN** CARGO CHARTER OPERATIONS

1988 **CREATION OF JSC SOVCOMFLOT** – ONE OF THE FIRST JOINT-STOCK COMPANIES IN THE HISTORY OF MODERN RUSSIA

1989 **FIRST FINANCIAL ACCOUNTS PUBLISHED** IN LINE WITH INTERNATIONAL STANDARDS

1990

1991 **FOUNDATION OF THE COMPANY GROUP'S TECHNICAL MANAGER** – SCF UNICOM

2001 **FIRST OIL SHIPMENT** IN THE PORT OF PRIMORSK (LENINGRAD OBLAST)

RECEIPT OF FIRST SYNDICATED LOANS FROM INTERNATIONAL BANKS

1995 **START OF INDEPENDENT TANKER FLEET** TECHNICAL MANAGEMENT OPERATIONS

HISTORY OF SOVCOMFLOT

2004 **DEVELOPMENT STRATEGY** FOCUSED ON THE MARITIME TRANSPORTATION OF HYDROCARBONS FOR 2005-2010 APPROVED

2006 **START OF LNG CARRIER OPERATIONS**

2007 **OAO NOVOSHIP MERGES WITH OAO SOVCOMFLOT**

2008 **CREATION OF A NEW BRAND** FOR THE GROUP - SCF

FIRST OIL SHIPMENT MADE FROM RUSSIA'S ARCTIC SHELF (VARANDEY PROJECT)

2009

2010

SCF BALTICA **(**113,000 TONNES) **BECOMES THE LARGEST TANKER IN HISTORY TO SUCCESSFULLY CROSS THE NORTHERN SEA ROUTE**

2012

OPENING OF SCF ARCTIC (GROUP OF COMPANIES) TO SUPPORT BROADER PARTICIPATION IN SERVICING PROJECTS ON RUSSIA'S CONTINENTAL SHELF

SEISMIC EXPLORATION VESSEL ***VYACHESLAV TIKHONOV*** COMMENCES OPERATIONS

FIRST ENGINEERING OPERATION TO TOW OIL PLATFORM BASE STRUCTURE INTO POSITION AT NEW OFFSHORE FIELD (SAKHALIN-I PROJECT).

2011

FIRST RUSSIAN LNG SHIPMENT (SAKHALIN-II PROJECT).

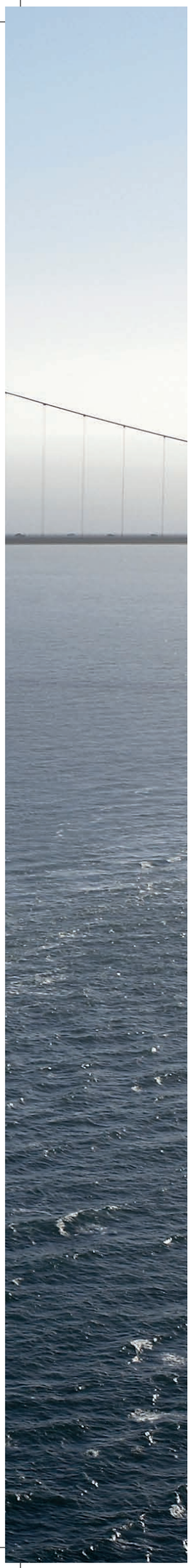
START OF PLATFORM SUPPLY VESSEL OPERATIONS

REPRESENTATIVE OFFICE OPENED IN SOUTH-EAST ASIA (SINGAPORE)

SCF VLADIMIR TIKHONOV (SUEZMAX CLASS, 163,000 TONNES) **BECOMES LARGEST TANKER IN HISTORY TO CROSS THE NORTHERN SEA ROUTE**

DEVELOPMENT STRATEGY FOR 2011-2020 APPROVED.

Oil tanker *Aleksey Kosygin* crossing the Øresund Strait off Denmark



SCF – A GLOBAL PRESENCE

SCF Group has representative offices in the world's leading financial & economic centres and regions with high potential for shipping industry growth. In 2012, SCF vessels shipped around 140 million tonnes of oil, oil products and liquefied gas and made 724 port calls in over 100 countries across the world

Sovcomflot Group headquarters in the Round Market building on the embankment of the River Moika in Saint-Petersburg

SCF Arctic
(Saint-Petersburg)

SCF Arctic was established in 2012 as part of the next step in the implementation of Sovcomflot's development strategy. Several Sovcomflot Group companies have been brought together under the SCF Arctic brand, all of which are engaged in Russian offshore project support. SCF Arctic is in charge of maintaining and managing Sovcomflot's Saint-Petersburg office (3A, Moyka River Embankment) – the location of SCF headquarters and SCF Training and Engineering Centre. By the end of 2012, SCF Arctic was in control of 7 vessels sailing under the flag of the Russian Federation. SCF Arctic currently employs over 300 staff.

OAO Novoship office in Novorossiysk

SCF Novoship
(Novorossiysk)

On 20 January, 2012, the Novorossiysk shipping company celebrated 45 years since it was founded as the tanker branch of the Black Sea Shipping Company. Although the Russian traditions of tanker shipping on the Black sea have more than a century of history – In 1885 the first Russian oil tanker *Svet* was built. OAO Novoship joined SCF Group in 2007 by decree of the Russian president Vladimir Putin from 20th June 2007 № 784. By this time, Novoship already had 40 years of experience in the industry and was one of the world's leading tanker companies. Today, the company's fleet consists of 50 modern vessels with a combined deadweight of over 4.5 million tonnes. It includes large-tonnage Suezmax and Aframax tankers, LR2 and MR product carriers, as well as Panamax bulk carriers. SCF Novoship employs 4,000 staff – both at sea and on land. The enterprise has 14 subsidiaries that manage the fleet and land-based infrastructure, including important facilities like the sea port of Sochi and Novoship Training (a modern TEC).

In 2012, as part of Arctic project development, Sovcomflot established SCF Arctic, which brings together SCF group companies engaged in servicing Russian offshore projects

Unicom Management Services, Limassol, Cyprus

Unicom Management Services (Cyprus)

Unicom Management Services (Cyprus) Ltd. is a Sovcomflot subsidiary responsible for the management of 106 vessels with a total deadweight of over 8 million tonnes. The company was founded in 1991. The Cyprus office brings together a highly qualified multinational team of specialists who operate vessels of various size and class. The company provides ships with experienced crews, conducts vessel maintenance and commercial fleet management, arranges insurance and deals with claims.

Sovcomflot (UK) Limited (London)

Sovcomflot Group's representative office in London is its main commercial centre and manages the chartering of SCF vessels for the shipping of oil, petroleum products, asphalt, chemical and bulk cargos. At present, spot market shipping operations employ around 40 vessels with a deadweight of 6,000 to 156,000 tonnes, capable of shipping cargo via traditional routes as well as those with challenging climatic conditions. The London office also conducts pre-contract preparations on issues pertaining to risk management, energy efficiency and the competitiveness of vessels. Sovcomflot's London office was opened in March 1992 and today employs 15 staff.

SCF Marpetrol S.A. (Madrid)

Marpetrol was founded in 1967 and joined SCF in 2006. The company's main areas of activity include the shipping of asphalt, oil products and light chemicals. The Madrid office employs 22 staff and a further 87 shipboard personnel. SCF Marpetrol is in charge of 12 vessels. In 2012, the company joined Sovcomflot Group's united technical management system.

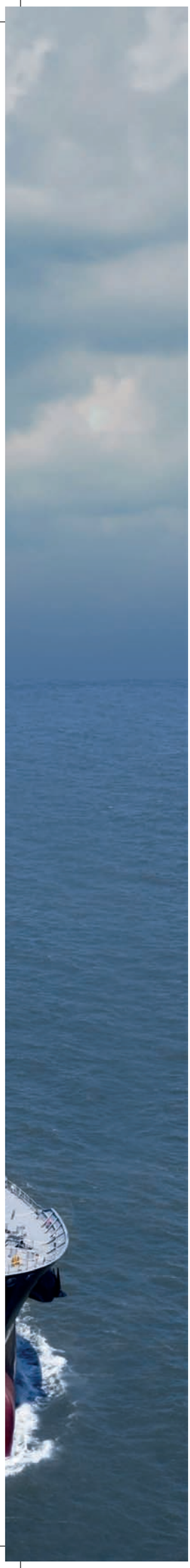
SCF Unicom Singapore Pte. Ltd (Singapore)

Opened in 2011, Sovcomflot's first representative office in South-East Asia conducts in the Asia-Pacific markets and manages vessels engaged in operations on the Sakhalin-I and Sakhalin-II projects. The Singapore office operates 7 vessels (ice class Aframax shuttle tankers) and employs 8 staff. In 2012, the company successfully passed an inspection and received international ISO 9001 and ISO 14001 certificates.

SCF Overseas (Dubai)

On 8 November 2012, Sovcomflot Group announced the official opening of its new office in Dubai (United Arab Emirates) as part of its efforts to further expand SCF's global presence and energy shipping interests in the Middle East - one of the world's largest oil-producing regions.

Oil product tanker *Anatoly Kolodkin*, Yellow sea, South Korea



MAIN OPERATIONAL RESULTS OF 2012

Our focus is on innovation and modern technology, our fleet has recently seen the addition of some of the best ships in the world – high-technology vessels, designed with an eye on the latest shipbuilding developments

Evgeny Ambrosov,
Member of Executive Board, Senior Executive Vice-President of Sovcomflot

"Sovcomflot employs a balanced chartering policy and gives preference to long-term contracts. The company pays special attention to operational safety and the technical state of its vessels, which must satisfy even the strictest demands from its charterers. Our focus is on innovation and modern technology, our fleet has recently seen the addition of some of the best ships in the world – modern, commercially effective vessels with optimal ecology and energy efficiency parameters."

At the end of 2012, the SCF fleet included **157 vessels** (owned and chartered) with a total **deadweight of 11.9 million tonnes.** In one year, **9 new vessels were brought into operation.** The company signed cooperation agreements and worked on projects for the largest players in the oil & gas business – **Royal Dutch Shell, SIBUR, Glencore International AG, Exxon Neftegas Ltd.**

Oil tanker fleet

OAO Sovcomflot's oil tanker division is one of the largest at the company and provides light and dark oil product shipping services for both Russian and foreign clients. This division generates a significant share of SCF Group revenue and contributed USD 675.3 million in 2012. The core of the division's fleet consists of Aframax and Suezmax tankers – 100,000-120,000 tonnes and 160,000-165,000 tonnes respectively.

Measured by vessel numbers and combined deadweight, Sovcomflot is number one in the global Aframax tanker segment. This class of vessel is in most demand for Russia's overseas trade business.

On 31 December, 2012, the division's fleet included 60 tankers (owned and chartered) with a total deadweight of over 7 million tonnes. These vessels are mostly engaged in shipping on the basis of long-term contracts, but also operate on the spot market. Being the world's largest ice class Aframax tanker operator, Sovcomflot makes good use of its advantage during the winter navigation period in the Baltic. In highly competitive market conditions, SCF's tanker division is constantly working to perfect the quality of its oil shipping and dispatch, providing clients with excellent service.

An important event of 2012 was the start of operations at a new oil terminal at the port of Ust-Luga on 23 March 2012. The terminal is part of the second Baltic Pipeline System (BPS-2) and is intended for exporting oil from Russia. Sovcomflot tanker *Nevsky Prospekt* was the first to accept a trial shipment of oil from the new terminal. On 29 May, the oil tanker division enjoyed another momentous occasion when a naming ceremony was held for SCF Group's new generation tanker *Nikolay Zuyev*. This modern tanker was built at the Daewoo Shipbuilding & Marine Engineering yard as part of an agreement to construction a series of tankers for the transportation of crude oil and petroleum products. The deal was signed in October 2010 between OAO Sovcomflot and Zvezda-DSME (a joint venture between Russia's OSK and the Korean shipyard).

On 10 September, a naming ceremony took place for the second new generation oil tanker – SCF Georgiy Maslov. The vessel was named in honour of a distinguished figure in domestic merchant shipping and a former head of the all-soviet foreign-trade association Sovfracht.

***Nikolay Zuyev* technical characteristics:**

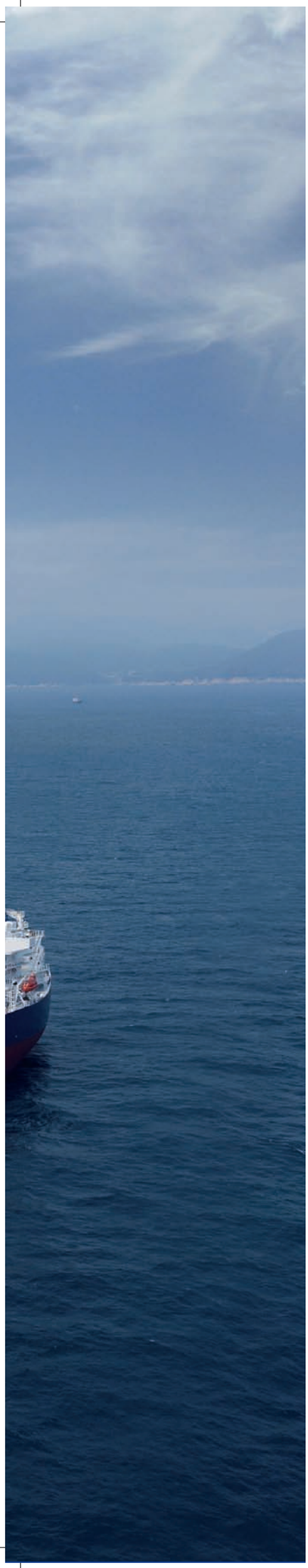
Shipyard: Daewoo Shipbuilding and Marine Engineering Co., Ltd
Date of construction: 2012
Type: Aframax
Length: 249.9m
Beam size: 46m
Deadweight: 120,600 tonnes
Ship owner and engineering office: Sovcomflot Group

Sovcomflot tanker *Nikolay Zuyev* was recognised as one of the best vessels of 2012 by Great Britain's Royal Institution of Naval Architects (RINA)

The tanker's energy consumption is significantly lower than the base level set for ships of her class. Provision has also been made for the long-term use of low-sulphur (0.1%) fuel. In combination with other measures, this makes *Nikolay Zuyev* one of the most environmentally safe vessels in the world. When the ship's beam size is increased to 46m, her draught is just 14.9m, meaning cargo capacity can be maximised when crossing the Baltic Straits and ensuring the vessel is ideally suited to hydrocarbon transportation conditions at terminals in Primorsk and Ust-Luga.

The tanker's cargo-pumping system allows for the simultaneous transportation and pumping of three types of cargo located in 12 separate tanks, including crude oil and dark oil products. A specially designed rudder provides the vessel with improved propulsion efficiency and better manoeuvrability. The bottom of the ship is coated in special paint to prevent sea-crust and ensure a low friction factor and a long service life. High-tech equipment has been installed aboard the vessel to constantly monitor and regulate its speed, draught and pitch depending on the cargo load and sailing conditions. Working and living conditions aboard the ship are fully in line with our high standards at Sovcomflot and crew members can enjoy comfortable personal cabins.

New oil product tanker *Viktor Bakaev*



Product carrier fleet

The SCF oil product division's fleet provides first class hydrocarbon shipping for the oil industry's downstream segment (refined oil products). The division's tankers transport a wide variety of oil products – petrol, bitumen, fuel oil, petrochemical products, asphalt, and others. At the end of 2012, the division's fleet included 61 tankers (owned and chartered) with a total deadweight of over 2.5 million tonnes. In 2012, the oil product fleet saw the addition of six new vessels.

The global oil-refining industry has undergone significant changes due to the growing role of traders entering the market. Sovcomflot adapted quickly to these new conditions and joined forces with one of the largest players on the global oil market – setting up a joint venture with Glencore International AG. In 2012, this joint venture expanded in scope and a further five new tankers were added to its fleet – SCF Progress, SCF Plymouth, SCF Pacifica, SCF Pearl and SCF Prudencia.

On 15 June at the port of Tuapse, OAO Novoship product carrier NS Parade became the first tanker to load at the new deep-sea terminal built by OAO Rosneft for the transhipment of light and dark oil products as part of reconstruction work at Tuapse refinery.

On 1 August, the product carrier SCF Neva started transporting oil from the Gulf of Ob (Yamalo-Nenets Archipelago) for OAO LUKOIL, becoming the largest vessel in the history of Russian shipping to conduct a shipment from this part of the Russian Arctic. The course taken by SCF Neva crossed the Northern Sea Route, making this passage yet another important step in the expansion of commercial shipping opportunities in the Arctic.

Bulk shipping represents a relatively small segment of SCF Group activity, but is developing due to collaboration with OAO SUEK. At the end of 2012, the bulk carrier fleet included two vessels. The second of these vessels – new ice class 1B Panamax NS Energy – was introduced on 19 November this year and completed her first shipment of coal from the Far Eastern port of Vanino to Japan.

Andrey Babakhanov,
Head of Fleet Operations Department and Oil Product Division at Sovcomflot

"The provision of first class hydrocarbon transportation to meet the demands of the modern global economy is a large and complex business that requires great responsibility from both crews and shore-based personnel. In accordance with SCF Group's innovative development strategy, our vessels must demonstrate a high level of energy efficiency and comply with international environmental regulations."

LNG gas carrier *SCF Polar* at the loading terminal in the mouth of Parana river (project “Escobar”), Argentina (photo by Excelerate Energy)

Gas carrier fleet

Forecasts indicate that natural gas will become the most rapidly developing source of energy: by 2030, natural gas production is set to increase by more than 50% and it will replace coal as the second largest energy source. Most of the demand for natural gas will come from the electricity sector due to the fact that gas is an efficient fuel source that produces fewer harmful emissions than either oil or coal.

Dmitry Rusanov,
Head of SCF Gas Carrier Division

“We expanded our shipbuilding programme, which includes six state-of-the-art gas carriers that are in high demand on the market. All of these vessels have already been assigned projects under long-term agreements with world leaders Gazprom, Shell and SIBUR. This is a good result for Sovcomflot, which has been in the elite “gas club” for just 7 years. At the moment, we are working closely with OAO Gazprom Marketing & Trading and OAO USC on the localisation of the production of gas carriers in Russia. In 2018, the first Russian gas carrier is to be built at USC's shipbuilding facilities.”

LNG gas carrier *Grand Aniva* berthing at the Prigorodnoye terminal (Sakhalin-II project)

Sovcomflot Group's gas carrier division specialises in the high-quality shipping of liquefied natural gas (LNG) and liquefied petroleum gas (LPG). The fleet includes six LNG carriers and two LPG carriers with a further six modern gas carriers under construction. Today, gas shipping is a key area of activity for OAO Sovcomflot. SCF's gas division only works on the basis of mid- and long-term contracts with the world's leading companies.

On 27 March, SCF Group and petrochemical holding SIBUR signed an agreement on the long-term time charter of two gas carriers for the scheduled year-round transportation of liquefied petroleum gas. SIBUR plans to start exporting gas via its own terminal at the sea port of Ust-Luga in 2013. On 24 September, a steel-cutting ceremony took place at the Hyundai Mipo Dockyard Co. Ltd. yard (South Korea) for Sibur Voronezh – a new gas carrier ordered by Sovcomflot for work under a contract with SIBUR. On 15 October, a steel-cutting ceremony was held for the second gas carrier in the series – Sibur Tobol.

On 4 November, a keel-laying ceremony was held at the STX Offshore & Shipbuilding yard in South Korea for the LNG carrier *Velikiy Novorod* – one of two vessels being built for SCF Group that will operate under a long-term agreement with Gazprom Global LNG.

On 21 April, the 500th consignment of liquefied natural gas was shipped via the LNG terminal at the port of Prigorodnoye (Sakhalin Island).

On 22 May, the gas carrier *Grand Aniva* refuelled at the Russian port of Nakhodka, becoming the first gas carrier to complete a bunkering operation in Russia.

On 21 June, Sovcomflot signed an agreement with Shell for the long-term time charter of two state-of-the-art ice class LNG carriers. Following the agreement, SCF won a Shell International Trading and Shipping Company (STASCO) tender for the provision of LNG shipping services.

Specialising in LNG and LPG shipping is one of the key areas of development of Sovcomflot

The new LPG carriers

The new LPG carriers have a cargo capacity of 20,600m³ and were designed in collaboration with SCF Group experts according to SIBUR requirements. These ships are specially designed to be fitted with a ballast water management system – a compulsory prerequisite for vessels from the end of 2013.

This gives them a competitive advantage over other vessels of their class. The structural design of the vessels includes a reinforced hull for year-round operations in the harsh climatic conditions of the North Atlantic. These robust vessels will have an active service life of 25 years, although this figure will significantly increase if they are used in normal climatic conditions. The design of these 1B ice class vessels (Ice3 in the Russian Maritime Register of Shipping) will allow them to operate effectively in the low temperatures of the Baltic Sea during the winter navigation period

VELIKIY NOVGOROD
PSKOV

State-of-the-art Atlanticmax LNG gas carriers

The design of SCF Atlanticmax tankers is the product of the company's gas carrier project, developed in collaboration with OAO OSK and Gazprom Global LNG. These gas carriers, which have a cargo capacity of around 170,000m^3, will be fitted with a tri-fuel diesel electric propulsion system specially designed for operations in the north (Ice2 according to the Russian Register of Shipping), as well as hardware for work in low temperature conditions. The design of the vessels takes into account the latest environmental regulations, energy-efficiency criteria, crew working conditions and leisure, and shipboard safety.

The tankers are capable of transporting gas from the majority of existing shipping terminals, including Russia's first LNG project Sakhalin-II, of which Shell is a shareholder.

Trials have shown that the vessels' cargo-pumping system (reinforced membrane construction) complies with operational requirements in challenging climatic conditions. Membrane construction has been altered, making it possible to reduce the level of gas cargo evaporation to 0.12% per day while maintaining a high vessel speed using the evaporating gas.

Offshore fleet

The Sovcomflot-2018 development strategy aims to make SCF Group a leading national player in the servicing of offshore industrial projects. It is precisely this segment that is showing active growth at the enterprise. SCF's offshore division provides a wide range of services, including: maritime geophysical exploration, supply and support of drilling platforms,

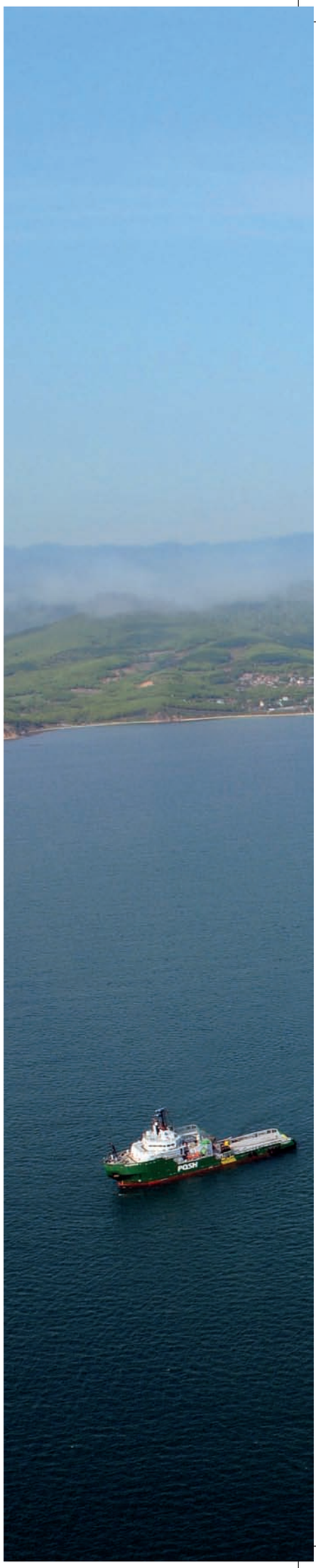
The Sovcomflot-2018 development strategy aims to make SCF Group a leading provider for offshore industrial project services for Russian and international oil & gas companies

transportation and towage of floating drilling units, terminal management, safe shuttle tanker oil shipping in challenging climatic conditions, and others. The division works on long-term contracts, providing transportation services for projects such as Sakhalin-I, Sakhalin-II and Varandey. The division's fleet consists of 16 vessels, including: 12 ice class shuttle tankers, 3 icebreaking platform supply ships and a seismic exploration vessel.

On 22 June, as part of the XVI St. Petersburg International Economic Forum, OAO Sovcomflot and OSK signed a cooperation agreement on the construction of seismic exploration vessels.

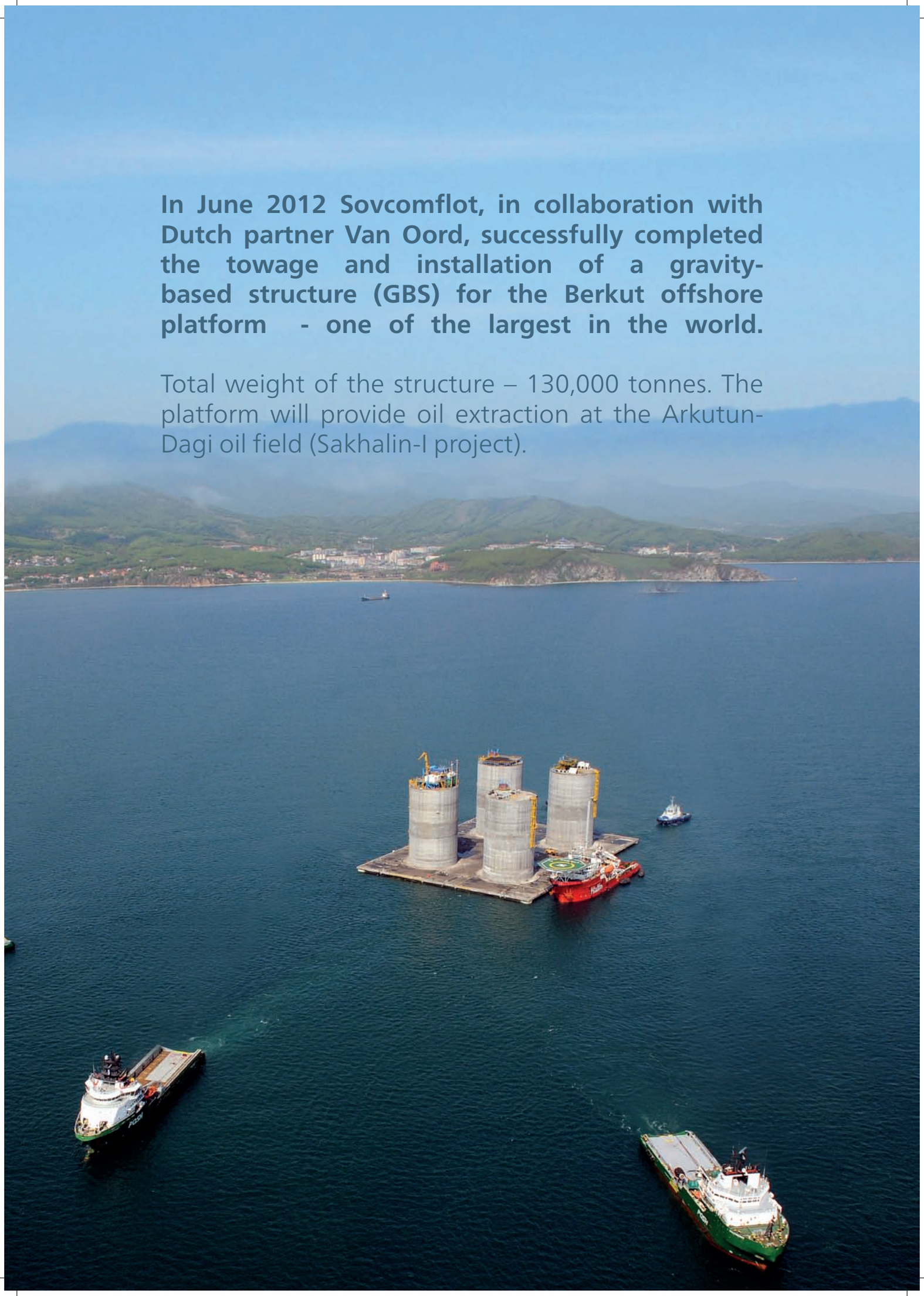
Roman Almakaev,
Head of Offshore Division at Sovcomflot

"Sovcomflot provides the transportation element for important Russian offshore projects – Sakhalin-I, Sakhalin-II, Varandey, and Prirazlomnoye. The offshore division fleet includes unique Arctic shuttle tankers, state-of-the-art platform supply vessels and Russia's most advanced geophysical exploration vessel. In the next few years, this powerful group of vessels will help us implement our strategic plans to become the leading national operator in the offshore project support sector."



In June 2012 Sovcomflot, in collaboration with Dutch partner Van Oord, successfully completed the towage and installation of a gravity-based structure (GBS) for the Berkut offshore platform - one of the largest in the world.

Total weight of the structure – 130,000 tonnes. The platform will provide oil extraction at the Arkutun-Dagi oil field (Sakhalin-I project).



ARCTIC AND SUBARCTIC INDUSTRIAL PROJECTS

OIL & GAS PROJECTS OF THE KARA SEA

SHTOKMAN LNG

VARANDEY

Vasiliy Dinkov
Capitan Gotskiy
Timofey Guzhenko

PRIRAZLOMNOYE

Mikhail Ulyanov
Kirill Lavrov

IN 2012 **SCF TANKERS SHIPPED OVER 18 MILLION TONNES OF OIL AND LIQUEFIED GAS** FROM ARCTIC AND SUB-ARCTIC OIL PROJECTS OF RUSSIA

ROSNEFT

SAKHALIN ENERGY

EXXON NEFTEGAZ LIMITED

ГАЗПРОМ

TOTAL

NOVATEK

ConocoPhillips

shtokman

LUKOIL

Shell

On 3 September, 2012, as part of the Arctic voyages programme, ice class (Ice-1A) tanker *SCF Amur* completed her 7-day NSR crossing carrying 44,000 tonnes of oil products. This voyage contributed to the further development of shipping to serve large hydrocarbon fields in the Russian Arctic

SCF Arctic voyages

Sovcomflot specialises in maritime operations in challenging climatic conditions and is proud of its Northern Sea Route crossings, being the first to bring the world commercially viable routes through the Arctic.

In 2012, efforts to further the development of NSR shipping continued. In January, Sovcomflot and Gazprom came to an agreement on the shipping of hydrocarbons to Asia-Pacific markets via the Northern Sea Route. The initial results of this agreement came in September when tanker *SCF Amur* completed an Arctic crossing from Murmansk to South-East Asia carrying a cargo of oil products for OAO Gazprom neft. On 3 September, *SCF Amur* passed Cape Dezhnev, thus completing her 7-day NSR crossing carrying 44,000 tonnes of oil products.

On 5 December 2012, Ob River (chartered by Gazprom) became the first gas carrier in history to successfully cross the Northern Sea Route carrying a cargo of liquefied natural gas. OAO Sovcomflot's ice captain joined the Ob River crew as an expert advisor along with other Russian specialists who monitored research work into the vessel's ice navigation performance during a period of intensive ice formation in the Arctic seas.

Sovcomflot has unique expertize in Arctic fleet operations. Since 2010, the company's vessels have completed a series of pioneering voyages and have paved the way for other large-tonnage ships. Tankers *SCF Baltica*, *Vladimir Tikhonov, Mar Adriana* and *SCF Amur* have all successfully transported cargos via the Northern Sea Route. It all began in August 2010 when Aframax *SCF Baltica* became the first large-tonnage tanker in history to cross the Northern Sea Route. At that time, *SCF Baltica* (deadweight: 117,000 tonnes) became the largest vessel ever to have crossed the Arctic and proved the commercial viability of shipping in the region.

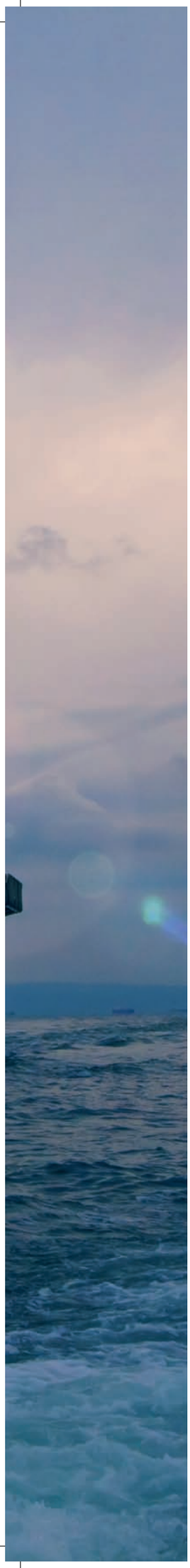
In 2011, an even larger Suezmax tanker – Vladimir Tikhonov (deadweight: 163,000 tonnes) – completed a deepwater NSR crossing to the north of the New Siberian Islands, covering a distance of 8,500 miles in 28 days fully loaded. The passage included a 2,000 mile stretch along a high-latitude route, which the tanker crossed in just seven days. Vladimir Tikhonov was escorted by the most powerful atomic icebreakers in the world Yamal and 50 Let Pobedy under the watchful gaze of SCF specialists with long-standing experience of safe navigation in the Arctic.

Sovcomflot specialises in maritime operations in challenging climatic conditions

Mikhail Suslin,
Vice-President of Sovcomflot, Head of Maritime Safety

"We are proud of our pioneering achievements in large-tonnage shipping on the Northern Sea Route. Developing this complex route and extending periods when Arctic navigation is possible will require further efforts to improve our unique ice navigation expertise. We are up to the challenge!"

Ice class seismic exploration vessel *Vyacheslav Tikhonov*, Tuapsinskiy Trough, Black Sea



SCF STRATEGY

Sovcomflot is on course to gradually evolve its business in the premium offshore services and LNG transportation segments while maintaining its leading positions in conventional tanker shipping

Global leadership and high quality standards

The OAO Sovcomflot strategy is focused on achieving a sustained growth in profits by managing a diversified portfolio of maritime businesses, while maintaining high safety and quality standards at sea. For the period up until 2018, the SCF strategy provides for the following long-term goals:

- Retain the company's status as one of the world's leading ship owners and conventional fleet operators.
- Increase SCF's presence in the global LNG shipping market by participating in new international gas projects and prospective Russian LNG export projects.
- Grow SCF's share of the Russian offshore project servicing segment by rapid business development in the segment of marine seismic exploration, marine drilling, platform supply and expansion of the shuttle tanker fleet engaged in work on large industrial projects with the world's leading oil & gas companies.

The main criteria for the successful implementation of the SCF development strategy are sustainable growth and return on investment. Our clients' success is truly important for us and we guarantee them high quality and safe solutions with the most complex projects

Vladimir Yemelyanov,
Member of Executive Board, Vice-President of Sovcomflot

"OAO Sovcomflot's development strategy foresees the gradual transformation of our business. While maintaining its leading positions in the global crude oil and petroleum product tanker markets, Sovcomflot plans to gain ground in other segments of the maritime industry; specialising in high-yield business on long-term contracts with its clients – leading Russian and international oil & gas companies."

Development prospects for offshore exploration and hydrocarbon production in Russia

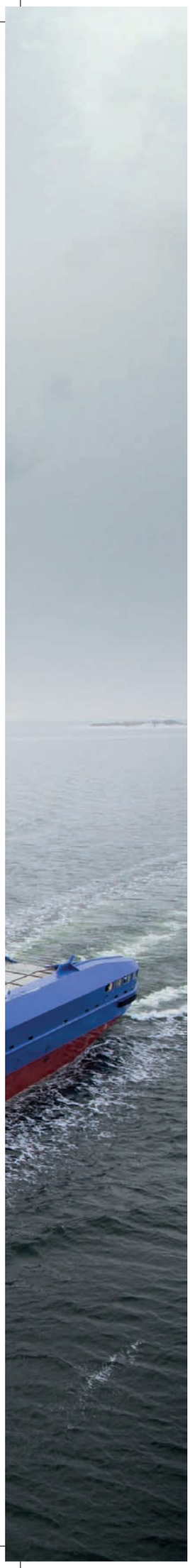
Developing offshore fields represents a prospective area of expansion for Russia's oil & gas industry. However, this is also the most expensive means of producing hydrocarbons. Nevertheless, the potential offered by Russia's continental shelf promises great opportunities for companies.

According to forecasts based on seismic survey results, hydrocarbon reserves on the Russian shelf are estimated to be 130 billion tonnes of oil equivalent (47.8 billion tonnes is oil and condensate, the rest being gas). The largest Russian and international oil & gas companies have expressed an interest in developing Russia's continental shelf and possess the necessary experience and expertise to do so. Being a leading Russian player in the maritime services segment, OAO Sovcomflot forms it development strategy based upon its comprehensive understanding of what Russian offshore expansion promises in the future. The company has the necessary background and expertise required for working in challenging climatic conditions and has been collaborating with Russian and international energy companies and consortiums for several years, implementing offshore projects in the Arctic and Far East.

Sovcomflot is always seeking to perfect its working practices, develop modern technologies, and improve its own research base in collaboration with Russia's leading shipbuilding enterprises, engineering departments, research centres and maritime schools. OAO Sovcomflot sees its work as an investment in the development and modernisation of the Russian economy.

Arctic shuttle tanker *Timofey Guzhenko* at the Varandey Fixed Offshore Ice-Resistant Oil Terminal (FOIROT)

Multifunctional icebreaking platform supply vessel *Aleksey Chirikov* in the Gulf of Finland



FINANCIAL RESULTS

Sovcomflot's stable economic position can be explained by its conservative financial policy that focuses on long-term contracts with top charterers

Nikolay Kolesnikov,
Executive Vice-President of Sovcomflot,
Chief Financial Officer

"We are grateful to our long-standing financial partners for their continuing support of our business and development at SCF Group and we also welcome our relationships with new credit agencies that have placed their trust in us this year. Despite the stagnation of tanker markets and continuing instability in the financial sector, Sovcomflot Group is fulfilling its loan commitments and remains a reliable borrower with international creditors demonstrating their trust in the company even in these testing times for the industry. This is reflected by the fact that company bonds are trading above par on the secondary market and SCF is able to attract investment with favourable repayment conditions."

Financial stability

Sovcomflot Group is an international player and holds leading global positions on the maritime logistics services market. In 2012, the company reported a gross revenue of USD1,443.4 million and EBITDA of USD 457million (financial year results).

Sovcomflot's financial stability can be seen not only in our good operational results, but also in the trust place in us by our creditors.

As a result of our financial activities in 2012, SCF signed three major financial agreements, demonstrating a high level of trust from its international creditors even in a period of stagnation on the freight market.

loan commitments and to build new vessels. SCF signed another successful agreement with a consortium of foreign banks – Citi and Bank of America Merrill Lynch – to finance the construction of two VLCC tankers at a cost of USD140 million. The loan period will last 7 years with good repayment conditions for the company.

The third important financial deal was a 12-year loan agreement for USD160 million signed with Finnvera plc, Finnish Export Credit Ltd. and ING BANK N.V.

These funds will be used to finance the construction of two new icebreaking supply vessels – *Vitus Bering* and *Aleksey Chirikov*, built

As a result of our financial activities in 2012, SCF signed three major financial agreements, demonstrating a high level of trust from its international creditors in a period of stagnation on the freight market

SCF signed a 7-year financing agreement for USD 700 million with a consortium of leading international banks: Bank of America Merrill Lynch, BNP Paribas S.A., Citibank, N.A., DVB Bank SE, ING Bank N.V., Nordea Bank Norge ASA, Skandinaviska Enskilda Banken AB (publ.) and Morgan Stanley Senior Funding, Inc. This financing deal became one of the tanker industry's largest of 2012 in both size and duration. The loan was received and secured against vessels from the current fleet, as well as those under construction. The funds will be used to refinance existing

at the Arctech Helsinki Shipyard Oy yard (a joint venture between OAO OSK and STX Finland). Both vessels have already joined the fleet and will now provide constant support to oil platforms in the Arkutun-Dagi field (Sakhalin-I project) under a long-term time charter agreement with Exxon Neftegas Limited.

Alongside classical bank financing secured against SCF vessels, the company uses sources of debt finance such as Eurobonds, as well as structured loans from national export credit agencies, and project financing.

MARINE MONEY INTERNATIONAL

DEAL OF THE YEAR

Signing of the USD 700 million credit agreement with the consortium of leading international banks, Saint-Petersburg, December 2012.

From left to right: Bank of America Merrill Lynch – Mr. K. Popat, BNP Paribas S.A. – Mr. P. Barnes, Citibank, N.A. – Mr. M. Parker, DVB Bank SE – Ms. C. Urban, SCF – Mr. N. Kolesnikov, ING Bank N.V. – Mr. S. Fewster, Nordea Bank Norge ASA – Mr. H.C. Kjeldsrud, Skandinaviska Enskilda Banken AB (publ) – Mr. J. Lindström, Morgan Stanley Senior Funding, Inc.– Mr. E. Goldstein.

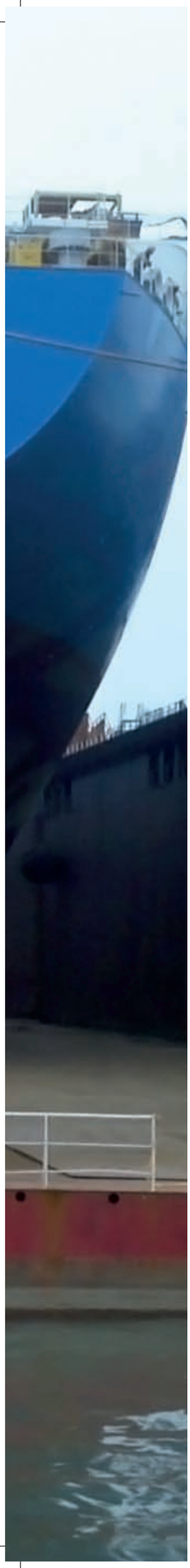
MARINE MONEY

"Richard Nixon Would Have Loved This Deal! - Citi and BoA Merrill Lynch Close Sovcomflot Financing

When Richard Nixon first travelled to China in the early 1970s, opening a door that would eventually lead to an era of global trade, he could not have imagined Citi and BofA Merrill Lynch's USD140 million deal with Sovcomflot (SCF). Here is a venerable Russian company financed by two giant US banks for ships going on charter to the Chinese. The seven year loan agreement between "cold war rivals" is just another indication of the global trade leadership position the international shipping industry trail blazes."

Marine Money magazine

Launch of state-of-the-art ice class gas carrier *Velikiy Novgorod*, South Korea



INNOVATIVE DEVELOPMENT

The company's innovative solutions help optimise the fleet's technical management costs and ensure a high level of energy efficiency and a safe working environment, especially during navigation in challenging climatic conditions

Sovcomflot's innovative development is embodied in the quality and high class of its vessels, in its approach to operational safety, and in the well-coordinated work of its teams both on land and at sea – day in, day out. Further examples of innovative development at SCF include: high-precision navigation, leading information and management technologies, the latest shipboard and training equipment, and continual improvement in the quality of personnel training.

In 2012, special attention was paid to the formation and implementation of a single technical policy for Sovcomflot Group. Our technical managers have already begun the transition to the new single operational platform, which will lead to the further unification of procedures and standards across SCF Group enterprises. This step will also facilitate the analysis and sharing of best practices.

Each year, the work done at SCF Group gives us further cause to be proud of our achievements. Vessels ordered by the company must demonstrate a new level of energy-efficiency and comply with tightening environmental regulations. As always, Sovcomflot is up to the task – using all of the knowledge and experience gained by its fleet's technical managers.

Igor Tonkovidov,
Member of Executive Board, Executive Vice-President – Chief Engineer of Sovcomflot

"It is no exaggeration to say that the vast majority of our projects require unique technical and engineering solutions as well as the deployment of cutting edge technologies. This is due to the high standards demanded by our clients, modern development trends on the market and tight legal regulations. Therefore, our success today firmly rests upon our ability to be competitive in these technical and engineering spheres."

An innovative vessel for the Russian Arctic

In accordance with company policy, Sovcomflot Group places orders for high-performance, commercially attractive vessels. The company's innovative technical solutions make it possible to optimise the fleet's technical running costs while ensuring a high level of energy efficiency and safe working conditions. *Vitus Bering* is a fine example of a high-performance ship. This multifunctional ice class platform supply vessel joined the SCF fleet in 2012.

hardware allows these vessels to supply all necessary equipment and consumables to personnel aboard oil platforms on a year-round basis.

The construction of this state-of-the-art series is a fine example of international cooperation involving both Russian and Finnish shipbuilders. Around 90% of the structural components for the vessels were produced at Vyborg Shipyard (part of United Shipbuilding Corporation - OAO OSK). Final hardware installation was carried

The company's innovative technical solutions make it possible to optimise the fleet's technical running costs while ensuring a high level of energy efficiency and safe working conditions

Today, the high-tech vessels in the *Vitus Bering* series are some of the best of their class in the world. The hulls of these vessels have been specially designed for navigation in icy conditions. Their structure and

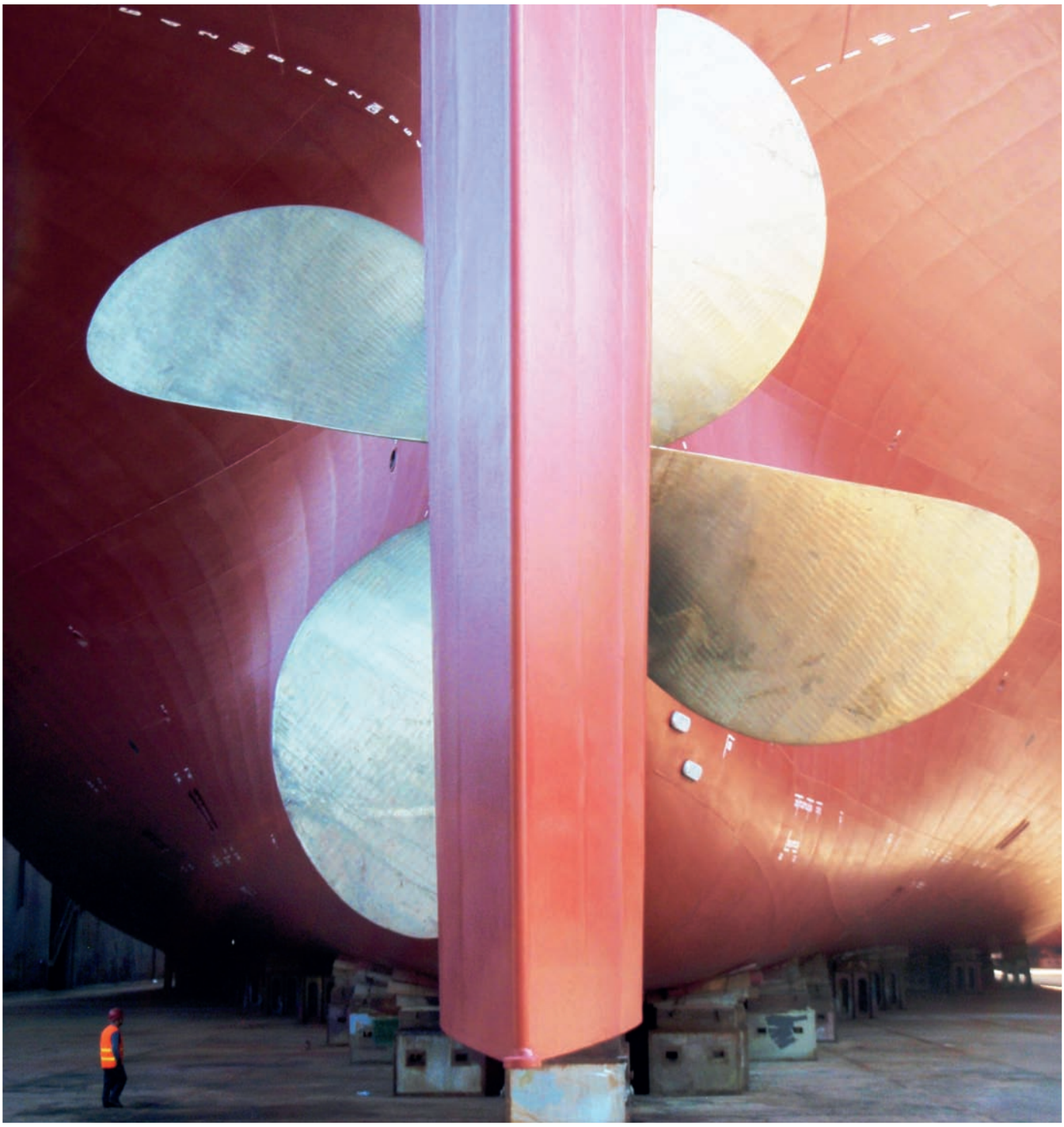
out by OAO OSK in Saint-Petersburg and includes navigation systems from Russian manufacturer Transas, as well as a Glonass satellite navigation system.

Multifunctional ice-breaking supply vessels of the Vitus Bering series

The ships in the *Vitus Bering* series were designed in accordance with all the rules, standards and requirements of international conventions and the Russian Maritime Register of Shipping. This means they are able to ensure environmental safety in the Far Eastern seas, which is especially important in light of tightening environmental regulations.

The lead ship in the series was named in honour of distinguished navigator and explorer Captain-Commodore *Vitus Bering*. A Dane by descent, Bering dedicated his life to the service of Russia and completed one of the great undertakings set out by Emperor Peter I – to create general charts; studying the geography of Russia and her neighbouring territories. On the direct order of Peter I, Bering led the Kamchatka Expeditions; whose aim was to study the peninsula's coastline and search for a strait between Asia and North America before heading south down the North American coast on the first maritime research expedition in Russian history.

Vessels in the *Vitus Bering* series will be engaged in operations in Russia's Far Eastern seas. This region is a hotspot for offshore oil & gas development and the Sovcomflot fleet plays a pivotal role in providing transportation and logistical support for projects in the area. The acquisition of vessels of this class by Russian shipping companies and the participation of domestic enterprises in their construction contributes to the development of Russia's maritime and shipbuilding industries.



The propulsion system of the oil tanker *Svet*, 320,000 tonnes dwt

A fusion of knowledge and long-standing experience

As part of its innovative development programme, SCF has created a technical & engineering training centre (TEC) with its headquarters in Saint-Petersburg. This new centre has also become Sovcomflot Group's very own research laboratory.

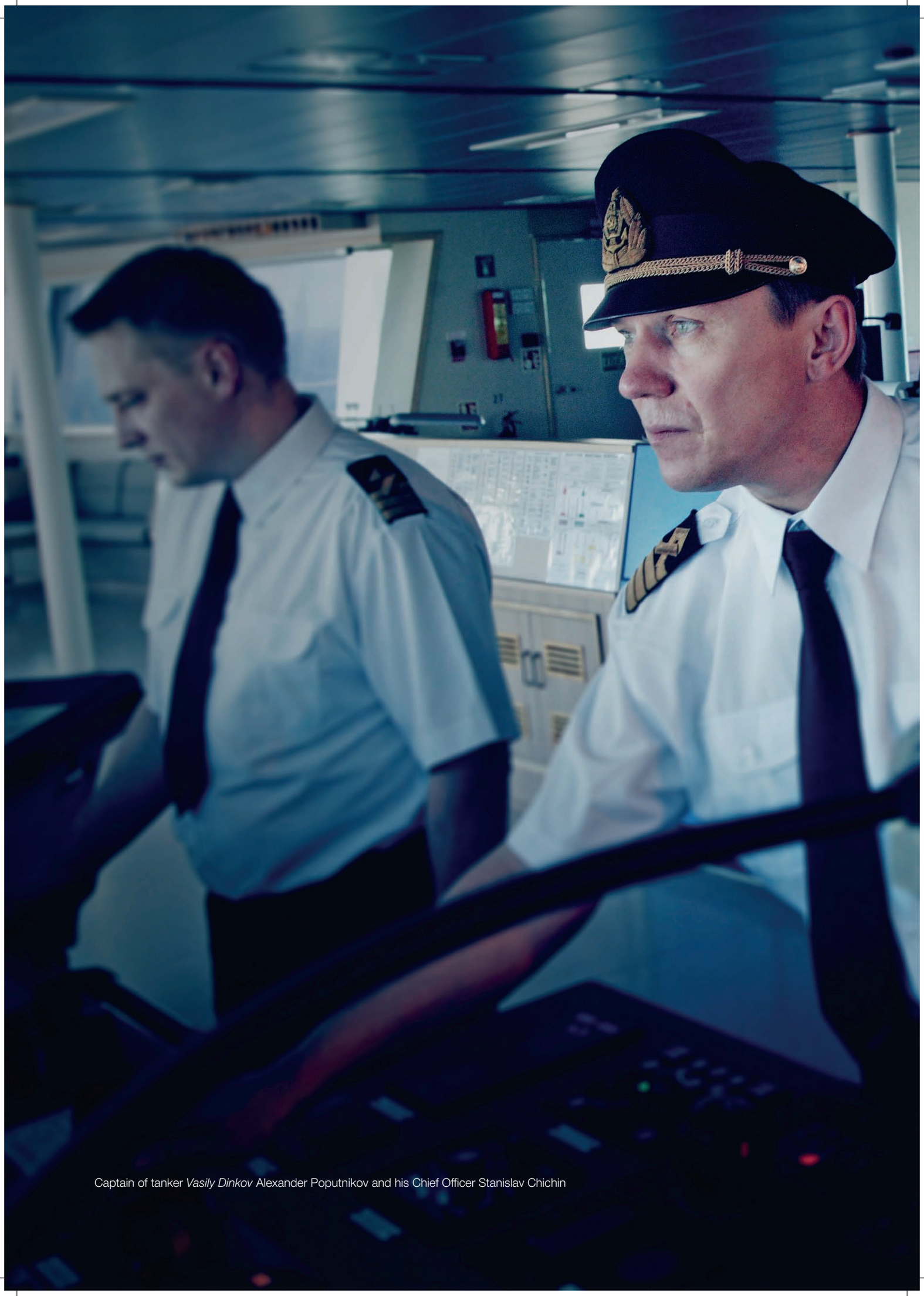
In December 2012, the grand opening of the TEC took place in Saint-Petersburg. In a renovated building on the Moika River Embankment, SCF captains and senior officers will receive special training for navigation in the challenging climatic conditions of the Arctic.

The opening of the modern training centre in Russia's maritime capital marks an important milestone in the implementation of SCF's development strategy which provides for an expansion of the company's participation in oil & gas projects in the Arctic and sub-Arctic. Sovcomflot vessels provide year-round support for large offshore energy projects, such as: Sakhalin-I, Sakhalin-II, Varandey, Tangguh, Escobar, and Peregrino.

Sovcomflot's new training centre will provide staff with the opportunity to experience and train for a whole range of maritime operations in the Arctic: navigation at northern latitudes, servicing of oil platforms, the transportation and offloading of hydrocarbons in challenging climatic conditions, navigating in icy waters with icebreaker escort, approaching ice-resistant terminals and vessel positioning during loading operations, the organisation of complex towing operations, etc. At the heart of the centre there is a multifunctional maritime navigation simulator with 360 degree panoramic imaging. Visual effects make training as realistic as possible. The captain's bridge is fitted with hardware that simulates vessels with various types of steering – allowing users to look beyond the ship's guard rail and see how its hull moves through the ice field. A chart table with a touch screen makes it possible to plan even the most complex passages with the tap of a finger.

Staff training at the SCF TEC will be conducted in close collaboration with Russia's leading maritime institute – the Admiral Makarov State Maritime Academy

Head of SCF TEC Igor Pankov shows the work of multifunctional interactive display



Captain of tanker *Vasily Dinkov* Alexander Poputnikov and his Chief Officer Stanislav Chichin

SAFETY AND QUALITY

Safe, first class energy transportation and continuous oil platform support represents a large and extremely complex business that demands great responsibility

Committed to safety and quality

Providing safe, quality energy shipping and supporting the uninterrupted operation of oil platforms is an extremely complex large-scale business that demands a high degree of responsibility.

The key to ensuring safe fleet operations is our effective management system, which is based around our highly-qualified staff who are employed both at sea and on land.

At present, SCF Group is unifying safety management systems across its enterprises with the aim of developing a single effective fleet management system for the entire Group. This new system is expected to be introduced in July 2013.

Achieving high standards of fleet management implies the availability of qualified personnel (as mentioned above), the use of leading technologies (both in shipbuilding and vessel operation), and joint collaboration with service providers that comply with shipping industry requirements and standards.

Sergey Popravko,
Member of Executive Board, Managing Director of Unicom Management Services (Cyprus) Limited

"Today, the shipping industry is probably facing tighter environmental regulation than ever before. Over the coming decade, a whole series of new environmental protection regulations will enter into force. We have no choice other than to constantly meet these new requirements as the success of our business depends on our reputation as a safe and reliable carrier."

On 12 October, Sovcomflot Group won the annual Exxon Neftegas Limited "Contractor of the Year-2012" prize for labour protection and safety

How do we measure the quality of our work?

Over the course of many years, we have consistently achieved high standards of operational safety at each stage of the transportation process. Risk assessment and management forms an essential part of our work as we seek to reduce the occurrence and severity of accidents, minimalise our impact on the environment, and ensure safe navigation (including crossings in dangerous regions known for piracy).

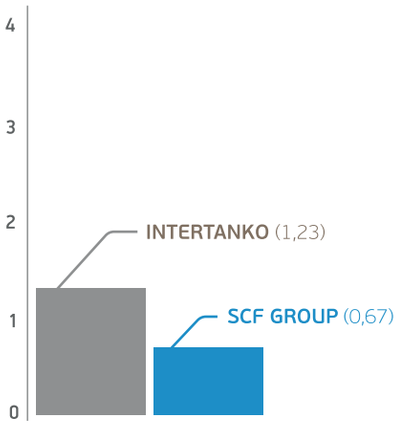
Continual modernisation, organisational measures and environmental protection activities have helped to significantly reduce the amount of harmful emissions from our vessels. Our tankers must conform to the high standards and industrial norms laid out by national and international maritime and environmental protection agencies.

For instance, 2010 saw the full introduction of MARPOL convention requirements on double hulls for all oil tankers with a deadweight of over 5,000 tonnes.

Sovcomflot's impeccable quality of service is best demonstrated by the appreciation shown by our partners – the world's leading oil & gas companies.

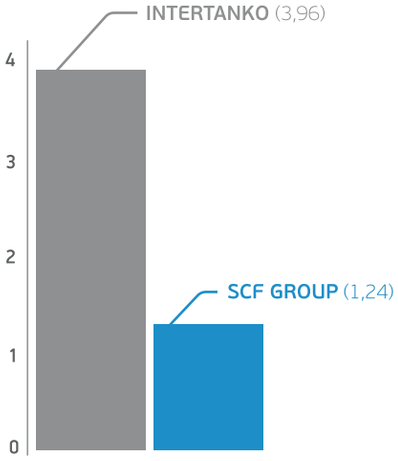
On 12 October, Sovcomflot Group won the annual Exxon Neftegas Limited Contractor of the Year-2012 prize for labour protection and safety.

The awards ceremony took place in Yuzhno-Sakhalinsk at the annual safety forum organised by Sakhalin-I project operator Exxon Neftegas Limited. At the forum, ENL representative Jason



LTIF

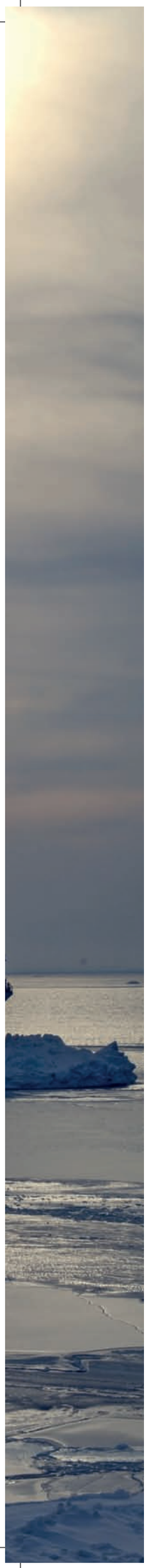
LTIF - Lost Time Injury Frequency



TRCF

TRCF - Total Recordable Cases Frequency

Icebreaking platform supply vessel *SCF Sakhalin* near the Orlan platform (Sakhalin-I project)



Brown expressed his gratitude to company staff; praising the impeccable work of icebreaking platform supply vessel *SCF Sakhalin* and her highly-qualified crew, as well as the professionalism of land-based personnel. In summer 2012, SCF Group successfully towed and installed the base structure for the Berkut drilling platform at the Arkutun-Dagi field. This was the first engineering operation of this scale to be undertaken by SCF in the sphere of offshore project support.

The Sakhalin-I project employs five Sovcomflot vessels: four Aframax class shuttle tankers and icebreaking platform supply vessel *SCF Sakhalin*

An energy-efficient fleet

We have a young fleet and our ships' specific fuel consumption is much lower than that of older vessels. The more modern a ship's engine design, the better its fuel performance. For instance, the VLCC tankers being built for SCF Group will be fitted with electronically-controlled fuel injection engines that allow low fuel consumption levels to be maintained automatically. Seventh generation engines, which are installed aboard new Aframax class and LR2 vessels, have a lower rotation speed and improved combustion, making them more economical. Beside this, new design improvements made to the propeller, hull form and superstructure also help increase efficiency.

We are also seriously considering the possibility of using engines that run on two types of fuel – traditional and LNG.

SCF energy-efficiency and environmental safety monitoring system

This system was patented by Sovcomflot last year. It includes an additional module for calculating specific readings for environmentally-friendly vessels that are Green Award certified. The programme automatically calculates daily exhaust gas emissions into the atmosphere and generates reports for any individual vessel or the fleet as a whole. Looking at daily reports from our vessels for the last three years, it is clear that we are economising on fuel while reducing emission levels. There are practically no other tanker companies currently implementing programmes of this type. Furthermore, SCF is already moving beyond international convention requirements by implementing energy-efficiency management plans aboard its vessels which include ecological assessments.

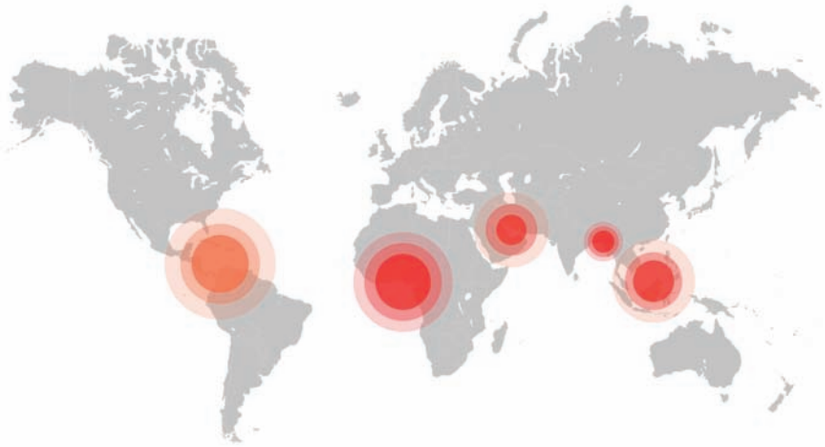
TANKEROperator

"Sovcomflot is continuing its rise to the very top of the global ratings and will undoubtedly retain its place in the top five next year when the company brings its first VLCC tanker into commission. Since 2005, practically all new SCF tankers have been given an additional classificatory symbol indicating their compliance with high standards of environmental safety. While gaining this eco-friendly badge is not mandatory, it does require a ship's design to be more technologically advanced and demonstrates a responsible attitude to environmental protection on the part of the ship owner."

Tanker Operator magazine

Captain of tanker *Moscow University* Yury Tulchinsky receiving the Order of Courage, the Kremlin, Moscow, 2010.

Vladimir Mednikov,
Member of Executive Board, Vice-President of OAO Sovcomflot



Now it is possible to say with some certainty that there has been a positive change this year in regard to piracy. The number of pirate attacks in 2012 fell sharply compared with previous years and this was confirmed by UN General Secretary Ban Ki-moon in his report to the Security Council."

Quote from UN report:

"Reducing piracy at sea could be achieved with the use of private armed guards aboard vessels and the deployment of special ship-protection units." – Ban Ki-moon, UN Security Council report, 22.10.2012

Sea pirates – one of the major threats to shipping

The shipping industry is the heart of the global economy. For every person on our planet, over a tonne of cargo is transported by sea each year – more than 80% of total goods cargo. Today, this stable model is under threat. 21st century pirates are presenting a challenge to the international community. Piracy has become a way of life for hundreds of Somalis brought to their knees by endless civil war, poverty and lawlessness.

The most notorious pirate attack occurred in 2010 when OAO Novoship tanker *Moscow University* was hijacked. Thanks to correct decisions taken by the Russian crew, the pirates could escape with the captured vessel and were then neutralised by the Russian naval vessel Marshal Shaposhnikov.
.

Sovcomflot was one of the first ship-owners to introduce armed guards aboard its vessels and has been a keen supporter of a large-scale campaign by public organisations to attract the attention of governments to the problem of piracy, under the motto "SOS - Save our Seafarers

As a measure to prevent possible attacks from pirates, many large shipping companies (including SCF) have signed contracts with security firms and introduced armed guards aboard their vessels, considering this the most effective tactic in the fight against piracy.

Second Captain of the tanker *SCF Baltica* Vasiliy Shepelevitch

SCF TEAM

Sovcomflot is a firm believer in the importance of maintaining professional Russian maritime schools

Training young specialists from Russia's best maritime schools

The human resources strategy at SCF is focused on attracting and retaining skilled personnel while constantly encouraging their professional development. SCF staff must be ready to react promptly to changing market conditions and charterer requirements while ensuring the safe and effective operation of the fleet. The contemporary economics of maritime shipping dictates that company personnel selection should be primarily based on client expectations.

Sovcomflot is a firm believer in the importance of maintaining a professional Russian maritime school. We are now developing an organisational system that will allow us to take full advantage of this staffing resource. This work is being aided by specialised SCF training centres – Novoship Training and the new training & engineering centre (TEC) in Saint-Petersburg.

The SCF TEC in Saint-Petersburg was opened in close collaboration with the Admiral Makarov State Maritime Academy under an agreement that provides for cooperation in scientific research and the training of new highly-skilled staff to serve on Sovcomflot Group's developing specialised fleet. However, collaboration with the Makarov Academy.

Igor Pankov,
Head of SCF Training & Engineering Centre

"Today's best maritime specialists are not only skilled navigators and mechanics; they are also managers responsible for a variety of tasks. The unique nature of the work we do means we require experts in very specific areas. Over the next five years, we need to develop our own staff training system for work on gas carriers, shuttle tankers, specialised ice class vessels, and build up our expertise in offshore project support – including maritime geological exploration and drilling."

SCF target programmes

In 2010, a joint project was started between Novoship and Admiral Ushakov State Maritime University to provide targeted training for fleet officers.

In 2012, a joint project was completed with Admiral Ushakov State Maritime University to train maritime specialists on a professional secondary education programme. 45 young specialists came to work on company vessels. In just three years, OAO Novoship took on 115 graduates of the programme.

Each year, around a hundred Ushakovka cadets undergo practical training aboard OAO Novoship vessels. Graduate retention rates are 70% for officers and 78% for rank and file – sailors and motor mechanics.

Traditionally, OAO Novoship has always paid careful attention to staff selection and onward career development in the formation of its personnel base. It is worth noting that leading oil & gas companies, key clients of SCF Group, regularly comment upon the high level of HR management during their inspections.

In 2011, a joint project was started between OAO Sovcomflot and Admiral

Young specialists, trained with due regard to company requirements, will form a stable personnel base at SCF for the future

Makarov State Maritime Academy to provide cadets with targeted training for work aboard specialised vessels. This joint project is intended to last three years.

In 2012, the first group of cadets graduated from the programme and a second target group of 15 cadets joined and started training for work aboard gas carriers.

In 2013, the second group of special cadets will graduate: 8 navigators, 8 ship mechanics and 3 electro-mechanics. Once they have gained their diplomas and been interviewed, all of these Makarovka graduates will receive positions aboard Sovcomflot vessels. These young specialists, trained with due regard to company requirements, will form a stable personnel base at SCF for the future.

Programme graduates receive priority job placement on Sovcomflot Group vessels. Captains act as mentors and give each graduate an annual work plan that includes specialised SCF training. Study is conducted both at maritime universities and at the Sovcomflot office in Saint-Petersburg. SCF representatives and captain-mentors are members of examination commissions for state exams and are also present when the future sailors defend their final research papers. Theoretical knowledge is polished and reinforced during practical training aboard SCF vessels. During their training, cadets receive a bursary for good results and progress.

"I'm lucky to be at Sovcomflot." – Alexander TOMILIN, graduate of the SCF target group

"Last year, I underwent practical training on the ship SCF Polar. My mentor was just a couple of years older than me but was able to pass on a great deal of knowledge and practical expertise during my four months aboard the ship. I'm lucky to have been given the chance to participate in the target programme and gain experience at Sovcomflot. There were 35 electro-mechanics among my peers at the academy. I don't know what the future of others will be, but to those who have chosen to serve at sea, I would like to say: good luck in your careers – I hope you are able to learn quickly and pass on your expertise to the next generation of trainees."

Having graduated with distinction as an electro-mechanic, Alexander will now make his first passage on gas carrier SCF Arctic. He will spend the first month as a trainee before being fully appointed to the position of ship's electro-mechanic

SCF united crewing centre

Current Sovcomflot Group development policy stipulates the need for further unification of fleet management. In 2012, a project was started to create a single operational platform to manage technical issues and HR within SCF Group. The first step in the implementation of this large-scale plan was the founding of a united crewing centre based around the HR department of OAO Novoship. Today, this centre provides crews for the majority of Sovcomflot vessels.

Our awards

The professionalism of our staff has stood the test of time in some of the most challenging climatic conditions on Earth and is underlined by the high level of safety demonstrated by our company over the last 25 years. Our numerous corporate and state awards pay tribute to the professional qualities of our staff.

Awards ceremony for the crew of tanker *Moscow University*, the Kremlin, Moscow, 2010

In 2012, around 600 members of staff won awards across all Sovcomflot Group enterprises.

In 2010, a key event took place for the shipping industry. Sailors from the tanker *Moscow University* were invited to the Kremlin where they received prestigious state awards for the perseverance and professionalism they showed when their vessel was seized by pirates in the Indian Ocean. This became the second case in Russian history when state awards were given to all the members of a single crew. Another entire crew from the tanker Geroi Chernomorya (Novorossiysk Shipping Company) were similarly awarded after they heroically prevented an environmental disaster in the Aegean Sea following a collision with a Latvian ship in May 1992.

Russian Olympic FINN class yachting championship, Tsemessky Bay, Novorossiysk, September 2012

SOCIAL RESPONSIBILITY

The combined efforts of the government joining forces with a socially responsible business - is the right way to bring prosperity to Russian society and improve standards of living within our country

Pupils at Safonovsky boarding school, May 2012

Sovcomflot strives to assist the government with the implementation of its social programmes. These focus on stimulating development in Russia's many regions, creating pleasant conditions for company staff and providing charitable assistance to those in need

When choosing social programmes to invest in, SCF traditionally favours projects in the sphere of health, education & sport, and charitable work to help disadvantaged children. In addition to Sovcomflot's main social programmes, each of its subsidiaries conducts its own local charity projects.

Caring for children

SCF always pays special attention to helping orphaned children and those with physical disabilities or health problems. SCF regularly provides assistance to institutions, such as: Safonovsky residential school in the Smolensk District, Akhtirsky children's home in the Krasnodar Region, correctional school №9 and Novorossiysk children's hospital, Saint Olga children's hospital in Saint-Petersburg and the mother & child refuge at Sevastopol city hospital №5.

Vladimir Salnikov Cup international swimming tournament, December 2012

Sporting interests

SCF is committed to sponsoring water sports events that are central to the maritime industry. Our company is a partner of the Russian Yachting Federation, procures equipment for sailing schools and sponsors various regattas, including those at national level. In September 2012, SCF Group sponsored the Russian Olympic Class Yachting Championship at Tsemessky Bay (Novorossiysk). This competition became the main selection stage for the 2013 Russian national sailing team. In the near future, Sovcomflot Group plans to start reconstruction work on the Novoship Water Sports Centre in Novorossiysk that will become a base for training the Olympic sailing team and provide a venue for hosting international level regattas. In addition, for the last several years, Sovcomflot has sponsored the International Vladimir Salnikov Cup swimming tournament.

Educational projects

Supporting professional education is a key part of our social policy. The heads of Sovcomflot Group are members of advisory boards at Russia's leading maritime academies: Admiral Makarov State Maritime Academy (Saint-Petersburg), Admiral Nevelskoi Maritime State University (Vladivostok), and Admiral Ushakov State Maritime University (Novorossiysk). SCF Group not only provides these schools with material support, but also initiates joint education programmes and organises practical training at its own centres. In 2012, with the opening of Sovcomflot's technical and engineering centre in Saint-Petersburg, cadets from the Makarov Academy got the opportunity to undergo practical training at the company's office that was specially built to further the professional development of shipboard personnel.

A young cub at the Eurasian centre for the study, protection and breeding of leopards, Leopard Land national park, Primorye

Russia's Far East – "Land of the Leopard"

Sovcomflot participates in the implementation of large-scale oil & gas projects in Russia's Far East. Therefore we attach great importance to the environmental issues in the region and support the project of establishing the National Park "Land of the Leopard" – a nature reserve in the Primorsk region, where at least 50 Far Eastern leopards can safely exist. The announcement on the National Park was made in 2012 at the meeting of The Board of Trustees of the Russian Geographical Society.

A Russian village in California

On 28 July 2012, an official event took place in California to mark the 200th year anniversary of the founding of Fort Ross by Russian settlers. This unique historical park and piece of cultural heritage testifies to the role Russians played in settling North America. OAO Sovcomflot became the chief sponsor of the Fort Ross anniversary festivities. For the grand event, the sponsors ordered the making of a documentary dedicated to the site's history – past and present. The film was received well by audiences in both Russia and the USA.

Holy Trinity Chapel (built in 1825), Fort Ross, California, USA

Sailors' hospital

In summer 2012, Novorossiysk hospital – known locally as the "sailors' hospital" – unveiled its modernised resuscitation unit that was renovated and financed in full by Novoship (part of SCF Group). This gift seemed appropriate as the city of Novorossiysk provides over half of SCF crew members and its hospital ensures medical care for sailors.

Gathering of WWII veterans from the Arctic Convoys, HMS Belfast, London, May 2012

Meetings in London for the veterans of the Arctic Convoys

For the last several years, Sovcomflot Group has been sponsoring the London Victory Day project. In 2010, the company took part in mast restoration on the cruiser HMS Belfast, which is now a working museum (part of the Imperial War Museum) moored near Tower Bridge on the River Thames. In 2012, Sovcomflot sponsored the Victory Day celebrations and a tribute to veterans of the Arctic Convoys aboard HMS Belfast. Russian and British veterans of the convoys gathered onboard the legendary cruiser – the last remaining ship that had provided safe passage for the Arctic Convoys during WWII. Queen Elizabeth II sent a special address to those who had gathered for the occasion. According to tradition, a minute of silence was held for those who lost their lives during the Second World War.

Helping victims of the Kuban flood

In July 2012, a powerful flood caused by torrential rain washed over the Kuban region. This natural disaster claimed around 200 lives and left behind over 30,000 victims, devastated homes and flooded fields. SCF activity is closely connected with the region: around half of SCF crews come from Kuban and the OAO Novoship headquarters is based in Novorossiysk, which was also affected by the disaster. For this reason, OAO Sovcomflot, OAO Novoship and Unicom Management Services Ltd. quickly took the decision to offer assistance to Kuban residents suffering as a result of the natural disaster. SCF employees also played an active role in raising voluntary contributions to help the victims.

CONSOLIDATED FINANCIAL STATEMENTS
2012

Consolidated Statement of Changes in Equity
For the period ended 31 December 2012

	Share capital $'000	Share premium $'000	Reconstruction reserve $'000	Hedging reserve $'000
	(Note 31)	(Note 31)	(Note 32)	
As at 1 January 2011	**405,012**	**818.845**	**(834,490)**	**(97,753)**
Profit for the period	-	-	-	-
Other comprehensive income	-	-	-	(44,689)
Total comprehensive income	-	-	-	(44,689)
Dividends (Note 33)	-	-	-	-
Repurchase of non-controlling interest in JSC Novoship by JSC Novoship (Note 42)	-	-	-	-
As at 31 December 2011	**405,012**	**818.845**	**(834,490)**	**(142,442)**
Profit for the period	-	-	-	-
Other comprehensive income	-	-	-	1,396
Total comprehensive income	-	-	-	1,396
Dividends (Note 33)	-	-	-	-
As at 31 December 2012	**405,012**	**818.845**	**(834,490)**	**(141,046)**

Consolidated Statement of Comprehensive Income
For the period ended 31 December 2012

	Note	2012 $'000	2011 $'000
Profit for the period		**33,183**	**53,676**
Other comprehensive income:			
Share of associates' other comprehensive income	21	15	1,149
Exchange differences on translation of foreign operations		5,569	(4,570)
Derivative financial instruments recycled and debited to the income statement	24(a)	32,073	30,709
Fair value movement of derivative financial instruments debited to other comprehensive income	24(a)	**(30,677)**	**(75,398)**
Other comprehensive income for the period, net of tax		6,980	(48,110)
Total comprehensive income for the period		40,163	5,566
Total comprehensive income attributable to:			
Owners of the parent		38,980	4,629
Non-controlling interest		1,183	937
		40,163	**5,566**

Currency reserve $'000	Retained earnings $'000	Attributable to owners of the parent $'000	Non-controlling interest $'000	Total $'000
			(Note 34)	
(1,843)	**2,646,926**	**2,936,697**	**186,324**	**3,123,021**
-	52,256	52,256	1,420	53,676
(2,938)	-	(47,627)	(483)	(48,110)
(2,938)	52,256	4,629	937	5,566
-	(35,618)	(35,618)	(963)	(36,581)
(71)	19,546	19,475	(26,309)	(6,834)
(4,852)	**2,683,110**	**2,925,183**	**159,989**	**3,085,172**
-	32,628	32,628	555	33,183
4,956	-	6,352	628	6,980
4,956	32,628	38,980	1,183	40,163
-	(12,826)	(12,826)	(2,165)	(14,991)
104	**2,702,912**	**2,951,337**	**159,007**	**3,110,344**

Consolidated Income Statement
For the period ended 31 December 2012

	Note	2012 $'000	2011 $'000
Freight and Hire revenue	6	1,443,362	1,438,926
Voyage expenses and commissions	7	(513,716)	(511,651)
Time charter equivalent revenues		**929,646**	**927,275**
Direct operating expenses			
Vessels' running costs	8	338,857	332,317
Charter hire payments	44	32,369	38,349
		(371,226)	(370,666)
Profit on vessels' trading		**558,420**	**556,609**
Other operating expenses			
Depreciation, amortisation and impairment	9	314,807	280,085
Allowance for credit losses		677	2,710
General and administrative expenses		100,730	93,125
Total other operating expenses	10	416,214	375,920
Profit from vessels' operations		**142,206**	**180,689**
(Loss) / gain on sale of assets		(6,722)	12,190
Gain on disposal of investments		60	283
Other operating revenues	11	95,454	52,423
Other operating expenses	11	(79,249)	(44,030)
Release of provision		24	3,317
Share of profits / (losses) in associated undertakings	21	16,620	(10,873)
Allowance for credit losses on other operating activities	28	(15,808)	-
Operating profit		**152,585**	**193,999**
Other (expenses) / income			
Interest expense	13	(140,385)	(142,117)
Financing costs		(3,060)	(4,400)
Interest income		22,304	22,027
Other non-operating income	46	7,805	8,565
Other non-operating expenses	46	(8,122)	(12,837)
Loss on ineffective hedging instruments	24(a)	(155)	(1,512)
Gain on derivative financial instruments held for trading	24(b)	13,479	8,566
Loss on investments held for trading			(3)
Foreign exchange differences		(2,505)	(1,086)
Net other expenses		**(110,639)**	**(122,797)**
Profit before income taxes		**41,946**	**71,202**
Income taxes	25	(8,763)	(17,526)
Profit for the period		**33,183**	**53,676**
Profit attributable to:			
Owners of the parent		32,628	52,256
Non-controlling interest		555	1,420
		33,183	53,676
Earnings per share			
Basic earnings per share for the period attributable to equity holders of the parent	26	$0.017	$0.027

Consolidated Statement of Financial Position
For the period ended 31 December 2012

	Note	2012 $'000	2011 $'000	2010 $'000
Assets				
Non-current assets				
Fleet	15	5.563.239	5.460.390	5.229.773
Vessels under construction	16	447.321	334.977	231.341
Other fixed assets	17	74.776	65.380	55.149
Investment property	18	3.723	4.565	5.487
Other fixed assets under construction	19	23.254	9.866	7.292
Intangible assets	20	9.135	12.273	19.256
Investments in associates	21	1.187	1.273	1.464
Available-for-sale investments	21	1.380	1.381	1.646
Finance lease receivables	23	89.137	92.162	94.859
Derivative financial instruments	24	108	-	1.542
Trade and other receivables	28	9.621	33.525	15.908
Deferred tax assets	25	4.731	5.164	2.049
		6.227.612	6.020.956	5.665.766
Current assets				
Inventories	27	72.009	76.317	51.025
Trade and other receivables	28	219.390	219.103	222.581
Finance lease receivables	23	3.124	2.697	182
Current tax receivable		2.951	940	1.349
Other investments	21	-	-	647
Cash and bank deposits	29	348.046	389.742	512.172
		645.520	688.799	787.956
Non-current assets held for sale	30	17.824	9.800	46.622
		663.344	698.599	834.578
Total assets		**6.890.956**	**6.719.555**	**6.500.344**
Equity and liabilities				
Capital and reserves				
Share capital	31	405.012	405.012	405.012
Reserves		2.546.325	2.520.171	2.531.685
Equity attributable to owners of the parent		**2.951.337**	**2.925.183**	**2.936.697**
Non-controlling interest	34	**159.007**	**159.989**	**186.324**
Total equity		**3.110.344**	**3.085.172**	**3.123.021**
Non-current liabilities				
Trade and other payables	35	-	-	5.084
Secured bank loans	36	2.059.580	1.903.423	1.702.779
Finance lease liabilities	37	202.141	221.688	231.051
Derivative financial instruments	24	119.401	120.826	77.253
Retirement benefit obligations	38	7.895	7.997	8.240
Other loans	39	797.593	797.005	796.498
Tax payable		-	-	1.508
Deferred tax liabilities	25	3.762	7.318	8.235
		3.190.372	3.058.257	2.830.648
Current liabilities				
Trade and other payables	35	215.252	231.222	246.191
Secured bank loans	36	296.733	258.776	173.231
Finance lease liabilities	37	19.547	9.363	52.248
Current tax payable		4.026	6.421	262
Derivative financial instruments	24	54.682	67.263	74.743
Amount due to non-controlling interest	42	-	3.081	-
		590.240	576.126	546.675
Total equity and liabilities		**6.890.956**	**6.719.555**	**6.500.344**

Consolidated Statement of Cash Flows
For the period ended 31 December 2012

	Note	2012 $'000	2011 $'000
Operating Activities			
Cash received from freight and hire of vessels		1,463,930	1,375,485
Other cash receipts		56,923	49,821
Cash payments for voyage and running costs		(900,565)	(883,438)
Other cash payments		(135,345)	(139,139)
Cash generated from operations	41	484,943	402,729
Interest received		7,824	20,725
Income tax paid		(16,991)	(17,666)
Net cash inflow from operating activities		475,776	405,788
Investing Activities			
Acquisition of joint venture net of cash acquired	40	(25,727)	-
Expenditure on fleet		(2,740)	(284,481)
Expenditure on drydock		(37,865)	(25,310)
Expenditure on vessels under construction		(409,827)	(324,680)
Interest capitalised		(13,600)	(6,944)
Expenditure on other fixed assets		(29,141)	(17,235)
Proceeds from sale of vessels		17,174	36,956
Proceeds from sale of other fixed assets		7,747	9,952
Proceeds from disposal of investments		331	927
Capital element received on finance leases		1,495	709
Interest received on finance leases		10,765	4,355
Bank term deposits	29	932	5,630
Claims receipts	46	-	41,086
Other receipts		133	1,072
Net cash outflow used in investing activities		(480,323)	(557,963)
Financing Activities			
Proceeds from borrowings		995,739	551,229
Repayment of borrowings		(843,084)	(265,525)
Repayment to joint venture partner		(17,047)	(53,932)
Financing costs		(13,288)	(5,678)
Repayment of finance lease liabilities		(9,633)	(9,515)
Security and restricted deposits	29	(513)	19,278
Funds in retention bank accounts	29	943	(6,094)
Interest paid on borrowings and other loans		(121,079)	(122,880)
Interest paid on finance leases		(15,176)	(16,038)
Dividends paid		(14,802)	(37,141)
Buy back of shares	42	(3,171)	(3,753)
Net cash (outflow) / inflow from financing activities		(41,111)	49,951
Decrease in Cash and Cash Equivalents		**(45,658)**	**(102,224)**
Cash and Cash Equivalents at 1 January	29	**339,812**	**443,428**
Net foreign exchange difference		5,324	(1,392)
Cash and Cash Equivalents at 31 December	29	**299,478**	**339,812**


SCF
Safety Comes First

Fleet
(as at 31 December 2012)

Vessels by types	Number of vessels (units)	Total DWT ('000 tonnes)
Crude oil and product tankers	134	11 261
Gas carriers	8	283
Bulkers	2	144
Specialized fleet	12	15
Seismographic Research Vessels	1	2
Chartered in vessels	0	0
TOTAL	**157**	**11 902**