

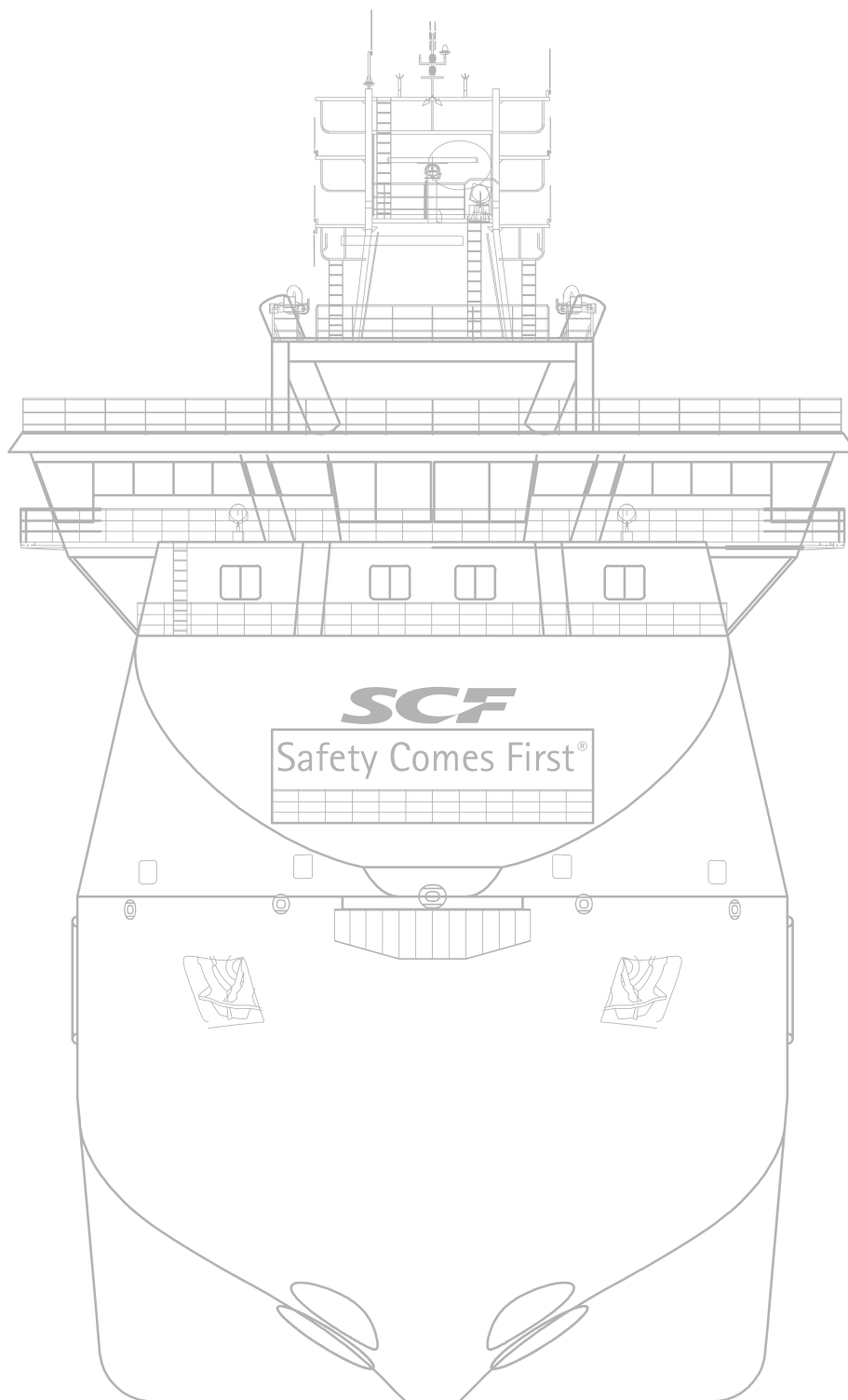
ANNUAL REPORT 2015



SCF[®]
Safety Comes First

PAO «SOVCOMFLOT»

ANNUAL REPORT 2015



SCF[®]
Safety Comes First



**SCF GROUP IS THE LARGEST
SHIPPING COMPANY IN RUSSIA
AND ONE OF THE WORLD LEADERS
IN ENERGY SHIPPING**



SCF
Safety Comes First

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KEY EVENTS AND ACHIEVEMENTS OF 2015

January



- Royal Dutch Shell, charterer of the new LNG carrier *SCF Melampus*, completed a vetting inspection of the vessel. Her first destination became the LNG plant at Bonny Island, Nigeria



February

- PAO Sovcomflot launched its new website in Russian and English. Special attention was paid to information disclosure for investors

March



- The keel was laid for the first Arctic LNG carrier ordered by SCF Group, to serve the Yamal LNG project



- Grand Elena*, an ice-class LNG carrier, completed her 100th voyage transporting gas to Japan as part of the Sakhalin-2 project



- SCF Group was awarded «Deal of the Year» by the international ship finance publication Marine Money for the project financing of two new LNG carriers, *SCF Melampus* and *SCF Mitre*.

April



- A naming ceremony was held for *SCF Mitre*, the fourth vessel in a series of state-of-the-art Atlanticmax LNG carriers ordered by SCF Group. The vessel is operated under a long-term charter contract with Royal Dutch Shell.



- A steel cutting ceremony was held for the new Arctic shuttle tanker of reinforced ice class Arc-7 (project 42K Arctic Shuttle Tanker). She is the first in the series of three vessels ordered by SCF Group under an agreement for oil transportation from the Novy Port field.



May



- A cooperation agreement was signed with Admiral Nevelsky State Maritime University in Vladivostok, a new level of the long-established partnership between Sovcomflot and the university

Lloyd's List Awards
Global | 2015



July

- SCF Group was shortlisted among the finalists of the Lloyd's List Global Awards for Deal of the Year

September



- SCF Group's 14th annual conference of business partners was held in Saint Petersburg. A new attendance record was set: the conference brought together over 200 of SCF's partners and customers
- The 400th cargo of crude oil was delivered to Japan since the beginning of year-round shipments from Sakhalin Island in 2008

PLATTS GLOBAL ENERGY AWARDS FINALIST

October

- SCF Group was nominated a finalist in the Platts Global Energy Awards 2015, in the Midstream Industry Leadership category

December



- A 14-year USD 340 million credit facility agreement was signed with Sberbank CIB. The deal will finance the development of infrastructure for maritime transportation of oil from the Novy Port field on the Yamal Peninsula
- A keel-laying ceremony was held for the new icebreaking platform supply vessel (ice class Ice-15) ordered by SCF Group to serve the Sakhalin-2 project in the Okhotsk Sea
- A cooperation agreement was signed with United Shipbuilding Corporation. The agreement provides for placement of orders for the construction of a series of Aframax tankers meeting the highest environmental standards
- SCF Group topped the 2015 ranking of Russia's Best Marine Seismic Contractors, based on a survey of major Russian and foreign companies operating on the Russian shelf



MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

In the reporting period, the SCF Group achieved particularly high operating and financial results. Projected budget figures were exceeded in all respects, allowing the company to carry out the tasks envisaged for 2015 by the Development Strategy in their entirety. It is particularly noteworthy that the company was able to achieve such success against a background of the increasing impact of financial imbalances and tighter credit availability on global finances and trade.

The company's successful development in 2015 was mainly due to the consistent implementation of a long-term strategy that is focused on increasing the participation of our fleet in highly profitable industrial market segments. I am referring first to the development of offshore oil-and-gas production projects and the transportation of liquefied natural gas by sea for major oil and gas companies, both in Russia and abroad. The Group's effective use of positive development dynamics in the current tanker market enabled it to not only improve its operational performance, but also to strengthen its leading position amongst the world's largest tanker fleet owners and operators.

An integral part of the Group's strategy focuses on introducing innovative technologies in the formation and operation of its fleet, in order to expand the range and improve the quality of services provided to customers, as well as to ensure the efficiency and safety of maritime transport. In the reporting period, the number of new vessels, incorporating the latest technology, in the company's fleet increased again. All the vessels commissioned and built for the Group were designed in accordance with the best international standards for energy saving and environmental protection.

I should like to make special mention of the SCF Group's continuing efforts to develop mutually beneficial cooperation with Russian shipbuilding enterprises. The company has historically been and remains one of the largest commercial shipbuilding customers in Russia, and collaborates actively with all major industrial partners. The Board of Directors has no doubt that the company's far-reaching expertise and knowledge, especially in the field of organising the construction and subsequent operation of high-tech vessels for oil-and-gas production on the continental shelf and under extreme high-latitude conditions, will be used to the full extent for further development of commercial shipbuilding in the Russian Federation.

In 2015, the Group continued to pay special attention to supporting national maritime education and industrial research. Given that Russia is one of the leading maritime nations, it is vital for our country to promote high-quality education for marine engineers that reflects the current levels of marine technology and the growing demands of the international market. Therefore, the Group continues to prioritise its participation in improving the level of training and education for future professionals specialising in different maritime fields.

I wish to express my appreciation to all our customers, partners and employees for their exceptional contribution to the successful development of SCF Group.

Ilya Klebanov
Chairman of the Board of Directors of PAO Sovcomflot



**2015 WAS ONE OF
THE MOST SUCCESSFUL
YEARS IN THE HISTORY
OF SCF GROUP**



MESSAGE FROM THE PRESIDENT & CHIEF EXECUTIVE OFFICER

After a long, almost six-year downturn in the tanker market, there was a noticeable upswing in the economic conditions during 2015. Spot rates increased, under a balanced condition of supply and demand for tonnage, helped by a global slowdown in tanker fleet renewal, declining crude oil prices, revitalised global commerce in hydrocarbons and the formation of crude oil and petroleum products reserves, as well as reduced bunker fuel prices.

Operating with one of the largest and most modern tanker fleets in the world, SCF Group was able to take full advantage of the positive changes in the prevailing market conditions. A balanced freight policy, coordinated work between the in-house analytical and commercial teams, coupled with high-quality technical management allowed the Group to achieve results significantly exceeding budgetary targets and the results of previous years. Thus, the net revenue (time charter equivalent) in 2015 amounted to USD 1.240 billion (an increase of 18.8%), EBITDA was USD 742.6 million (an increase of 38%), while net profit increased 4.2 times in comparison with 2014 and amounted to USD 354.5 million.

In the reporting period, the Group continued to implement its development strategy that is aimed at increasing participation in highly profitable industrial projects, involving liquefied natural gas (LNG) transportation by sea and supporting oil-and-gas production on the continental shelf. The fleet includes two new LNG Ice2 carriers, with a cargo capacity of 170,000 cubic meters each, which are operated under long-term time charter contracts with Royal Dutch Shell.

In accordance with our shipbuilding contracts, in 2016 and 2017 the Group should enlarge its operated fleet with the addition of three new shuttle tankers, four icebreaking vessels supplying offshore platforms and one Arctic LNG tanker. A significant part of the shipbuilding project is implemented in partnership with United Shipbuilding Corporation. The commercial operation of vessels under construction is ensured by long-term agreements with first class charterers, whilst their future contracted revenues are estimated at USD 4.3 billion. As of 31 December 2015, the total future contracted revenue under all of the Group's long-term contracts amounted to USD 8.5 billion.

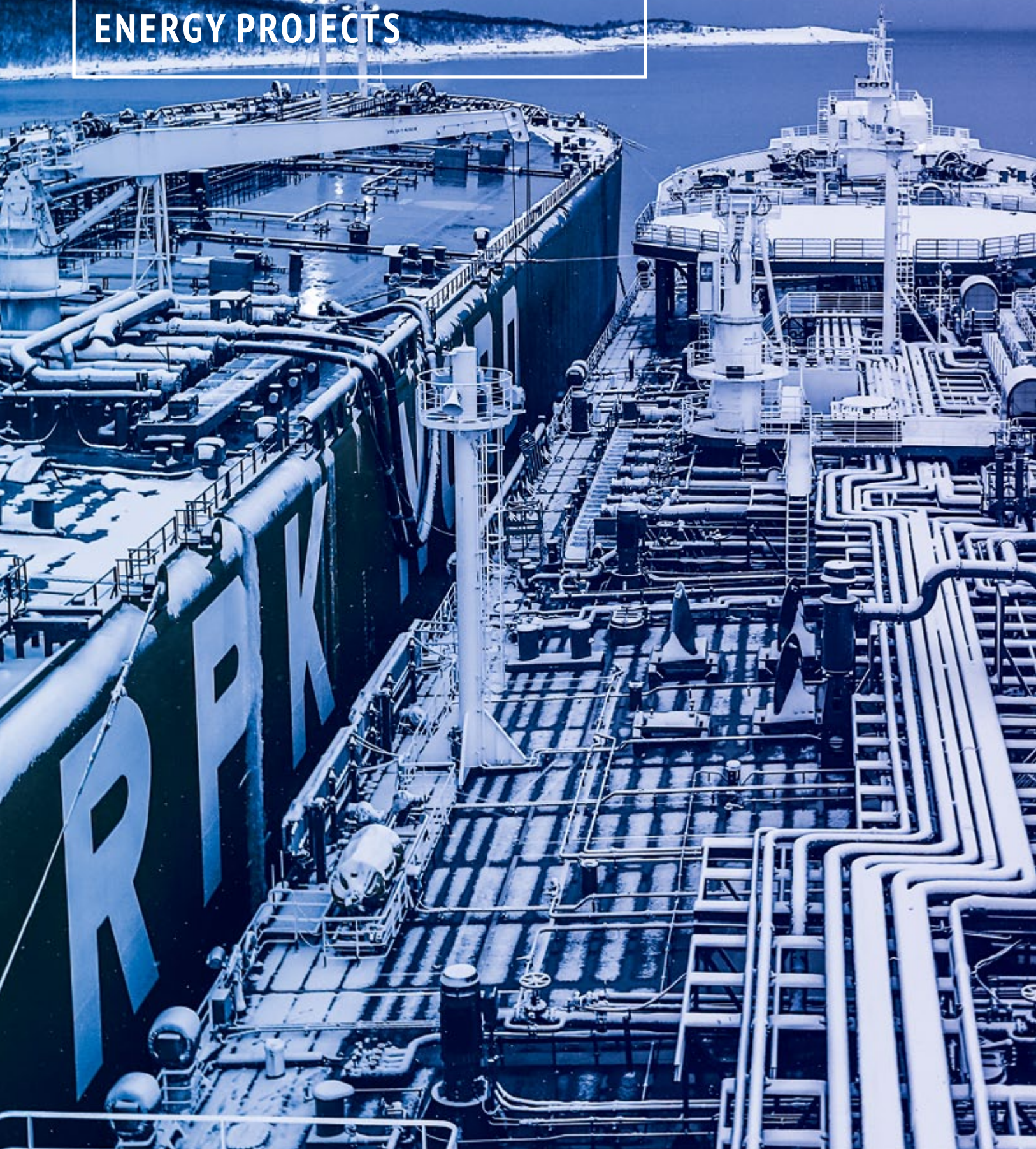
Under the Group's current business model, there is a focus on expanding further the range of services provided to customers and improving the service quality. This will involve the consistent implementation of innovative and energy-saving technologies, and improving operational efficiency, as well as the environmental and navigational safety of the fleet. During 2015, the Group paid particular attention to replacing low-yielding conventional vessels to develop a more technologically advanced fleet, which contributed to a significant increase in the economic effectiveness of our fleet operations.

SCF Group's excellent results in 2015 gave international rating agencies sufficient grounds to confirm or improve the company's credit ratings, and allowed it to maintain access to the international capital markets despite the growing geopolitical risks. In particular, in December 2015, the Group concluded a USD 340 million long-term loan agreement with Sberbank CIB, in order to finance the construction of three new shuttle tankers for crude oil transportation from the Novy Port oil field in the Yamal Peninsula. This transaction is unique in that previously Russian banks did not provide finance for capital-intensive, long-term maritime projects. Therefore, it was no coincidence that the authoritative trade publication Marine Money voted the credit agreement between SCF Group and Sberbank CIB as 'Deal of the Year' in the Project Finance category of its annual awards.

Human capital – especially the captains and crews of our vessels – constitutes the major source of our company's success and the foundation of our fleet's excellent operations. During 2015, the company continued to pay special attention to training professional seafarers, upgrading their working conditions and improving the social security for their families. In 2015, the company launched its first long-term incentive programme (LTIP) for captains, chief engineers and shore-based SCF employees, running for the period up to 2020. The Group's management is grateful to the Board of Directors for its support of this initiative.

Sergey Frank
President and CEO of PAO Sovcomflot

IN 2015, SCF GROUP CONTINUED
TO IMPLEMENT ITS STRATEGY
AIMED AT INCREASING ITS
PARTICIPATION IN MAJOR
ENERGY PROJECTS



ABOUT SCF GROUP

- SCF Group is the largest shipping company in Russia and a global leader in the shipment of hydrocarbons (crude oil and petroleum products, liquefied natural gas) and in servicing oil and gas projects on the continental shelf, including offshore seismic exploration
- The main strategic goal of Sovcomflot is to maximise the company's shareholder value by expanding its industrial business portfolio (long-term contracts with a fixed high rate of return) while retaining a leading position in its conventional tanker business
- Developing effective and open communications with stakeholders is one of the key components of the successful implementation the Group's Development Strategy. Stakeholder communications are based on the principles of transparency, integrity, and trust
- The Group's risk management system is built on a comprehensive approach entailing the constant identification and assessment of risks, developing risk management measures, monitoring dynamics, and monitoring and analysing the effectiveness of implemented actions.





SCF
Safety Comes First
NO SMOKING

1.1 STRUCTURE OF SCF GROUP'S FLEET

THE GROUP'S FLEET COMPRISES:

- CRUDE OIL CARRIERS OF VLCC, SUEZMAX, AFRAMAX, AND PANAMAX SIZES, INCLUDING ARCTIC SHUTTLE TANKERS
- LNG AND PETROLEUM GAS CARRIERS
- PRODUCT CARRIERS OF HANDYSIZE, MR, LR I, AND LR II SIZES
- ICE-BREAKING SUPPLY VESSELS
- A RESEARCH VESSEL FOR OFFSHORE GEOPHYSICAL EXPLORATION
- PANAMAX BULK CARRIERS
- PORT TUGS, INCLUDING ICE CLASS TUGS

THE GROUP'S FLEET IS MANAGED THROUGH FOUR DIVISIONS:

- Conventional tanker fleet management and development (Conventional Division)
- Gas fleet management and development (Gas Division)
- Offshore fleet management and development (Offshore Division)
- SCF Geo Ltd. (Seismic Exploration Division)

SCF Group operates vessels in segments which attract the most demand from leading Russian and international oil and gas companies. Our in-house capabilities and set of advanced technologies, especially related to shipments in extreme climate conditions, are unique for a shipping company, and enable the Group to satisfy the various requirements of our customers and to provide them with a reliable and efficient transport service.



FIGURE 1. Structure of PAO Sovcomflot's fleet, by division*

Transportation of crude oil and petroleum products in the downstream segment (refined petroleum products), bulk cargoes	CONVENTIONAL DIVISION	102 tankers and two bulkers
Transportation of liquefied natural gas and liquefied petroleum gas	GAS DIVISION	12 gas tankers
Supply and servicing of offshore platforms, management of terminals, safe shuttle shipments of oil	OFFSHORE DIVISION	26 vessels, including 13 shuttle tankers and four ice-breaking supply vessels
Offshore geophysical exploration	SEISMIC EXPLORATION DIVISION	One vessel

*For more details about the Company's performance in the reporting year, see the Overview of Operating Activities section.

1.2 GLOBAL MARKET TRENDS

CRUDE OIL MARKET

2015 was marked by one of the largest declines in oil prices of the last 20 years. Thus, the weighted average price of Brent crude reached its lowest level in December 2015, plunging to USD 36.27¹ per barrel from a peak of USD 114.25 per barrel in June 2014 (a fall of 69.3%).

In anticipation of further steps by OPEC members, following OPEC's refusal to cut oil production quotas announced at its October 2014 meeting, in 2015 oil production and exports by Saudi Arabia and Iraq rose by more than 1 million barrels a day. As a result, OPEC exceeded its own production quota, with production running at about 31 million barrels per day (bpd) against the quota of 30.0 million bpd.

The decline in oil prices had a positive impact on demand for strategic and commercial stockpiling. In particular, in the first half of 2015 China imported about 6.1 million bpd against the previous record of 5.6 million bpd in 2014 (and 5.1 million bpd in 2013), and in December 2015 oil imports by China hit a record 6.8 million bpd. India, another major crude oil importer, also increased its imports to replenish strategic reserves.

OIL AND PRODUCT TANKER SHIPPING MARKET

The trend toward an increase in freight rates in the oil and product shipping market, which appeared in Q4 2014, continued in 2015. Increases in spot rates for oil tankers ranged from 54% to 116% in 2015 compared to 2014 averages, spot rates for product tankers were up 70% (although from a lower base in 2014).

The main reason for a sharp upturn in the tanker market in 2015 was a decline in oil prices and associated growth in demand for raw materials. In particular:

- A sharp fall in oil quotations created an anticipation of future price increases among investors (a contango effect), which, in turn, pushed up demand for onshore and offshore storage facilities. In the tanker industry, this resulted in a surge in demand for VLCC vessels
- Increased demand for cheaper crude oil led to an increase in oil shipments by sea, boosting tonne-mile demand for almost all types of oil tankers.
- The fall in oil prices resulted in a reduction of bunker oil prices, which had a positive impact on the dynamics of the time-charter equivalent (average daily freight rates) in spot transportation markets
- In petroleum products transportation, low oil prices helped widen the refining margin both in the Atlantic and Indian Ocean basins, which created a demand for tonnage to pursue arbitrage opportunities.

It should be also noted that the growth in demand for transportation services in 2015 took place amidst a rebalancing of tonnage demand and supply, caused by a slowdown in the pace of additions to the global tanker fleet. In particular, as regards Aframax and Suezmax tankers, the total number of new builds received from shipyards in 2015 effectively matched the number of scrapped older vessels (i.e. the growth in tonnage was zero). As regards product carriers, tonnage continued to grow moderately in 2015 (at a level of 5%) due to considerable order book deliveries in 2013.

Trends in the time charter market in 2015 were similar to those in 2014: rates increased significantly for all sizes of oil tankers. The increase in rates for product carriers was relatively small. A more moderate increase in time charter rates, with high spot rates for product carriers is attributable to a higher supply of new vessels.

¹Source: Clarksons (sin.clarksons.net)

FIGURE 2. Dynamics of spot tanker freight market rates (USD per day)

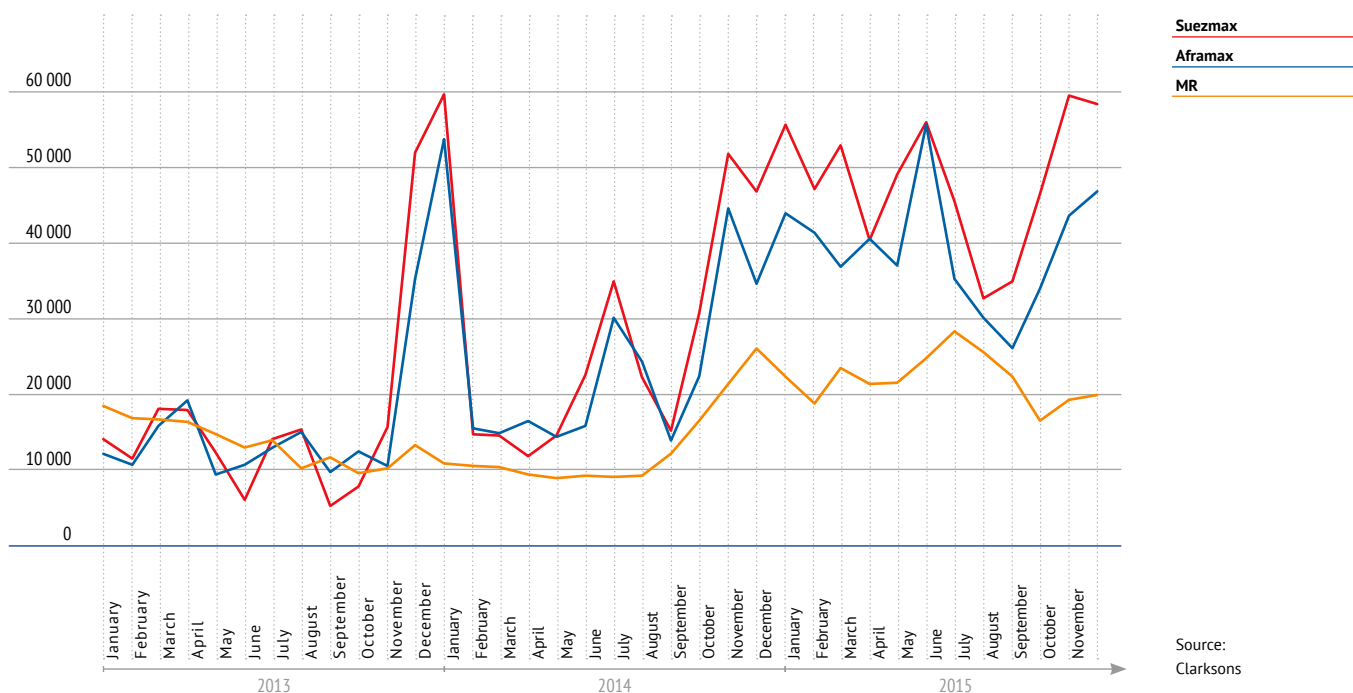
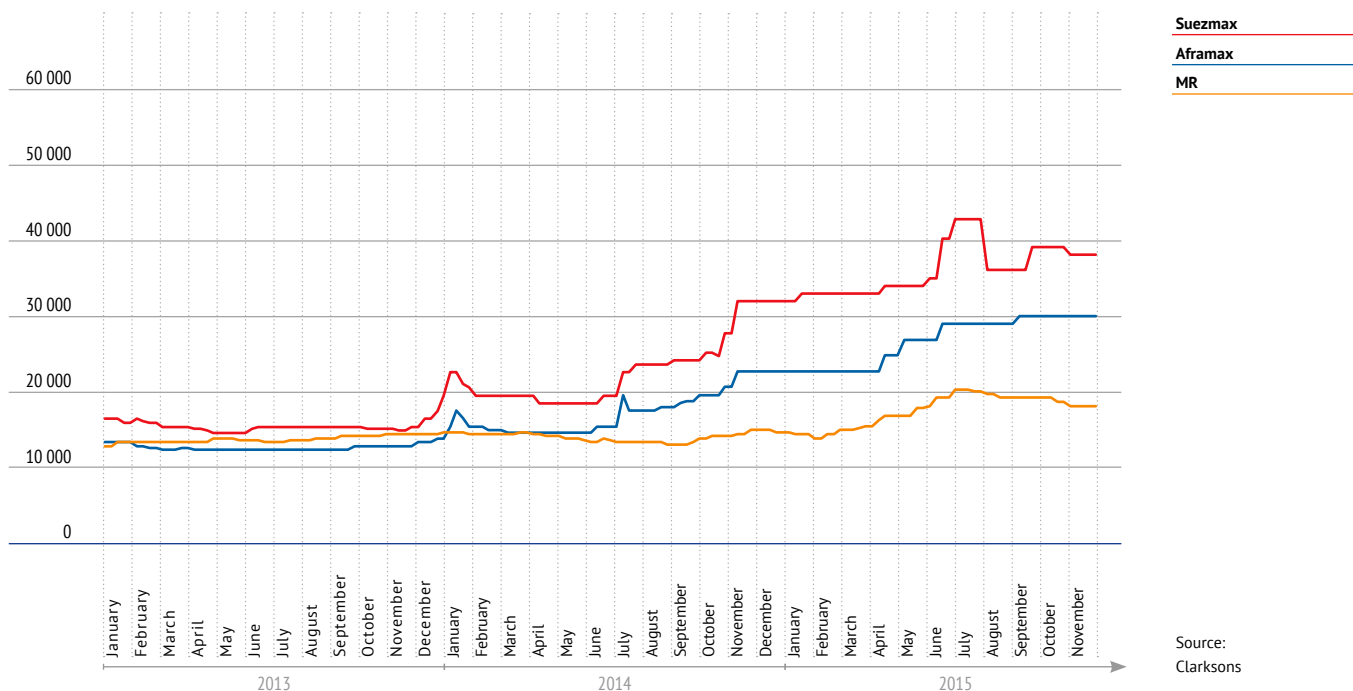


FIGURE 3. Dynamics of the time charter tanker freight market rates (USD per day)



NEW BUILD AND S&P MARKET

Despite more active orders for new oil tankers and large capacity product tankers (LR1 and LR2), shipbuilding activity in general declined slightly in 2015 compared to 2014, as a result of a decrease in the number of orders for product carriers, chemical tankers and, to a larger extent, LPG and LNG tankers.

In 2015, 353 large capacity vessels were ordered (mainly Aframax, Suezmax, LR2 and LR1 tankers) versus 197 vessels ordered in the previous year, representing an 80% growth in activity year-on-year. However, whereas in 2014 a total of 551 tankers of different sizes were ordered worldwide, in 2015 their number was 543, down 1.45% year-on-year.

The second-hand tanker market also saw some decline in activity (by 18.30%), with 317 deals (total deadweight: 29,842 million tonnes, total value: USD 9.014 billion) in 2015 versus 388 deals (total deadweight: 44,951 million tonnes, total value: USD 11.556 billion) in 2014.

TABLE 1. Activity in the new build market

New build tankers	Activity in the new build market (units)		
	2015	2014	Difference
Crude oil and product tankers	353	197	+79.19%
Chemical tankers	88	175	-49.71%
LPG carriers	67	110	-39.10%
LNG carriers	35	69	-49.28%
TOTAL	543	551	-1.45%

TABLE 2. Activity in the market for second-hand crude oil and product tankers

Indicator	Unit of measure	Activity in the market for second-hand crude oil and product tankers		
		2015	2014	Difference (prorated for the year)
Number of vessels sold	Vessel	317	388	-18.30%
Total deadweight of sold ships	'000 tonnes	29,842	44,951	-33.61%
Total value of sales	USD million	9,014	11,556	-22.00%

TABLE 3. Competitive position of SCF Group in the market

Parameter	Global ranking
Arctic shuttle tanker fleet	1
Ice-class tanker fleet	1
Number of Aframax tankers in tanker fleet	1
Ice-class LNG tanker fleet	2
Size of tanker fleet	3
Shuttle tanker fleet	3

COMPETITIVE POSITION IN THE MARKET

The main competitors of SCF Group in the tanker transportation segment are Teekay (Canada), OSG (US), Torm (Denmark), and Minerva Marine (Greece). The Group's share of the corresponding market segment does not exceed 1%.

Any change in this indicator over the past three years is considered immaterial (less than 0.01%), which is due to the high degree of fragmentation of the tanker transportation market and the continued presence of a significant number of operators, estimated in total at 3,800 (including more than 260 companies with a fleet of 10 or more tankers).

1.3 DEVELOPMENT STRATEGY

1.3.1 STRATEGY OF SCF GROUP

The Group strategy until 2017 was approved by PAO Sovcomflot's Board of Directors in 2011. The main Group Strategy parameters were updated in 2013 with a strategy horizon extension until 2018.

According to SCF's Strategy, the Company's mission is to manage a business portfolio associated with services for offshore oil production and the maritime transportation of hydrocarbons, with a maximum return from the operation and ownership of assets while maintaining national interests and high quality and safety standards.

Main strategic sectors:

- Conventional hydrocarbon transportation;
- LNG and LPG transportation;
- Offshore petroleum services.

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

The Group's objectives for 2015 reflect the general areas set by the Development Strategy, and in particular include:

- Maximising income from the operation of the conventional fleet (oil and petroleum product tankers), taking into account the state of the freight market, seasonal factors, and emerging local "peak" freight rates in certain geographic markets;

- Further optimising the composition of the fleet, factoring in the state of the market for second-hand tonnage, and realising opportunities to upgrade existing vessels (as part of the innovation strategy) in order to reduce operating costs and to increase competitiveness;
- Implementing current and launching new Russian and international projects involving the transportation of liquefied gas, shuttle transportation of oil, and servicing of offshore hydrocarbon fields in order to increase the share of long-term project business in total revenue and the aggregate assets of the Group.

1.3.2 LONG-TERM DEVELOPMENT PROGRAMME OF SCF GROUP

In 2014 the Long-Term Development Programme (LDP) of SCF Group was drafted. The draft LDP was discussed at the meeting of the working group, with the participation of representatives of Open Government, the Russian Ministry of Transport, and invited experts. The final version of the LDP was approved by the PAO Sovcomflot Board of Directors on 19 November 2014. The LDP is intended for the period 2015-2019.

The main strategic goal of PAO Sovcomflot is to maximise the company's shareholder value by expanding the industrial business portfolio (long-term contracts with a fixed high rate of return) while retaining a leading position in its conventional business.

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

methodological recommendations from the Russian Ministry of Economic Development, the LDP and the KPIs resulting from it are presented in a baseline scenario, with an attachment of alternative scenarios.

The results of implementation of the SCF Group LDP are subject to independent audit. The auditor's opinion and main conclusions regarding implementation of the LDP are disclosed in this report.

LDP 2015 results were audited by KPMG. The audit gave a positive opinion. According to the audit opinion, the LDP implementation report for 2015 is presented fairly, in all material respects, in conformity with the applicable laws, standards, and internal regulations of the Company, gives a true and fair view and is free from material misstatement.

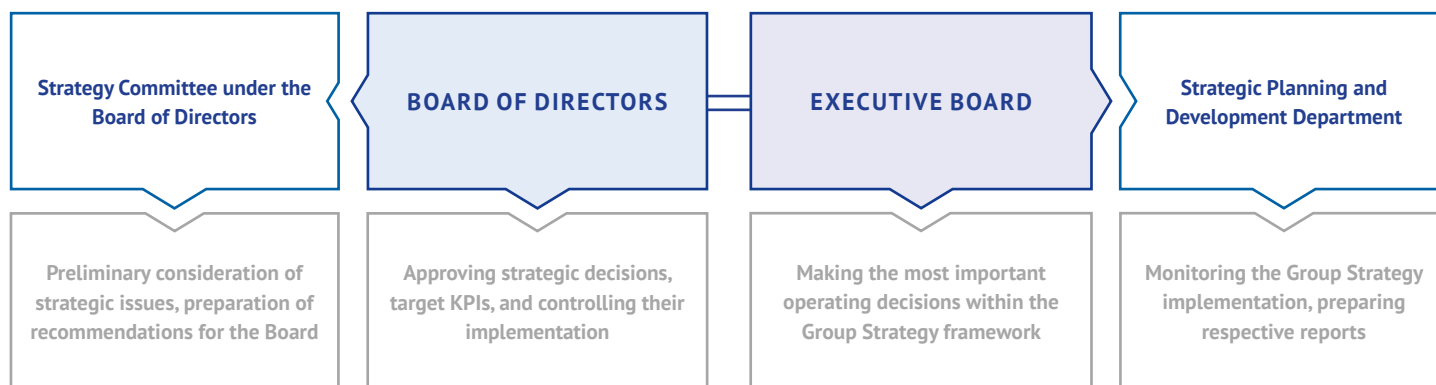
¹ Minutes of the Board of Directors No. 113 dated 12 September 2011.

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

³ The LDP was developed pursuant to Russian Presidential Order No. Pr-3086 dated 27 December 2013 and related updated documents.

⁴ Minutes of the Board of Directors No. 139 dated 24 November 2014.

⁵ Pursuant to Note 2 of Directives No. 2007p-P13 dated 6 April 2015 to the parties representing the interests of the Russian Federation for participation at the meetings of the boards of directors (supervisory boards) of the joint-stock companies included in the special list approved by Russian Government Or No. 91-r dated 23 January 2005.

FIGURE 4. ORGANISATIONAL AND STRATEGIC DECISION-MAKING STRUCTURE

1.3.3 STRATEGIC DECISION-MAKING STRUCTURE

Key strategy decisions are made at the Board of Directors level (target KPIs, controlling their implementation, etc.) with preliminary consideration by Strategy Committee under the Board of Directors. Strategic Planning and Development Department is monitoring the implementation of Group Strategy, preparing respective reports and analytical documentation. The most important operating decisions are made at the Executive Board level.

1.3.4 KEY PERFORMANCE INDICATORS OF THE LONG-TERM DEVELOPMENT PROGRAMME

The Long-Term Development Programme contains the KPIs shown in Table 4, including target and actual values for 2015.

Actual KPIs exceed planned figures due to favourable market conditions in the conventional segment and also thanks to the application of a balanced freight policy, and working with high-quality clients.

TABLE 4. Key performance indicators of the Long-Term Development Programme for 2015⁶

No.	KPIs	Target value	Actual	Conclusion about attainment
1	Net revenue (time charter equivalent income), USD million	≥1,158.9	1,316.4	Attained
2	Net profit, USD million	≥143.7	354.5	Attained
3	EBITDA margin, %	≥55.29	66.91	Attained
4	EBITDA, USD million (for reference)	640.8	880.9	Attained
5	Total dividends (index of dynamics of dividend payments vs. average level during the past three years), %	≥100	243.8	Attained
6	Return on Invested Capital (ROIC), %	≥4.96	7.7	Attained
7	Return on Equity (ROE), %	≥4.48	11.23	Attained
8	Utilisation efficiency of fixed assets (fleet), %	≥95	96.91	Attained
9	Net Debt / EBITDA	≤8	3.28	Attained
10	Implementation of the innovative development programme, %	≥100	115.45	Attained

⁶ Target and actual KPI values are calculated using the proportional consolidation method according to methodology approved by the Board of Directors on 10 Dec 2014 (Minutes No. 140 of the Board of Directors dated 12 Dec 2014).

⁷ Согласно действующей редакции ДПР, целевые значения КПЭ установлены бюджетом ПАО «Совкомфлот» на 2015 год.

⁸ The Programme on the Sale of the Non-Core Assets of PAO Sovcomflot was approved by the Board of Directors on 19 May 2011 (Minutes No. 110 of the Board of Directors dated 23 May 2011).



**ALL THE PLANNED KEY
PERFORMANCE INDICATORS SET
BY THE LONG-TERM DEVELOPMENT
PROGRAMME FOR 2015 HAVE BEEN
FULLY ACHIEVED**



Velikiy Novgorod, an Atlanticmax Ice2-class LNG carrier designed for the year-round transportation of gas. The vessel is chartered to Gazprom under a long-term contract

1.3.5 NON-CORE ASSET SALE PROGRAMME

In 2011 the Programme on the Sale of the Non-Core Assets of SCF Group was drafted by the Group and approved by the Board of Directors (the Non-Core Asset Sale Programme). It determines the underlying principles and operating procedures of the Group regarding the disposal of its non-core assets.

The Programme contains:

- Regulations governing actions with non-core assets
- The register of non-core assets and the procedure for disposing of them
- The principles and procedure for organising the sale of non-core assets
- The procedure for concluding other actions in respect of the non-core assets

To maximise the shareholder's profits, the Programme stipulates: specific timeframes for the sale of the most expensive assets; that the value of the assets should be determined by an independent appraiser; that the buyer should be sought through the announcement of a tender; and that a tender commission should be set up.

Pursuant to Instructions No. 241-r of the Russian Government dated 26 February 2013, SCF Group is continuing its work related to the sale of one non-core asset: 5,116 ordinary registered shares in JSCB National Reserve Bank (Joint Stock Company), representing 0.3017% of its authorised capital. The book value of this asset is RUB 5,116,000.

Novoship, a subsidiary of SCF Group, sold the following non-core assets in 2015 at a market price above book value.

1.3.6 STAKEHOLDER COMMUNICATIONS

The stakeholders of SCF Group are institutions, organisations, or individuals whose interests are related to the activities of the Group, and which in turn have an impact on its performance.

The main principles and priorities for stakeholder communications are enshrined in the Code of Corporate Conduct.

The key stakeholder groups identified by SCF Group, as well as the mechanisms for corresponding stakeholder communications, are set out in Table 7.

During the reporting period SCF Group actively communicated with its stakeholders, performing work in parallel aimed at expanding and developing existing platforms and mechanisms for joint dialogue.

TABLE 5. PAO Novoship non-core assets sale results

Asset	Book value, '000 RUB	Actual sale price, '000 RUB excluding VAT	Difference, '000 RUB
100% share in OOO Novomorsnab	40,100	116,200	76,100
Property "Portovaya 8.10"	108,360	478,644	370,284

⁹ Current progress on the sale of the non-core asset is disclosed in the Report On Progress on the Implementation of the Programme to sell non-core PAO Sovcomflot Assets

TABLE 6. Mechanisms for stakeholder communications

Stakeholder		Mechanisms for communications
Shareholder and investors	Shareholder	– General Meeting of Shareholders
	Investors	– Presentations, conference calls, meetings between management and the investment community, analyst and investor days
	Banks and creditors	– Publication of press releases and other materials as part of the disclosure of information on SCF Group activities – Disclosure of information and reporting
Business partners	Group customers	– Audit of suppliers in order to confirm their good faith and solvency
	Suppliers and contractors	– Development of tender procedures for the procurement of goods and services – Implementation of anti-corruption procedures – Meetings with clients, including industry conferences and seminars – Conducting research among consumers
Employees	Group employees	– Meetings between HR department representatives and employees
		– Notifying employees through an intra-corporate communications system
		– Use of feedback tools, employee surveys
		– Consideration of filed appeals and complaints
		– Material and non-material incentive programmes – Development of the fleet personnel training system
State	Russian legislative and executive state authorities	– Participating in the activities of working groups and expert councils established under Russian state executive authorities
Society	Academic institutions	– Charitable assistance to educational and health care institutions
	Health care institutions	– Programme for target preparation of cadets of maritime universities
	Industry veterans	– Regular meetings with cadets
	Local population in the regions where the Company has a footprint	– Organising internships for teachers of maritime universities – Sponsoring sports events and competitions
Russian and international professional organisations and NGOs	Industry non-governmental organisations	– Participation in the activities of working groups and boards of professional non-governmental organisations
	Business associations	– Supporting projects and discussing documents
	NGOs	– Implementing joint projects with the maritime community – Participating in events aimed at increasing navigation safety
The media	Print publications	– Regular publications in the media of materials dedicated to important events in the Group's activities
	Electronic media (including television, the internet, and radio)	– Interviews with the Group's management – Press conferences and other events for media representatives
		– Participation of Group representatives as experts during the preparation of topical subjects on navigation issues in the Arctic region, development trends in various freight market segments, and shipbuilding

1.4 RISK MANAGEMENT SYSTEM

SCF GROUP PAYS PARTICULAR ATTENTION TO RISK MANAGEMENT ISSUES. SCF GROUP MANAGEMENT AND EMPLOYEES ARE RESPONSIBLE FOR ESTABLISHING AND OPERATING THE RISK MANAGEMENT SYSTEM AT ALL MANAGEMENT LEVELS.

The Group has created an Audit Committee affiliated to the Board of Directors, whose responsibilities include risk management. The committees set up by the Executive Board (Strategy Committee, Freight Committee, Investment Committee, Finance Committee, Technical Policy Committee – Technical Council, etc.), which carry out risk management within their respective competence, continued to work throughout the year.

Several initiatives were implemented in 2015 to further improve the risk management system:

- A new Corporate Governance Code of the Company, which, inter alia, provides for further development of the risk management system, was approved by the Board of Directors in November 2015;
- According to the shareholder’s recommendations, the Regulations on the PAO Sovcomflot Risk Management System (hereinafter referred as the “RMS Regulations”) were drafted in 2015. The

TABLE 7. Main functions and tasks of key participants in the risk management system



¹ More details about the Corporate Governance Code of PAO Sovcomflot can be found in the Corporate Governance Section on the website at <http://www.scf-group.ru/>.
² Approved by Bank of Russia Letter No. 06-52/2463 dated 10 April 2014.

A person wearing a white lab coat is shown from the side, focused on a technical drawing or map spread out on a desk. They are holding a pen and a compass, actively working on the drawing. The scene is dimly lit with a strong blue tint, creating a professional and technical atmosphere. In the background, a computer monitor and a printer are visible, suggesting a modern office or laboratory environment. The overall composition emphasizes precision and attention to detail.

**SCF GROUP PAYS
PARTICULAR
ATTENTION TO RISK
MANAGEMENT ISSUES**



Grand Aniva, an ice class LNG carrier, at the terminal in Prigorodnoye, Sakhalin-2 project. Since 2009, she delivers energy to customers in the APAC region on a year-round basis

document was developed in accordance with the Corporate Governance Code of the Russian Federation and Guidelines for the Preparation of Regulations on the Risk Management System. The RMS Regulations were approved by the PAO Sovcomflot Board of Directors on 10 November 2015;

- Work continues to further improve the risk management system, including updating its structure and the classification and the list of risks in the register of risks, which will help improve the efficiency of risk management processes and make the responsibility of risk owners more transparent.

The RMS Regulations constitute a fundamental framework defining the tasks and objectives of the risk management system, the main principles of its operation, the structure of the risk management system, the allocation of responsibility between the parties involved and nature of their interaction, and the general approach to the organisation of the risk management system.

Pursuant to the RMS Regulations, the main purpose of the RMS is to create conditions for achieving the Company's strategic and operating objectives and goals through regular identification, analysis and assessment of risks, development and implementation of measures to manage risks and maintain the risk level within limits acceptable for management and shareholders.

In accordance with the RMS Regulations, the Strategic Planning and Development Directorate is in charge of coordinating risk management activities. A description of key participants in the risk management system and their main responsibilities is provided in Table 7.

Further development and improvement of the risk management system is based on the COSO standard Enterprise Risk Management – Integrated Framework, ISO 31 000:2009 Risk Management – Principles and Guidelines, and ISO 31 010:2009 Risk Management – Risk Assessment Techniques.

KEY RISKS

The Group has and regularly updates a register of risks that can have a significant impact on its operations.

In addition, the Company is implementing regular and one-time actions to minimise risks. Such actions include the following: monitoring global freight markets; the construction and commissioning of state-of-the-art vessels and the offloading of obsolete ships; the planning and implementation of necessary environmental measures; monitoring amendments to shipping industry regulations, and improvements to HR policies.

The implemented risk management measures together a proactive response to emerging threats enabled the Group to prevent the occurrence of identified risks in the reporting period. The risks described in this annual report below are not exhaustive, but are highlighted as key risks.

¹ Approved by Russian Government Order No. ISh-P13-4148 dated 24 June 2015.

⁴ Minutes of the Board of Directors No. 149 dated 13 November 2015.

⁵ Table 8 describes the most material risks identified and the measures to minimise such risks, and risk management methods and the key risk management actions implemented by the Group.

TABLE 8. SCF Group – Key risks

Type of risk	Risk factors	Risk mitigation measures
Economic risks	Changes to freight and lease rates on the international freight market	Draft and approve the Development Strategy of the Group and regularly update the document in connection with changes on the market and the external environment; identify the optimal ratio of revenues from long-term and spot contracts
	Seasonal and regional changes to the supply of and demand for tonnage	Monitor global freight markets for the adoption of timely decisions on the optimal distribution of the fleet
	Strong competition from other carriers	Leverage the Group's accumulated experience on the operation of different types of vessels, taking into account customer requirements
	Arrival of new cargo transportation, loading, storage and warehousing technologies and resulting changes to technological requirements on shipments	Build and commission state-of-the-art dedicated vessels; promptly sell obsolete fleet
	Quantitative and qualitative changes to global fleet composition	Diversify the Group's activities and break into new, promising segments
Environmental risks	Accidents having a negative environment impact	Identify significant environmental aspects of the Group's activities, plan and implement required environmental measures, monitor and analyse their sufficiency
	Impact on the atmosphere of polluting emissions, and on the oceans from the discharge of waste water and different types of refuse	Implement integrated governance and control systems based on international safety and quality standards
Regulatory and legal risks	Changes to the norms of international legislation and shipping industry regulations, customs and tax law, licensing, and environmental protection	Monitor changes in shipping industry regulations, be proactive in response to such changes, and maintain a constructive dialogue with the regulatory authorities
	The introduction of stringent requirements on vessels by leading classification societies, as well as international oil and trading companies	Draft and implement best-practice design and technological solutions which comply with current and future potential requirements
	Seizure of the vessels of Group companies, in respect of which maritime liens or maritime claims may arise	Monitor the likelihood of claims and other legal encumbrances in respect of the Group's vessels; proactively respond to potential actions in this area
	Inadequate insurance coverage of the Group's vessels	Insure the Group fleet using leading international and Russian companies
Operational risks	Mechanical faults and damage to vessels; maritime casualties	Improve technical management systems and procedures, implement an across-the-board critical analysis of the reasons for breakages and emergencies, increase the professional level of fleet personnel and onshore support
	Delays and defaults on obligations by main counterparties	Conclude contracts with reputable and highly reliable counterparties
	Suspension of activities owing to labour disputes	Promptly consider the legal interests of Group employees and introduce a culture which promotes the joint resolution of issues as they arise
	Dependence of the Group on hiring and retaining qualified personnel	Improve HR policies, create a high-performing team united by common goals and valid material and moral incentives
Country risks	Adverse changes to the political and economic situation in countries and regions where the Group operates	Draft anti-crisis action plans if adverse scenarios arise
	Negative impact of restrictions imposed against Russia by a number of Western countries	Diversify the customer base, project portfolio and areas of activities, and sources of Group financing
	Pirate attacks on the Group's vessels	Organise security for the Group's vessels in dangerous regions, ramp up cooperation with respective international and national authorities, introduce and adjust the rules to be applied by vessels during crises
Financial risks	Changes to the exchange rates of foreign currencies, which have an adverse impact on the Group's expenses and income	Use foreign exchange hedging instruments
	Increased interest payments on current loan obligations	Use interest-rate risk hedging instruments, diversify sources of borrowing
		Improve the procedures for ensuring the optimal structure of assets and liabilities, in conjunction with an operational analysis of changes in the financial environment



OPERATING RESULTS

- Amidst rising geopolitical risks, adverse stock market conditions, and revision of the credit-worthiness of Russian issuers by international rating agencies, SCF Group managed to achieve a considerable improvement in its financial indicators, retain access to both foreign and domestic debt capital markets, continue implementation of the investment programme, and improve its own credit ratings.
- To a large extent, the company's initiatives were supported by favourable conditions in the global conventional tanker market, measures taken to renew and modernise the fleet, the application of a balanced freight policy, and working with high-quality clients.
- Successful results in 2015 provided the basis to continue consistent implementation of the Long-Term Development Programme intended for the period to 2019 inclusive.

2.1 OVERVIEW OF PRODUCTION ACTIVITIES

2.1.1 STATE OF THE GROUP'S FLEET IN 2015

In the reporting year the fleet of SCF Group consisted of state-of-the-art, high-tech vessels of different types.

At the end of 2015 the Group had a fleet of 143 vessels with the total deadweight of 12.4 million tonnes.

The average age of vessel in the company's fleet (including leased tugs) at the end of 2015 was 8.49 years.

The Long-Term Development Programme of SCF Group stipulates the disposal of older vessels, as prescribed under conventions, registries, and other national and

international requirements, including those of the International Maritime Organisation, classification societies, charterers and the market. In 2015, 11 vessels, with a total deadweight of 472,000 tonnes, were sold.

Retired tonnage is replaced with state-of-the-art vessels in promising segments with advanced equipment. In 2015, two vessels were added to the company's fleet, LNG carriers *SCF Melampus* and *SCF Mitre*. Both will be used for LNG transportation under long-term time charter contracts with Royal Dutch Shell.

New vessels enable the Group to occupy a strong position in this segment, which is unique for the Russian fleet.

TABLE 9 Breakdown of SCF Group fleet

Vessels by type	Number of vessels at year-end (units)			Total deadweight at year-end, '000 tonnes		
	2013	2014	2015	2013	2014	2015
Crude oil and product tankers	131	125	115	11,972	11,822	11,448
Gas tankers	10	10	12	498	604	794
Bulk carriers	3	3	2	218	218	149
Multifunctional ice-breaking supply vessels	4	4	4	17	17	17
Seismic exploration and service vessels	1	1	1	2	2	2
Chartered tankers	0	0	0	0	0	0
Fleet/tonnage of the Group owned by the Group and JVs	149	143	134	12,706	12,664	12,410
Vessels leased to Rosneftflot	9	9	9	2	2	2
TOTAL	158	152	143	12,708	12,666	12,412

2.1.2 OPERATION OF THE FLEET

The fleet operates in accordance with the Integrated Safety Management System (the ISMS) in effect at the Group. SCF Group manages the operation of the fleet based on the provisions of its Technical Policy. This policy is a set of measures and actions which enables SCF Group to achieve operational advantages in the maritime transportation and service market sectors.

In accordance with the ISMS, the Group strives to optimise the system of providing vessels with the required financial and material resources to maintain them in excellent working order, and also applies advanced methods to monitor and analyse the technical condition of each vessel and its equipment.

Within the structure of operating expenses the majority are attributable to crew upkeep (59%), while technical operations and non-capitalised docking expenses account for 20% and 6%, respectively.

Under the ISMS the Group carries out regular maintenance and repairs of vessels, which is a key criterion for the safe and reliable operation of a vessel. The Technical Policy stipulates:

- A five-year classification survey period in docks as the main method of optimising maintenance and repair work.

FIGURE 5

Structure of operating expenses in 2015, %

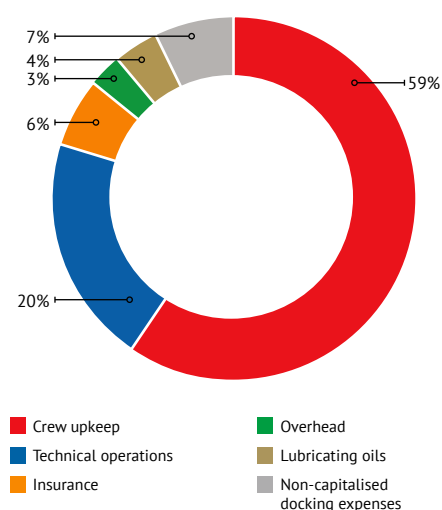


TABLE 10 Vessels added to the SCF Group fleet in 2015

No.	Name of vessel	Type of vessel	Cargo capacity, cubic metres
1	SCF Melampus	Ice-class Atlanticmax LNG carrier	170,200
2	SCF Mitre	Ice-class Atlanticmax LNG carrier	170,200
Total cargo capacity			340,400

TABLE 11 Maintenance and repair of vessels, 2013-2015

Name	2013	2014	2015
Dry dock repairs (number of vessels)	34	21	41
In-water inspections (number of vessels)	30	20	43
Actual expenses on the docking and repair of vessels ('000 USD)	62,404	38,600	68,866

- A scheduled preventive maintenance plan for each vessel, approved in accordance with the class of vessel.
- Monitoring the technical condition of individual types of vessel and critical equipment to make sure that it complies with SCF Group requirements.
- Maintaining at a high level the external appearance of vessels.

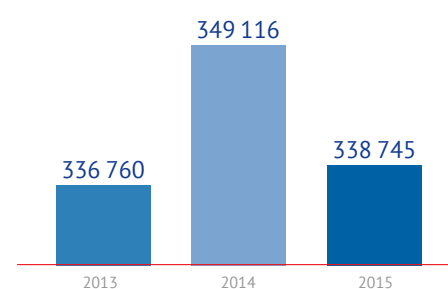
The Technical Policy also prescribes the following actions to ensure the high quality of maintenance work and the repair of vessels and their equipment:

- Competitive selection of the most effective and qualified shipyards.
- Using certified spare parts from original manufacturers when replacing worn-out or faulty components of equipment.
- The inspection of ships by classification societies, which ensures a high degree of supervision over the technical condition of vessels.

In 2015, 41 vessels were dry docked and repaired (vs. 21 vessels in the previous year). One of the goals of the Group under its Technical Policy is to ensure longer periods between repairs. For example, in 2015 interim in-water inspections were

FIGURE 6

Dynamics of actual operating expenses for 2013-2015, '000 USD



conducted for 43 vessels, without any need for dry docking (vs. 20 vessels in the previous year).

During the reporting period there were 10 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 performs detailed analyses of them to prevent any repeat incidents.



Victor Konetsky, an ice-strengthened Aframax shuttle tanker, at the Sokol platform, Sakhalin-1 project. De-Kastri, Khabarovsk region

2.1.3 OPERATING RESULTS FOR 2015

2.1.3.1 Overall results for SCF Group

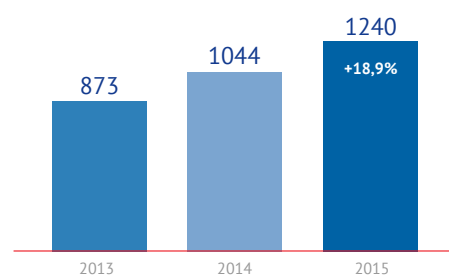
In 2015 the main operating results were an improvement on those in 2014, thanks to measures taken to renew and modernise the fleet, the application of a balanced freight policy (which ensures the effective use of the fleet at different developmental stages of the tanker market), and working with high-quality customers.

Time charter equivalent revenues for the Group rose by 18.9% in 2015 compared to 2014 and totalled USD 1,240 million under IFRS. The Group's Net earnings from vessels' trading also rose significantly (up 32.1%), to USD 848.5 million.

SCF Group works with both international 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

FIGURE 7

Dynamics of the time charter equivalent revenues of the Group, 2013-2015, USD million



used as floating storage units to facilitate the transshipment of export oil and petroleum products from river tanker vessels to sea tankers.

In 2015 the Group carried over 52 million tonnes of Russian export and transit cargoes exported through Russia. This cargo accounts for 38.6% of the total cargo transported by the Group's vessels in 2015 (against 35% in 2014).

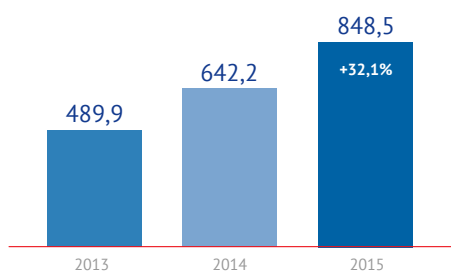
848.5

million USD

THE NET EARNINGS FROM VESSELS' TRADING OF THE GROUP IN 2015

FIGURE 8

Dynamics of Net earnings from vessels' trading of the Group, 2013-2015, USD million



2.1.3.2 Fleet performance indicators by lines of business

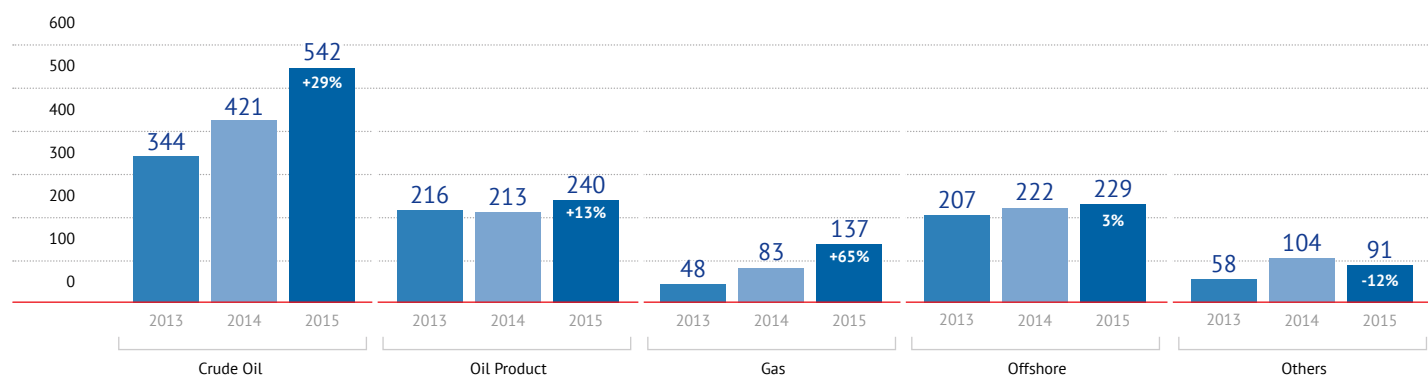
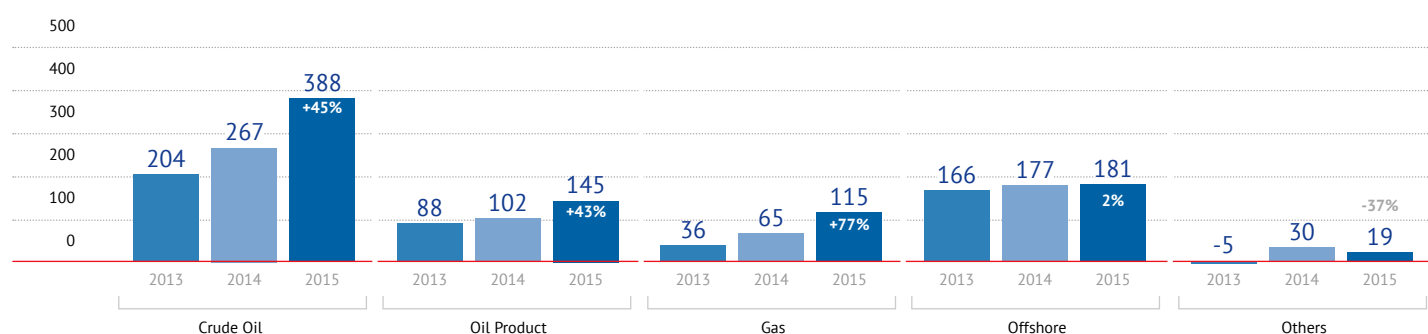
Positive dynamics of the main operating indicators were also observed in the breakdown of the Group's main operating segments in 2015.

The increase in time charter equivalent and net earnings from vessels' trading in the crude oil and product transportation segment was achieved due to a market upturn and the optimal distribution of the large-capacity fleet, between work on time charters and on the spot market in traditional regions of the Atlantic Basin (Black Sea, Mediterranean Sea, Baltic Sea), as well as maximum participation in premium markets where SCF Group enjoys traditional competitive advantages, including shipping with ice-class vessels from

the Primorsk and Ust-Luga ports during the winter period.

In the LNG shipping segment, growth in time-charter equivalent revenue and Net earnings from vessels' trading was achieved through the commissioning of new vessels, and in the offshore service segment through efficiency improvements in the operations of long-term charter vessels.

Despite a slight decline in income from the Group's seismic survey business (Other operating segments), which occurred in 2015 due to unfavourable conditions in the oil and gas sector, the Offshore Seismic Exploration Division of SCF Group continued to post steady profits from the operation of seismic vessel *Vyacheslav Tikhonov* and implementation of other specialised projects.

FIGURE 9 Dynamics of the time charter equivalent by operating segments, 2013-2015, USD million**FIGURE 10** Dynamics of the Net earnings from vessels' trading by operating segments, 2013-2015, USD million

¹ Source: Company

2.2 OVERVIEW OF INVESTMENT ACTIVITIES

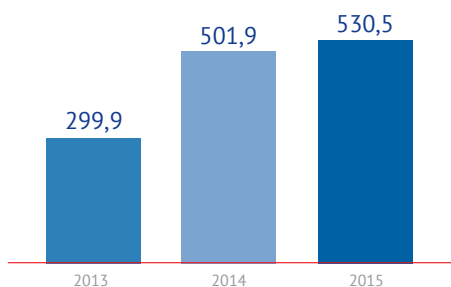
THE INVESTMENT ACTIVITIES OF SCF GROUP ARE PERFORMED AS PART OF THE LONG-TERM DEVELOPMENT STRATEGY OF THE GROUP, FOR THE PERIOD UP TO 2020. EVERY SPECIFIC PROJECT IS DEVELOPED AND EVALUATED ACCORDING TO THE COMPANY'S INTERNAL REGULATIONS.

With due regard for the Group's strategic priorities, the Investment Programme chiefly focuses on the implementation of high-yield industrial projects in the area of liquefied gas transportation and the servicing of offshore hydrocarbon fields. In 2015 most investments were directed to these segments. Investments were also made in the repair and modernisation of the Group's existing fleet.

The Investment Programme of the Group for 2015 was implemented in full. In 2015, investments increased to USD 530.5 million, a USD 29 million increase on 2014.

FIGURE 11

Dynamics of Group investments, 2013-2015, USD million



2.2.1 IMPLEMENTATION OF INVESTMENT PROJECTS IN 2015 – KEY RESULTS



Multifunctional ice-breaking supply vessels for Sakhalin-2 project

As part of the Sakhalin-2 project, oil, gas and condensate reserves are being developed on the northeast shelf of Sakhalin Island, including the Piltun-Astokhskoe oil and Lunsk gas fields. To meet the project's requirements, since 2009 the Group has been providing specialised reinforced ice-class supply vessels under a long-term time charter.

The development of Sakhalin-2 required four additional supply vessels. Thus, on 18 April 2014 a time charter contract for one ice-breaking supply vessel was signed with Sakhalin Energy, the Sakhalin-2 operator, followed by a contract for another three standby ice-breaking vessels on 16 May 2014.

All four vessels were under construction in 2015, with the keel for the first vessel of this series laid at the end of 2015.



LNG carriers for Yamal LNG project

This project involves the development of the South Tambey gas condensate field and includes the construction of a liquefied natural gas plant and the transportation of LNG by reinforced ice-class gas carriers along Northern shipping routes from the port of Sabetta.

SCF Group provided advisory services to OAO Yamal LNG (project operator) to assist in developing a design for the LNG carriers and optimising the costs associated with the project logistics. The Group also participated in a tender for ordering and building the vessels. Based on the results of the tender, on 14 February 2014 a ship-building contract and time charter agreement were signed for the pilot unique reinforced ice-class Arc 7 LNG carrier, with a capacity of 172,600 cubic meters. The vessel was specifically designed for this project and is unmatched in the world.

In 2015 the gas carrier was built under the supervision of Sovcomflot, with the keel laid for the vessel on 23 March 2015.

TABLE 12 Total investments by investment projects of SCF Group

No	Client / project	Goal	Implementation stage	Investments in 2015 (USD million) Actual value
1	Shell	Construction of two LNG carriers	Both carriers were delivered in 2015	319.3
2	Yamal LNG	Construction of LNG carriers	One vessel is being built	2.9
3	SEIC/ Sakhalin-2	Construction of four Multifunctional ice-breaking supply vessels	The vessels are being built	78.0
4	Gazpromneft/Novy Port	Construction of three shuttle tankers	The vessels are being built	130.3
TOTAL				530.5



Atlanticmax LNG gas carriers for Royal Dutch Shell

In 2015 the construction of LNG carriers *SCF Melampus* and *SCF Mitre*, ordered for operations under a long-term agreement with Royal Dutch Shell, was completed.



Arctic shuttle tankers for Novy Port project

This project involves the construction of an offshore oil terminal near the Novy Port village in Yamalo-Nenets Autonomous District. Oil will be shipped by specialised reinforced ice-class shuttle tankers. In 2014 agreements were concluded on the construction of the first three tankers. All vessels were being built in 2015; in particular, the keels for all vessels of this series were laid during the year.

2.2.2 IMPLEMENTATION OF SHIPBUILDING PROGRAMME

During 2012-2015 SCF Group worked with shipbuilding companies based in Russia, Finland, the Republic of Korea, and the People's Republic of China, and commissioned 17 vessels with a total deadweight of some 1.8 million tonnes, including two Atlanticmax gas carriers – *SCF Melampus* and *SCF Mitre* – in 2015.

In 2015 eight vessels were under construction, of four different types, planned to be operated by SCF Group for Yamal LNG, Sakhalin-2 and Novy Port projects.

As at 31 December 2015 SCF Group's order portfolio was eight vessels, with a total deadweight of 233,800 tonnes.

2.3 OVERVIEW OF INNOVATIONS AND R&D

The main areas of SCF Group's innovative development are determined according to the priority areas for the development of science, engineering and technology set by the Russian Presidential Decree No. 899 dated 7 July 2011, as well as critical technologies aimed at the modernisation and technological development of Russia's economy and improvement of its competitiveness.

For SCF Group, as the largest Russian shipping company specialised in providing services for maritime transportation of energy resources (oil, petroleum products and liquefied gas) on the global shipping market, such areas and critical technologies are as follows:

530.5

million
USD

THE GROUP'S
INVESTMENTS
IN 2015

- Priority areas for the development of science, engineering and technologies in the Russian Federation: transport systems;
- Critical technologies in the Russian Federation: technologies for creating new-generation transport equipment.

SCF Group's innovative activities are organised in accordance with the requirements and methodological guidelines of the Russian Ministry of Economic Development for state-owned companies and joint-stock companies with state participation.

In May 2011, the Innovation Development Programme of SCF Group was drafted and approved by the Board of Directors. The programme determined the main areas for performing innovative activities in the area of fleet renewal, staff training, expanding the range of services provided by the Group, the performance of R&D, and experimental and design work.

¹ Russian Government Order No. 1713-r dated 11 October 2010.

**8 NEW STATE-OF-THE-ART
VESSELS WILL JOIN THE
GROUP'S FLEET IN 2016-2017**



SCF Group reports annually to the Russian Ministry of Economic Development, Ministry of Regional Science, and Ministry of Transport on the implementation of Innovation Development Programme actions.

In the course of implementation of the Innovation Development Programme, during 2012-2015, SCF Group worked persistently on developing optimal engineering and technical solutions to form the transport component of major industrial projects, and in particular to provide smooth year-round shipping in the Gulf of Ob (Yamal LNG and Novy Port projects). This work will result in the addition of unique vessels in terms of technical and operating characteristics to the fleet, which will give SCF Group a competitive advantage in operations on offshore projects in severe climatic conditions of the Arctic and Sub-arctic seas.

The main areas of innovative, research, development and technological activities of SCF Group in 2015 were as follows:

- Research, calculations, and experiments on the selection of optimal parameters of the energy units of vessels from the perspective of energy efficiency and a reduction in environmental impacts;
- Development of shipowner's technical specifications for Aframax tankers with tri-fuel main engines (heavy fuel oil/diesel fuel and natural gas);
- The design of vessels capable of operating in the most challenging working conditions of the North Atlantic in the winter period was based on a service life increased to 25 years (equivalent to a 40-year service life of a vessel operating in other parts of the world's oceans);
- Application of new rules governing the construction of vessels during research into the structural and fatigue performance characteristics of the hull design;
- Research, calculations, and experiments on the selection of optimal forms of hulls and the parameters of rudder propeller units;
- Review and approval of engineering documentation for the construction of a floating storage and regasification unit (FSRU);
- Development of methodological recommendations for safe year-round navigation of large-capacity oil tankers and LNG tankers in the Gulf of Ob.
- The financing of research, development and engineering work, professional training, retraining and development of SCF Group employees in 2015 amounted to USD 9,761,808.

FIGURE 12

Structure of R&D expenses in 2015, %

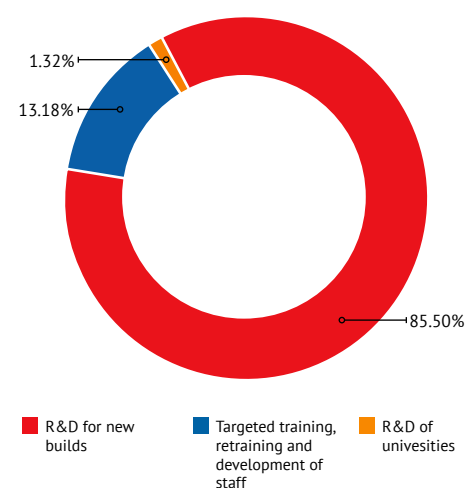


TABLE 13 Shipbuilding portfolio of the Group as at 31 December 2015

No.	Name of vessel	Type of vessel	Deadweight, tonnes	Ice class
1	<i>Shturman Albanov</i>	Shuttle tanker	42,000	Arc7
2	<i>Shturman Malygin</i>	Shuttle tanker	42,000	Arc7
3	<i>Gennady Nevelskoy</i>	Platform supply vessel	3,000	Icebreaker ICE-15
4	<i>Shturman Ovtsyn</i>	Shuttle tanker	42,000	Arc7
5	<i>Fedor Ushakov</i>	Support vessel	2,000	Icebreaker ICE-15
6	<i>Christophe de Margerie</i>	LNG tanker	98,800	Arc7
7	<i>Stepan Makarov</i>	Support vessel	2,000	Icebreaker ICE-15
8	<i>Mikhail Lazarev</i>	Support vessel	2,000	Icebreaker ICE-15
TOTAL			233,800	

2.4 OVERVIEW OF FINANCIAL PERFORMANCE

SCF GROUP DELIVERED A STRONG FINANCIAL PERFORMANCE IN 2015 AMIDST FAVOURABLE MARKET CONDITIONS FOR TANKER OWNERS, DUE TO MEASURES TAKEN TO RENEW AND MODERNISE THE FLEET, THE APPLICATION OF A BALANCED CHARTERING POLICY, AND WORKING WITH HIGH-QUALITY CLIENTS.

The financial statements of SCF Group were prepared according to IFRS and are attached as an appendix to this report, together with corresponding comments and clarifications. We present below a brief overview and analysis of the key financial indicators of the Group.

2.4.1 KEY FINANCIAL INDICATORS

In 2015 the Group improved its key financial indicators. The total book value of the vessels in operation increased by 2.1%, from USD 5.28 billion as at the end of 2014 to USD 5.39 billion at the end of the reporting period. Shareholder equity at the end of 2015 totalled USD 3.48 billion, 10.2% up on the previous period. In total, the Group's assets equalled USD 6.70 billion at the end of 2015, 4.2% up on 2014.

The Group maintains a stable programme of capital investments during all phases of the shipping cycle. Investments in new builds in 2015 totalled USD 516,200 (in 2014: USD 492,400); the amount payable under current shipbuilding contracts in 2016-2017 at the end of 2015 was USD 953,400.

The investment programme and operating activities were financed through secured bank loans (as at 31 December 2015, total debt to banks amounted to USD 2.07 billion), revenues from the placement at

the end of 2010 of USD 800,000 worth of unsecured Eurobonds thousand, and operating cash flow.

Despite adverse market conditions for Russian borrowers amid volatile geopolitical and economic situation in the world, the Group retained access to both foreign and domestic debt capital markets. In the reporting period the Group concluded two loan agreements for a total amount of USD 756 million, which will be used to finance new builds in 2016-2017, and also two refinancing deals for a total amount of USD 130 million. In the reporting year, SCF Group's borrowers and guarantors fully met all the requirements and the terms and conditions ("covenants") of their corresponding loan agreements.

The Group carefully monitors its capital structure and works on its optimisation.

Strong financial results in the reporting period helped significantly improve the Company's credit indicators. SCF Group's leverage (net debt to equity ratio) at the end of 2015 declined to 42.7%, whilst net debt to EBITDA ratio went down to below 3.5.

The Group's current leverage is favourable and is below average industry levels which are traditionally impacted by the high capital intensity of new projects and volatility of the freight markets.

2.4.2 INDICATORS FROM THE INCOME STATEMENT

The key profit indicators of the Group improved in 2015. Gross revenue increased by 7.6%, from USD 1.38 billion as at the end of 2014 to USD 1.43 billion

TABLE 14 Development dynamics of capital structure, USD million¹

Name	2014	2015	% Δ
Secured loans	1,982.6	1,885.6	-4.9%
Obligations under financial lease	193.3	183.8	-4.9%
Eurobonds and other loans	842.9	875.5	3.9%
Minus: cash and cash equivalents	284.5	(367.4)	29.1%
Net debt	2,734.3	2,594.4	-5.1%
Share capital	3,157.5	3,481.0	10.2%
Total capital	5,891.7	6,075.4	3.1%
Net debt/equity ratio	46.4%	42.7%	-8.0%
Net debt/EBITDA ratio	5.1	3.5	-31.4%

¹ See Financial Report of the SCF Group



Aleksey Chirikov, one of the series of multifunctional icebreaking standby and supply vessels that service offshore oil platforms in Russia's Far East

as at the end of the reporting period. In 2015, EBITDA reached USD 742.6 million, up 38.0 % year on year.

In total, the Group significantly increased its operating margin in 2015 and posted a record net profit in the last seven years of USD 354.5 million.

The company's income structure was composed of four main segments. 63.1% of the total income was derived from the conventional fleet operation (transportation of crude oil and petroleum products) and 36.9% was generated by the industrial business portfolio (transportation of gas and servicing of offshore fields).

The structure of the company's main expenses in the reporting period is shown in Figure 14.

As a result of a balanced operational policy, the company achieved a 3% saving in operating expenses (which totalled USD 391.6 million in 2015). General and administrative expenses remained at the level of the previous period (USD 105.9 million in 2015 vs. USD 104.0 million in 2014). Financing expenses also remained at the same level as in the previous period (USD 123.7 million in 2015 vs. USD 121.7 million in 2014) and comprised 30.3% of coupon payments on Eurobonds with 5.375% yield and 69.7% of expenses for servicing the current bank debt.

TABLE 15 Profit indicators, USD million

Indicator	2014	2015	% Δ
Gross revenue	1,377.9	1,483.0	7.6%
Time charter equivalent	1,044.0	1,240.1	18.8%
EBITDA	538.2	742.6	38.0%
Net profit/(loss)	83.9	354.5	x4.2

FIGURE 13

Structure of the time charter equivalent by operating segments

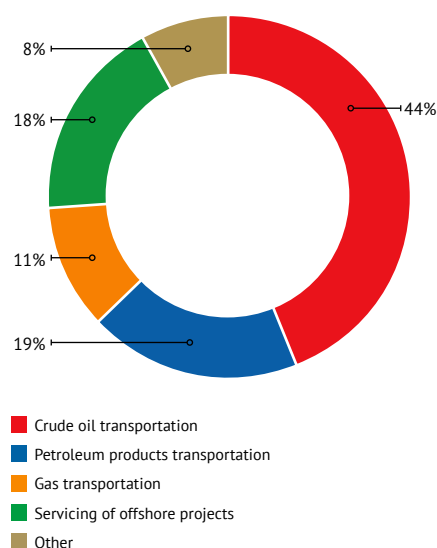


FIGURE 14

Structure of the main expense items

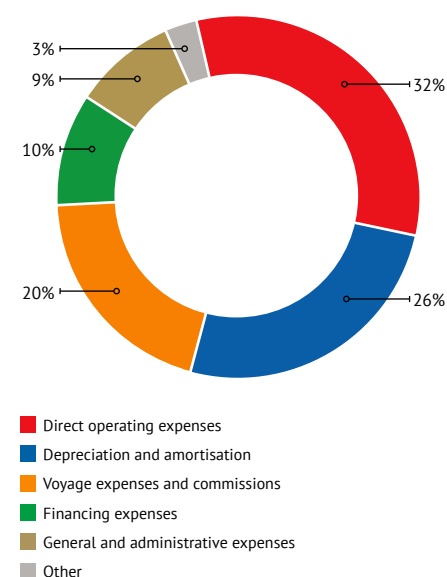


FIGURE 15 Yield to maturity (%) of bonds of SCF Group and comparable Russian corporate issuers

2.4.3 LIQUIDITY INDICATORS

The Group has a strong liquidity cushion, which acts as a significant stabilising factor. Freely available cash in bank accounts and deposits totalled USD 333 million at the end of 2015, in line with the Group's cash management policy. The Group also has a reserve of unused revolving credit facilities of USD 129 million and accessible special-purpose credit facilities for new builds of USD 756 million. Thus, the Company's current liquidity as at 31 December 2015 totalled 1,218 USD million. The Company's liquidity fully covers future investments under the current shipbuilding programme, taking into account the obligations under shipbuilding contracts as at the end of 2015 amounting to USD 953.4 million.

2.4.4 CREDIT RATING OF THE GROUP

During 2015 SCF Group continued to work with international rating agencies. Backed by a steady strengthening in the freight market and the positive dynamics of the Group's credit metrics against this backdrop, and notwithstanding the revision of creditworthiness of Russian issuers by rating agencies and adopted decisions to downgrade their ratings amidst rising geopolitical risks and instability in Russia's economic development, the Group managed to improve its credit ratings.

Moody's Investors Service raised the Group's issuer rating to Ba3 and simultaneously reaffirmed the corporate credit rating at Ba2, having lifted the outlook for both ratings to stable. Fitch Ratings upgraded the Group's rating by one notch to BB, leaving the outlook as stable. Standard & Poor's (S&P) noted positive dynamics of the Group's financial position, but left the credit rating unchanged at BB+, with a negative outlook in line with Russia's sovereign rating.

In 2015 the unfavourable geopolitical environment put significant pressure on the quotations of the bonds of Russian issuers, including SCF Group. However, in the second half of the year, against a backdrop of stabilising financial markets and considering improvements in the Group's credit metrics and ratings, its Eurobonds traded with a minimal discount on their face value, and their yield to maturity at the end of the reporting year was 6.0%.

**THE PERFORMANCE OF THE
SCF GROUP IN 2015 ALLOWED
IT TO IMPROVE ITS CREDIT
RATINGS**



CORPORATE GOVERNANCE

- The highly developed corporate governance system at SCF Group facilitates improvements in the Group's investment attractiveness and promotes increases in operational efficiency. PAO Sovcomflot's plans to access public capital markets make the development of corporate governance practices a priority task.



3.1 CORPORATE GOVERNANCE SYSTEM

SCF GROUP SEEKS TO ENSURE THAT ITS CORPORATE GOVERNANCE SYSTEM COMPLIES WITH INTERNATIONALLY RECOGNISED STANDARDS – THIS REQUIRES COMPLETE ADHERENCE TO BOTH LEGISLATIVE REQUIREMENTS AND TO BEST PRACTICE STANDARDS RELATED TO CORPORATE BEHAVIOUR AND ETHICAL NORMS.

Sovcomflot is governed by the following internal corporate governance regulations¹:

- The Charter of PAO Sovcomflot (approved by the PAO Sovcomflot Board of Directors decision No. 478 dated 29 June 2015);
- The Corporate Governance Code (approved by Instructions No. 18-r of the Federal Agency for State Property Management dated 13 January 2009);
- Regulations on the Board of Directors (approved by Instructions No. 18-r of the Federal Agency for State Property Management dated 13 January 2009);
- Regulations on the Strategy Committee of the Board of Directors (approved by the Board of Directors decision dated 5 February 2009, Minutes No. 95);
- Regulations on the Audit Committee of the Board of Directors (the new version was approved by the Board of Directors decision dated 30 May 2014, Minutes No. 135; the previous version of the Regulations was approved by the Board of Directors decision dated 5 February 2009, Minutes No. 95);
- Regulations on the HR and Compensation Committee of the Board of Directors (approved by the Board of Directors decision dated 5 February 2009, Minutes No. 95);

- Regulations on the Committee for Innovative Development and Technical Policy (approved by the Board of Directors decision dated 25 February 2011, Minutes No. 109);
- Regulations on the Executive Board (approved by Instructions No. 838-r of the Federal Agency for State Property Management dated 30 June 2009);
- Regulations on the Chief Executive Officer (approved by Instructions No. 696-r of the Federal Agency for State Property Management dated 30 June 2014);
- Regulations on the Internal Audit Commission (approved by Instructions No. 838-r of the Federal Agency for State Property Management dated 30 June 2009);

Mechanisms related to managing sustainable development and social responsibility are embedded in the SCF Group corporate governance system. During their activities management bodies assess a number of issues, including those related to occupational health and safety, HR management, charity work, and environmental impacts.

SCF Group (represented by the management bodies and employees) ensures compliance with current Russian law requirements, including those related to combatting corruption.

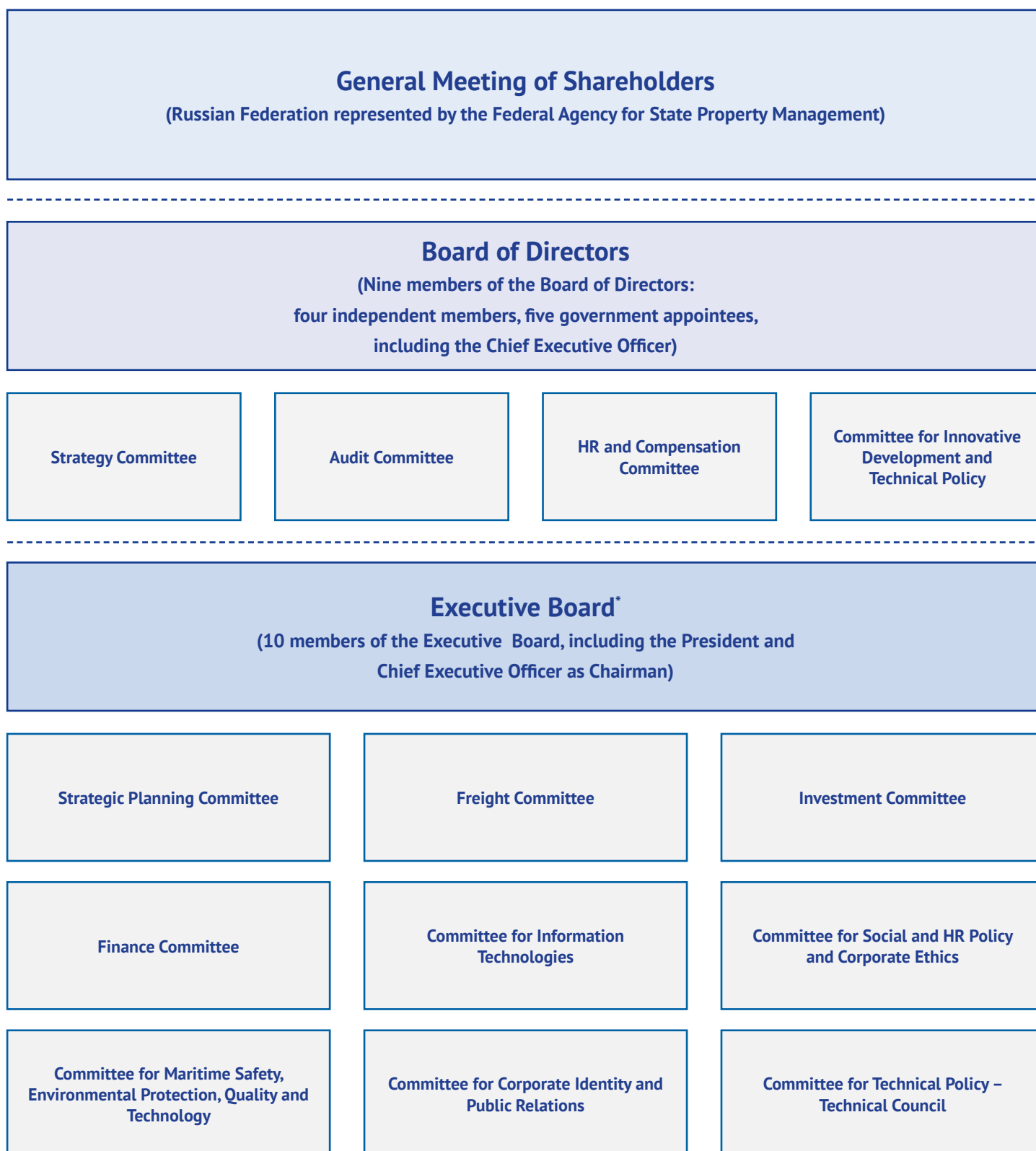
The general policy for regulating conflicts of interest involving PAO Sovcomflot is determined by its Board of Directors. The mechanism for notifying the management bodies of Sovcomflot of any conflicts of interest is determined by the Regulations on the Board of Directors, as well as the current Corporate Governance Code.

Development of the corporate governance system

The original version of the PAO Sovcomflot Corporate Governance Code was approved by the Board of Directors on 22 February 2007 (Minutes No. 80). The current version of the Corporate Governance Code of PAO Sovcomflot, developed in accordance with the Federal Law on Joint-Stock Companies, the Charter and other internal documents of the Company, recommendations of the Corporate Governance Code approved by the Bank of Russia (Bank of Russia Letter No. 06-52/2463 dated 10 April 2014), recommendations of the Principles of Corporate Governance of the Organization for Economic Cooperation and Development (OECD), and the listing requirements of Russian and foreign stock exchanges, was approved by the PAO Sovcomflot Board of Directors decision dated 10 November 2015 (Minutes No. 149).

The Corporate Governance Code is a set of rules, standards, and internal regulations, which are adopted on a voluntary basis and are used by SCF Group in the course of its activities, and which are based on a balanced consideration of the interests of the Company's shareholders, management bodies and other stakeholders. The goal of the Corporate Governance Code is to ensure a high level of corporate governance and professional and business ethics necessary to achieve the strategic goals and objectives determined by the Charter and other internal documents of the Company. The Corporate Governance Code determines the key principles and elements on which the corporate governance code of the Company is based and relies on international corporate governance standards recognised by the business community, including the corporate governance principles of the Organization for Economic Cooperation and Development, the Code of Corporate Governance recommended for use by the Bank of Russia, and the Company's Charter.

¹The internal regulations governing the activities of the management and control bodies of PAO Sovcomflot are available on the website <http://www.scf-group.ru>

FIGURE 16 STRUCTURE OF THE MANAGEMENT AND CONTROL BODIES OF PAO SOVCOMFLOT²

²In 2015 no changes took place to the structure of PAO Sovcomflot management bodies.
*As of 31 December 2015

3.2 GENERAL MEETING OF SHAREHOLDERS

IN ACCORDANCE WITH CLAUSE 5 OF THE REGULATIONS ON THE MANAGEMENT OF THE FEDERALLY OWNED SHARES OF OPEN JOINT-STOCK COMPANIES AND EXERCISING THE SPECIAL RIGHT FOR THE PARTICIPATION OF THE RUSSIAN FEDERATION IN THE MANAGEMENT OF OPEN JOINT-STOCK COMPANIES (THE "GOLDEN SHARE"), APPROVED BY RUSSIAN GOVERNMENT RESOLUTION NO. 738 DATED 3 DECEMBER 2004, THE RIGHTS OF THE SHAREHOLDER – THE RUSSIAN FEDERATION – ARE EXERCISED BY THE FEDERAL AGENCY FOR STATE PROPERTY MANAGEMENT, AS AGREED WITH THE RUSSIAN MINISTRY OF TRANSPORT.

On 29 June 2015 the PAO Sovcomflot Annual General Meeting of Shareholders was held (Instructions No. 478-r of the Federal Agency for State Property Management dated 29 June 2015), which adopted the following resolutions:

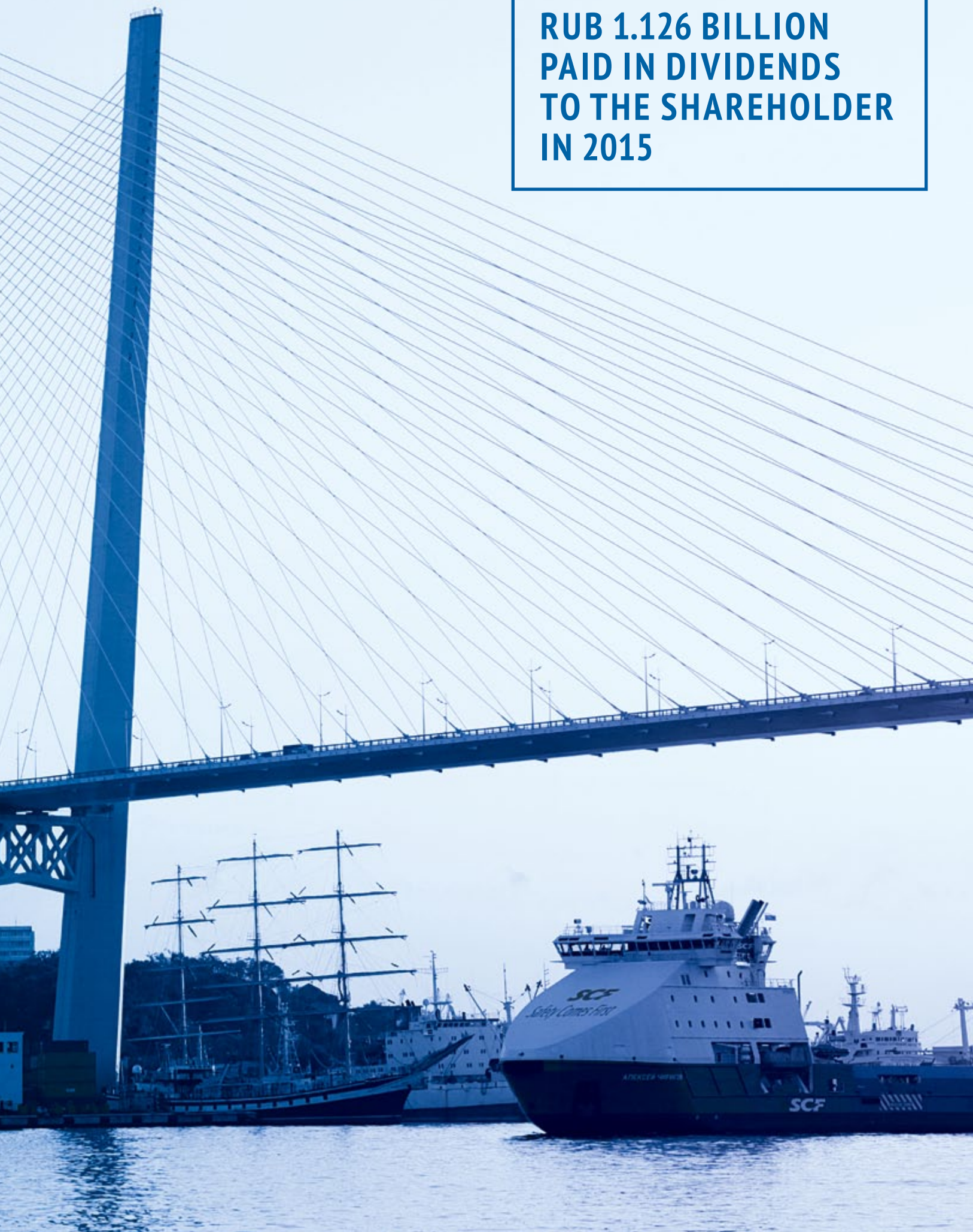
- Approve the annual report on the performance of PAO Sovcomflot in 2014 and the annual financial statements, including the income statement, of PAO Sovcomflot for 2014;
- Approve the distribution of the net profit of PAO Sovcomflot amounting to RUB 912.1 million (100% of the net profit) as dividends based on PAO Sovcomflot's operating results for 2014;
- Approve the distribution of PAO Sovcomflot profits for previous years in the amount of RUB 3,411,416, which were not distributed to the Company's shareholders, as dividends on the shares of PAO Sovcomflot totalling RUB 213.9 million;
- Approve payment of dividends on the ordinary shares of PAO Sovcomflot based on the 2014 results amounting to RUB 1,126 million or RUB 0.572 533 481 145 275 per one (1) registered ordinary share of PAO Sovcomflot, representing 100% of the 2014 net profit of RUB 912.1 million and retained earnings from prior years of RUB 213.9 million, and set the 10th day following the date of the decision to pay out dividends as the dividend record date;
- Elect members of the PAO Sovcomflot Board of Directors and Internal Audit Commission;
- Approve OOO Ernst & Young as the auditor of PAO Sovcomflot for 2015;

- Approve the revised Charter of PAO Sovcomflot;
- Approve amendments to the Regulations on the Payment of Compensation and the Reimbursement of Expenses to Members of the PAO Sovcomflot Board of Directors and the payment of compensation to members of the Company's Board of Directors in the amount determined by these Regulations.

An extraordinary General Meeting of PAO Sovcomflot shareholders was held on 19 June 2015 (Instructions No. 432-r of the Federal Agency for State Property Management dated 19 June 2015), at which it was decided to extend the term of office of Sergey Frank and reappoint him as the President & Chief Executive Officer of PAO Sovcomflot for five years with effect from 8 June 2015.

All resolutions adopted at the General Meetings of Shareholders had been executed as at 31 December 2015.

**RUB 1.126 BILLION
PAID IN DIVIDENDS
TO THE SHAREHOLDER
IN 2015**



3.3 BOARD OF DIRECTORS AND ITS COMMITTEES

THE BOARD OF DIRECTORS OF PAO SOVCOMFLOT PLAYS AN IMPORTANT ROLE IN THE ORGANISATION OF AN EFFECTIVE CORPORATE GOVERNANCE SYSTEM. THE BOARD IS RESPONSIBLE FOR THE STRATEGIC LEADERSHIP OF THE GROUP'S ACTIVITIES AND DETERMINING THE VISION, MISSION, AND STRATEGIC DEVELOPMENT OF THE GROUP.

The PAO Sovcomflot Board of Directors comprises nine members.

The members of the PAO Sovcomflot Board of Directors during the reporting period were:

1) Elected by the Annual Meeting of Shareholders dated 30 June 2014 (Instructions No. 696-r of the Federal Agency for State Property Management dated 30 June 2014) as follows:

- **Ilya Klebanov** – Government appointee
- **Anna Belova** – Government appointee
- **Sergey Frank** – Government appointee
- **Alexey Klyavin** – Independent director
- **Marlen Manasov** – Independent director
- **David Moorhouse** – Independent director
- **Mikhail Poluboyarinov** – Government appointee
- **Charles Ryan** – Government appointee
- **Nikolay Tokarev** – Government appointee

2) Elected by the Annual Meeting of Shareholders dated 29 June 2015 (Instructions No. 478-r of the Federal Agency for State Property Management dated 29 June 2015) as follows:

- **Ilya Klebanov** – Government appointee
- **Anna Belova** – Government appointee
- **Walid Chammah** – Independent director
- **Ivan Glumov** – Independent director
- **Sergey Frank** – Government appointee
- **Alexey Klyavin** – Independent director
- **David Moorhouse** – Government appointee
- **Mikhail Poluboyarinov** – Government appointee
- **Andrei Sharonov** – Independent director

Ilya Klebanov was elected Chairman of the PAO Sovcomflot Board of Directors, based on Board of Directors decisions dated 9 September 2014 (Minutes No. 137) and 7 August 2015 (Minutes No. 147), in accordance with Russian Government directives.

Independent directors have been elected to the Board of Directors of PAO Sovcomflot annually since 2008, in accordance with the criteria established in the current Corporate Governance Code and in Russian Government Resolution No. 738. According to the Charter of PAO Sovcomflot, the shareholders seek to nominate and elect at least three independent directors. For example, four independent directors were elected to the Board of Directors (as at 31 December 2015): Alexey Klyavin, Ivan Glumov, Walid Chammah, and Andrei Sharonov.

The Chairman and members of the Board of Directors did not own shares in PAO Sovcomflot during the reporting period.

Since 2006 PAO Sovcomflot has taken out liability insurance for members of the Board of Directors.

The Board of Directors



Ilya Klebanov

Chairman of the PAO Sovcomflot Board of Directors



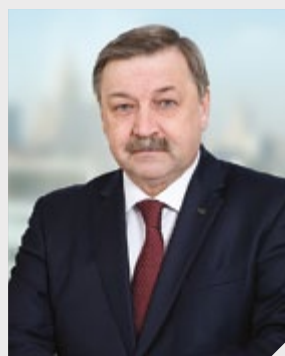
Anna Belova

Member of the PAO Sovcomflot Board of Directors, Professor and Deputy Dean of the Higher School of Management at National Research University Higher School of Economics



Ivan Glumov

Member of the PAO Sovcomflot Board of Directors (independent director), CEO of Severneftegaz



Alexey Klyavin

Member of the PAO Sovcomflot Board of Directors (independent director), President of Russian Chamber of Shipping



David Moorhouse

Member of the PAO Sovcomflot Board of Directors, Non-Executive Chairman of the Board of Directors of Braemar Services PLC



Mikhail Poluboyarinov

Member of the PAO Sovcomflot Board of Directors, Member of the Management Board and First Deputy Chairman of Vnesheconombank



Sergey Frank

Member of the PAO Sovcomflot Board of Directors, President and CEO of Sovcomflot



Walid Chammah

Member of the PAO Sovcomflot Board of Directors (independent director), Partner of Chammah & Partners



Andrei Sharonov

Member of the PAO Sovcomflot Board of Directors (independent director), Rector at Moscow School of Management Skolkovo



3.3.1 ACTIVITIES OF THE BOARD OF DIRECTORS IN 2015

The procedure for convening and holding meetings of the Board of Directors is determined by the Regulations on the Board of Directors.

The work of the Board of Directors in the reporting year was performed in accordance with its competence, as determined under the Federal Law on Joint-Stock Companies and the PAO Sovcomflot Charter. In 2015 the PAO Sovcomflot Board of Directors convened nine times (including five meetings through joint attendance and four through absentee voting).

In 2015 the PAO Sovcomflot Board of Directors considered 44 issues and adopted decisions on the following main areas:

- Strategic management of SCF Group, including updating the long-term

development programme, terms of reference for audit, implementation of the long-term development programme, amendments to the structure of the annual report of PAO Sovcomflot;

- Updating the corporate employee compensation policy;
- Notification of significant issues in SCF Group operations.
- Approval of the financial plan (budget) of PAO Sovcomflot and SCF Group, a summary of performance during the reporting period, preparations for holding the annual General Meeting of Shareholders.
- Supervising the activities of PAO Sovcomflot executive bodies, including amending the composition of the Executive Board, approving performance targets and the results of their attainment by the executive bodies,

FIGURE 17

Number of Board of Director meetings, 2013-2015

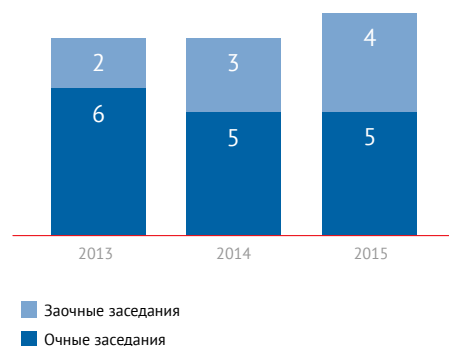
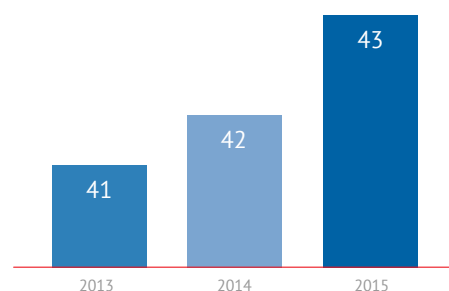


FIGURE 18

Number of issues considered by the Board of Directors, 2013-2015



and the holding by executive bodies of positions on the management bodies of other organisations.

- Approval of internal documents, including the Regulations on Internal Audit and the Regulations on Risks;
- Approval of the Corporate Governance Code of PAO Sovcomflot;
- Approval of the revised Regulations on the Procurement of Goods, Works and Services for the Needs of PAO Sovcomflot;
- Approval of interested-party transaction;
- Supporting the organisational activities of the Board of Directors and establishing Committees of the Board of Directors.

Information on the most significant issues was disclosed by PAO Sovcomflot as material facts.

¹ Date of the meeting and number of the minutes: 24 March 2015, No. 142 dated 27 March 2015; 4 April 2015, No. 143 dated 9 April 2015; 19 May 2015, No. 144 dated 21 May 2015; 28 May 2015, No. 145 dated 29 May 2015; 24 July 2015, No. 146 dated 28 July 2015; 7 August 2015, No. 147 dated 10 August 2015; 22 September 2015, No. 148 dated 25 September 2015; 10 November 2015, No. 149 dated 13 November 2015; 10 December 2015, No. 150 dated 15 December 2015.

3.3.2 ACTIVITIES OF THE COMMITTEES OF THE BOARD OF DIRECTORS

When considering issues within its competence, the committees arrange for a detailed analysis of drafts proposed by management and the preparation of recommendations for the Board of Directors, thereby improving the quality of the decision-making process. The committees operate on the basis of respective provisions approved by the Board of Directors.

Report on the work of the Strategy Committee

During the reporting period two compositions of the Audit Committee were in operation (elected by PAO Sovcomflot Board of Directors decision dated 22 July 2014 (Minutes No. 136) and elected by PAO Sovcomflot Board of Directors decision dated 24 July 2015 (Minutes No. 146)).

During the reporting period Strategy Committee members held working meetings with PAO Sovcomflot's management on matters related to updating the long-term development programme of PAO Sovcomflot.

FIGURE 19

Structure of issues considered at Board of Director meetings, 2015

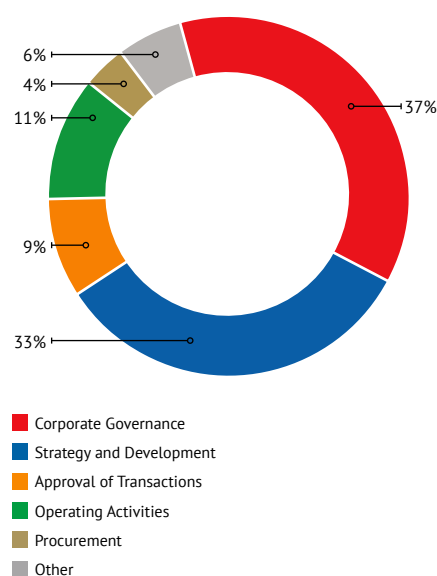


TABLE 16 Participation of PAO Sovcomflot directors in Board of Director meetings, 2015

Director	Participation in meetings	Total number of meetings
Members of the Board of Directors throughout 2015		
Ilya Klebanov	9	9
Anna Belova	9	9
Sergey Frank	9	9
Alexey Klyavin	9	9
David Moorhouse	9	9
Mikhail Poluboyarinov	9	9
Andrei Sharonov	9	9
Members of the Board of Directors until 30 June 2014		
Marlen Manasov	4	4
Charles Emmett Ryan	4	4
Members of the Board of Directors since 30 June 2015		
Walid Chammah	5	5
Ivan Glumov	5	5

Report on the work of the Audit Committee

During the reporting period two compositions of the Audit Committee were in operation (elected by PAO Sovcomflot Board of Directors decision dated 22 July 2014 (Minutes No. 136) and elected by PAO Sovcomflot Board of Directors decision dated 24 July 2015 (Minutes No. 146)).

In 2015 the Committee considered and prepared recommendations for the Board of Directors on the amount of the fee to be paid to the PAO Sovcomflot auditor, approval of the Regulations on the Internal Audit Department and the Regulations on Risk of PAO Sovcomflot, and participated in the preparation of the consolidated financial statements and audit report for 2014.

During the reporting period Audit Committee members held regular working meetings with the auditors and the financial and accounting departments of PAO Sovcomflot.

Report on the work of the HR and Compensation Committee

During the reporting period two compositions of the Audit Committee were in operation (elected by PAO Sovcomflot Board of Directors decision dated 22 July 2014 (Minutes No. 136) and elected by PAO Sovcomflot Board of Directors decision dated 24 July 2015 (Minutes No. 146)).

The HR and Compensation Committee considered and prepared recommendations for the Board of Directors on the following issues:

- Updating the corporate employee compensation policy of SCF Group;
- Improving the system of compensation for members of the PAO Sovcomflot Board of Directors;
- Approving performance targets and the results of their attainment by the executive bodies;

² Date of the meeting and number of the minutes: 1 April 2015, minutes unnumbered dated 3 April 2015; 22 September 2015, minutes unnumbered dated 22 September 2015; 10 December 2015, minutes unnumbered dated 10 December 2015.



SCF Primorye, a Suezmax tanker of 158,000 deadweight tonnes

9

meetings

OF THE PAO
SOVCOMFLOT BOARD
OF DIRECTORS WERE
HELD IN 2015

- Evaluating performance of the PAO Sovcomflot Chief Executive Officer and recommendations on his re-election for a new term;
- Amending the Regulations on the Wages and Material Incentives of PAO Sovcomflot Employees, including the PAO Sovcomflot long-term employee incentive programme;
- Proposals on the compensation system and the reimbursement of expenses to PAO Sovcomflot Board of Director members.

During the reporting period members of the HR and Compensation Committee held regular working meetings on the above issues with members of the PAO Sovcomflot collegiate executive body.

Report on the work of the Committee for Innovative Development and Technical Policy

During the reporting period two compositions of the Audit Committee were in operation (elected by PAO Sovcomflot Board of Directors decision dated 22 July 2014 (Minutes No. 136) and elected by PAO Sovcomflot Board of Directors decision dated 24 July 2015 (Minutes No. 146)).

During the reporting period members of the Committee for Innovative Development and Technical Policy held regular working meetings with corresponding PAO Sovcomflot structural divisions on issues regarding the implementation of the innovative development programme.

TABLE 17 Composition and structures of committees of the Board of Directors

Name of committee	Composition of committee as at 31 December 2015	Competencies of committee
Strategy Committee	<ol style="list-style-type: none"> 1. Alexey Klyavin (independent director) – Committee Chairman; 2. Anna Belova; 3. Walid Chammah (independent director); 4. Ivan Glumov (independent director); 5. Sergey Frank; 6. Andrei Sharonov (independent director). 	<ul style="list-style-type: none"> – Analysis of proposals and elaborating recommendations for the Board of Directors on priority areas of activity of PAO Sovcomflot, including long-term plans and development strategies and programmes. – Preliminary consideration and preparation of recommendations on compiling and adjusting the PAO Sovcomflot budget, and on drafting PAO Sovcomflot plans for financial and business activities over the long term and for the current period. – Elaborating proposals and recommendations on key performance indicators and the governance system for PAO Sovcomflot financial activities. – Elaborating proposals and recommendations on investment policy, increasing the capitalisation of PAO Sovcomflot, and working with PAO Sovcomflot securities. – Elaborating proposals and recommendations on the PAO Sovcomflot dividend policy.
Audit Committee	<ol style="list-style-type: none"> 1. Andrei Sharonov (independent director) – Committee Chairman; 2. Anna Belova; 3. Walid Chammah (independent director); 4. Alexey Klyavin (independent director); 5. David Moorhouse. 	<ul style="list-style-type: none"> – Assessing auditor candidates for PAO Sovcomflot, including submitting the assessment results to the Board of Directors, preparing for the PAO Sovcomflot Board of Directors recommendations on the candidacy of an auditor for subsequent approval by the General Meeting of Shareholders. – Assessing the financial and business activities of PAO Sovcomflot, including in relation to management reporting and the financial statements. – Assessing the auditor's report for PAO Sovcomflot prior to its being submitted to the General Meeting of Shareholders. – Assessing the effectiveness of internal control procedures in effect at PAO Sovcomflot, and preparing proposals on how they may be improved. – Creating recommendations on selecting an independent appraiser and the valuation of property by the independent appraiser in instances stipulated under law. – Supervising the activities and functional management of the activities of the PAO Sovcomflot internal audit department. – Preliminary consideration of risk management issues within the competence of the Board of Directors.
HR and Compensation Committee	<ol style="list-style-type: none"> 1. Walid Chammah (independent director) - Committee Chairman; 2. Anna Belova; 3. David Moorhouse; 4. Andrei Sharonov (independent director). 	<ul style="list-style-type: none"> – Determining the amount of compensation of members of the Board of Directors and the PAO Sovcomflot Internal Audit Commission. – Determining the amount of compensation of members of the collegiate executive body and the person exercising the functions of sole executive body of PAO Sovcomflot, including the management company or manager of PAO Sovcomflot. – Determining the terms and conditions of contracts with members of the collegiate executive body and the person exercising the functions of sole executive body of PAO Sovcomflot. – Electing the executive bodies of PAO Sovcomflot. – Determining and adjusting the PAO Sovcomflot HR policy. – Elaborating and submitting recommendations (opinions) to the Board of Directors on other issues, in accordance with instructions from the Board of Directors.
Committee for Innovative Development and Technical Policy	<ol style="list-style-type: none"> 1. David Moorhouse - Committee Chairman; 2. Sergey Frank; 3. Ivan Glumov (independent director); 4. Alexey K lyavin (independent director). 	<ul style="list-style-type: none"> – Considering and approving the innovative development policy and programmes of PAO Sovcomflot. – Considering and approving R&D projects. – Assessing state-of-the-art innovative technologies to be implemented at PAO Sovcomflot. – Creating the PAO Sovcomflot technical policy. – Creating the PAO Sovcomflot innovative development policy. – Improvements to the safety and quality service management system at PAO Sovcomflot. – Technical expert appraisals of investment projects.

3.4 CHIEF EXECUTIVE OFFICER AND THE EXECUTIVE BOARD

THE DAY-TO-DAY ACTIVITIES OF PAO SOVCOMFLOT ARE MANAGED BY THE PRESIDENT & CHIEF EXECUTIVE OFFICER (SOLE EXECUTIVE BODY) AND THE EXECUTIVE BOARD (COLLEGIATE EXECUTIVE BODY).

In accordance with directives of the Russian Government, Sergey Frank was elected President & Chief Executive Officer on 4 October 2014 by a PAO Sovcomflot Extraordinary General Meeting of Shareholders. The powers of Sergey Frank as PAO Sovcomflot President & Chief Executive Officer were extended for five years by a Resolution of the Extraordinary General Meeting of Shareholders (Instructions No. 432-r of the Federal Agency for State Property Management dated 19 June 2015).

FIGURE 20

Number of Executive Board meetings, 2013-2015

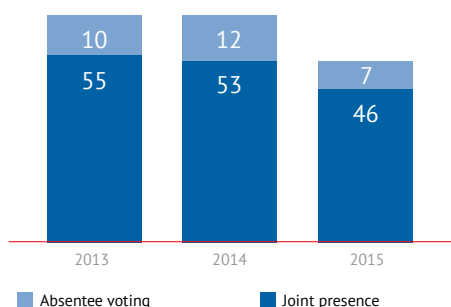
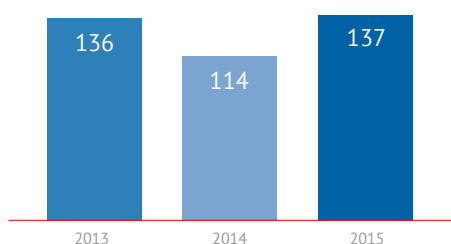


FIGURE 21

Number of issues considered by the Executive Board, 2013-2015



The rights and obligations of the President & Chief Executive Officer and members of the Executive Board on managing the current activities of PAO Sovcomflot are determined by Federal Law No. 208-FZ "On Joint-Stock Companies" dated 26 December 1995, other legal acts of the Russian Federation, the Charter, Regulations on the Management Bodies, the internal regulations of PAO Sovcomflot, and contracts determining the rights and obligations of the President & Chief Executive Officer and members of the Executive Board concluded by each of them with PAO Sovcomflot.

The Chief Executive Officer exercises the functions of President of the Executive Board, acts without a power of attorney on behalf of PAO Sovcomflot, and approves internal regulations governing: production and technology; financial; accounting; business; HR; and occupational health and safety issues.

The Executive Board operates within the limits of its competence determined by the Charter, and organises the implementation of resolutions of the General Meetings of Shareholders, as well as decisions of the PAO Sovcomflot Board of Directors.

The President and members of the Executive Board did not own shares in PAO Sovcomflot during the reporting period.

In 2015 the following changes were made to the composition of the PAO Sovcomflot Executive Board: according to the decision of the Board of Directors dated 10 December 2015 (Minutes No. 150), the composition of the Executive Board was changed and the powers of Executive Board member Alexander Kurtynin were terminated in connection with termination of his employment agreement with PAO Sovcomflot.

Based on a decision of the Executive Board, the following committees were created and operate at PAO Sovcomflot:

- The Strategic Planning Committee
- The Committee for Maritime Safety, Environmental Protection, Quality and Technologies
- The Finance Committee
- The Investment Committee
- The Freight Committee
- The Committee for Corporate Identity and Public Relations
- The Committee for Social and Human Resources Policy and Corporate Ethics
- The Committee for Technical Policy – Technical Council
- The Committee for Information Technologies

Seven out of the 53 meetings of the Executive Board were held by absentee voting. A total of 137 issues were considered at the Executive Board meetings in 2015.

Based on the issues considered, the Executive Board adopted decisions on the following main areas of activity of PAO Sovcomflot:

- Implementing the development strategy of SCF Group
- Renewing the PAO Sovcomflot fleet and expanding the Group's participation in industrial projects
- Improving the corporate and organisational structure of the Group
- Expanding the social guarantees and benefit packages of fleet and onshore personnel
- Charitable and sponsorship programmes of PAO Sovcomflot and SCF Group

¹ More details on the regulations on the management bodies can be found in the Corporate Governance section on the Group's website: <http://www.scf-group.ru>

The Executive Board



Sergey Frank
President and CEO



Evgeny Ambrosov
Senior Executive
Vice-President



Igor Tonkovidov
Executive Vice-President,
Chief Engineer



Nikolay Kolesnikov
Executive Vice-President,
Chief Financial Officer



Alexey Ostapenko
Vice-President, Administrative
Director



Vladimir Emelyanov
Vice-President, Head of
Strategic Planning and
Development



Alexander Kurtynin
Vice-President, Head of the
Seismic Exploration Division



Sergey Popravko
Managing Director of Unicom
Management Services
(Cyprus) Ltd.



Yury Tsvetkov
President of PAO Novoship



Callum Ludgate
Managing Director of
Sovcomflot (UK) Ltd.



Marios Christou Orphanos
Managing Director of Sovcomflot
(Cyprus) Ltd.



3.5 INTERNAL AUDIT COMMISSION

THE INTERNAL AUDIT COMMISSION EXERCISES CONTROL OVER THE FINANCIAL AND BUSINESS ACTIVITIES OF PAO SOVCOMFLOT, AS WELL AS ITS DIVISIONS AND SERVICES. THE INTERNAL AUDIT COMMISSION CONSISTS OF THREE INDIVIDUALS APPOINTED BY THE FEDERAL AGENCY FOR STATE PROPERTY MANAGEMENT IN AGREEMENT WITH THE RUSSIAN MINISTRY OF TRANSPORT.

The competence and operating procedures of the Internal Audit Commission¹ are determined by the Regulations on the Internal Audit Commission, approved by the PAO Sovcomflot General Meeting of Shareholders and Instructions No. 838-r of the Federal Agency for State Property Management dated 30 June 2009. The payment of compensation and reimbursement of expenses to Internal Audit Commission members is performed on the basis of the Instructions of the Federal Agency for

State Property Management, in accordance with the Regulations on the Payment of Compensation and the Reimbursement of Expenses to Members of the PAO Sovcomflot Internal Audit Commission (approved by Instructions No. 1046-r of the Federal Agency for State Property Management dated 13 August 2013).

The Internal Audit Commission is elected by the annual General Meeting of Shareholders until the following annual General Meeting of Shareholders and consists of no fewer than three people (Clause 17.2 of the PAO Sovcomflot Charter). During the reporting period, the Internal Audit Commission operated in the following compositions, which were elected by:

1. The annual General Meeting of Shareholders of 30 June 2014 (Instructions No. 696-r of the Federal Agency for State Property Management dated 30 June 2014) as follows: Irina

Babenkova, Alexander Volchkov, and Alexander Tikhonov.

2. The annual General Meeting of Shareholders of 29 June 2015 (Instructions No. 478-r of the Federal Agency for State Property Management dated 29 June 2015) as follows: Mikhail Kuznetsov, Evgeny Stolyarov, and Alexander Tikhonov.

During the reporting period members of the Internal Audit Commission did not own shares in PAO Sovcomflot.

Based on the results for 2015, compensation was not paid to members of the Internal Audit Commission.

During the reporting period all recommendations of the PAO Sovcomflot Internal Audit Commission, based on the results of the internal audit of financial and business activities, were executed.

¹ For more details, the Regulations can be found on the Corporate Governance section of the Group's website: <http://www.scf-group.com>

3.6 COMPENSATION SYSTEM FOR MEMBERS OF MANAGEMENT BODIES

3.6.1 COMPENSATION OF BOARD OF DIRECTORS MEMBERS IN THE REPORTING YEAR

In accordance with the Regulations on the Payment of Compensation and the Reimbursement of Expenses to Members of the PAO Sovcomflot Board of Directors, approved by Instructions No. 1158-4 of the Federal Agency for State Property Management dated 30 June 2012, PAO Sovcomflot reimburses Board of Directors members for documented expenses incurred whilst exercising their duties as Board of Directors members.

In accordance with Russian Ministry of Economic Development recommendations and the Regulations on the Payment of Compensation and the Reimbursement of Expenses to Members of the PAO Sovcomflot Board of Directors, the directors of PAO Sovcomflot are paid compensation during their term of office for exercising their duties as Board of Directors members, with basic compensation set at RUB 2 million a year. Compensation in the following amounts is paid each year in addition to basic compensation for the directors serving as Chairman of the Board of Directors, Chairman of a Committee of the Board of Directors, and Member of a Committee of the PAO Sovcomflot Board of Directors:

- For exercising the duties of the Chairman of the Board of Directors, in the amount of the basic compensation multiplied by a coefficient of 2.3.
- For exercising the duties of the Chairman of a Committee of the Board of Directors, in the amount of the basic compensation multiplied by a coefficient of 0.8.
- For exercising the duties of a Member of a Committee of the Board of Directors, in the amount of the basic compensation multiplied by a coefficient of 0.6.

Compensation amounts paid on top of the basic compensation are paid regardless of the number of PAO Sovcomflot Board of Director committees on which the member of the Board of Directors works. Compensation is not paid to Board of Director members that are employees of PAO Sovcomflot, or to state officials and other individuals that are not entitled under Russian law to compensation.

In accordance with the above Regulations on the Payment of Compensation and the Reimbursement of Expenses to Members of the PAO Sovcomflot Board of Directors and Instructions No. 478-r of the Federal Agency for State Property Management dated 29 June 2015, in 2015 PAO Sovcomflot Board of Directors members were paid compensation and reimbursement for expenses in the amount set forth in internal documents of PAO Sovcomflot.

3.6.2 COMPENSATION OF EXECUTIVE BOARD MEMBERS AND THE CHIEF EXECUTIVE OFFICER IN THE REPORTING YEAR

The compensation of the PAO Sovcomflot Executive Board members consists of:

- A fixed component (monthly salary)
- A variable component (compensation based on the Company's annual performance)

The size of a monthly salary is established by the employment contracts concluded at the time of employment.

Compensation based on the Company's annual performance is directly linked to the attainment of a number of key performance indicators defined according to the Long-Term Development Programme.

The payment of annual bonuses acts as an incentive to attain the strategic goals of PAO Sovcomflot, and also serves to attract and retain the best industry specialists.

Starting from 1 January 2015, Members of the Executive Board and some of seagoing and onshore personnel are participating in the Long-Term Motivation Programme (LTMP) approved by the Board of Directors. The total duration of the LTMP is five years with remuneration to be paid in 2018, 2019 and 2020.

In accordance with the LTMP, employees are entitled to receive remuneration upon the attainment of target key performance indicators (KPI targets) defined in the Company's Long-Term Development Programme. If KPI targets are not attained, entitlements accrued in accordance with the LTMP terms and conditions may be cancelled.

Target (projected) KPIs determining the contribution of Executive Board members to implementing SCF Group strategy for the 2015 financial year were approved by the Board of Directors decision dated 10 December 2014 (Minutes No. 140).

In accordance with the Regulations on Wages and Material Incentives for Employees of PAO Sovcomflot, based on the Board of Directors decision dated 7 April 2015 (Minutes No. 143) confirming the attainment of KPIs for the reporting period, compensation of RUB 317.9 million was paid.

3.7 INTERNAL AND EXTERNAL AUDIT

3.7.1 INTERNAL AUDIT

SCF Group has built a system of internal controls and audit, which facilitates the effective implementation of the internal business processes of the Group. The system of internal controls and audit is managed by the Audit Committee of the Board of Directors, the Internal Audit Commission, and the PAO Sovcomflot Internal Audit Department. The efficiency of the internal controls system is also bolstered by having four independent directors on the Board of Directors.

The PAO Sovcomflot Internal Audit Department (before February 2009: Internal Control Department) created in April 2006 is a standalone structural division of PAO Sovcomflot and operates in accordance with the regulations on the department approved by the decision of the PAO Sovcomflot Board of Directors dated 10 November 2015 (Minutes No. 149). The Internal Audit Department is designed to help improve the management efficiency of PAO Sovcomflot through a systematic and consistent approach to the analysis and evaluation of the risk management and internal control system and assist the Board of Directors and the executive bodies of PAO Sovcomflot in ensuring successful operation of PAO Sovcomflot.

The Internal Audit Department is led by its head, who is appointed and discharged by the PAO Sovcomflot president & Chief Executive Officer by recommendation of the Audit Committee (Clause 1.4 of the Regulations on the Internal Audit Department). The department has three employees.

The main objectives of the Internal Audit Department are to:

- Assess the efficiency and monitor the adequacy of the internal control, risk management and corporate governance systems;
- Check the financial, management and other reports for completeness and accuracy;

- Check the effectiveness of control measures and other risk management activities;
- Control compliance by PAO Sovcomflot with internal documents, procedures and regulations, and their conformity to the current legislation of the Russian Federation;
- Put forward proposals on ways to improve the efficiency of the existing internal control and risk management system, including the correction of identified violations and deficiencies (Clause 3 of the Regulations on the Internal Audit Department).

The Internal Audit Department reports functionally to the PAO Sovcomflot Board of Directors and administratively reports directly to the PAO Sovcomflot Chief Executive Officer (Clause 2.1 of the Regulations on the Internal Audit Department).

The Internal Audit Department works with the Audit Committee of the Board of Directors, the Internal Audit Commission, and external auditors of PAO Sovcomflot, its subsidiaries and associates (Clause 5.5 of the Regulations on the Internal Audit Department).

To increase the quality of the internal audit function, an external assessment of it is performed on a regular basis, based on a decision of management of the Group. For example, in 2012 Ernst & Young performed such an external assessment as part of the audit of the overall diagnostics of the internal audit and risk management function and the internal control system from the perspective of compliance with the key requirements of the regulatory authorities. The internal audit function is analysed each year as a component of the Internal Control Service during the annual audit of the financial statements of the Group, based on the results of the year.

In 2014, as part of the approved LDP, the Board of Directors adopted the Standard for the Audit of the Implementation of the Long-Term Development Programme of PAO Sovcomflot, aimed at improving the risk management and internal control system.

3.7.2 EXTERNAL AUDIT

In accordance with legislative requirements, PAO Sovcomflot holds an annual tender to appoint an auditor to conduct an independent audit of the financial statements of PAO Sovcomflot prepared in accordance with Russian accounting laws, and the consolidated financial statements of PAO Sovcomflot prepared under Federal Law No. 208-FZ "On Consolidated Financial Statements" of 27 July 2010. For this purpose a tender commission is created and the procedures which govern the holding of public tenders are carried out.

The tender is open, and the notice of tender and related tender documentation are published under the procedure established by law. Interested participants meeting Russian statutory requirements on auditors are invited to participate. The winner is deemed to be the audit firm that has collected the most points based on an assessment of the bids. If there is a tie, the audit firm that was the first to submit a bid is deemed to be the winner.

The financial statements of PAO Sovcomflot for 2015 prepared in accordance with Russian accounting laws and the consolidated financial statements prepared in accordance with IFRS were audited by OOO Ernst & Young.

In the reporting year the auditor did not provide any advisory services to PAO Sovcomflot.

¹ For more details, see the subsections entitled Board of Directors and its Committees and Internal Audit Commission

² Federal Law No. 307-FZ "On Auditing" dated 30 December 2008 and Federal Law No. 44-FZ "On the Contract System in the Procurement of Goods, Works and Services for State and Municipal Needs" dated 5 April 2013.



3.8 STRUCTURE OF THE SHARE CAPITAL

THE AUTHORISED SHARE CAPITAL OF PAO SOVCOMFLOT AS AT 31 DECEMBER 2015 AMOUNTED TO RUB 1,966,697,210 AND CONSISTED OF 1,966,697,210 ORDINARY REGISTERED SHARES WITH A NOMINAL VALUE OF ONE ROUBLE EACH.

In 2015, based to a resolution of the annual PAO Sovcomflot General Meeting of Shareholders dated 30 June 2014 (Instructions No. 696-r of the Federal Agency for State Property Management dated 30 June 2014), it was decided that the authorised capital should be increased by the placement of an additional 280,956,743 ordinary registered shares.

As part of implementing this resolution, the PAO Sovcomflot General Meeting of Shareholders (Minutes No. 141) approved on 17 December 2014 a resolution on the additional issue of ordinary registered uncertified shares of PAO Sovcomflot, as well as the securities prospectus for these shares. These documents were registered with the Bank of Russia in 2015. On 27 January 2016, the PAO Sovcomflot Board of Directors made a decision on amendments

to the resolution on the additional issue of registered ordinary uncertified shares of PAO Sovcomflot and the securities prospectus for these shares, extending the period for placement of the additional issue of shares from one year to two years after its registration. These amendments were registered by the Bank of Russia on 25 February 2016.

All PAO Sovcomflot shares are federally owned. The Russian Federation, represented by the Federal Agency for State Property Management, is the sole shareholder of PAO Sovcomflot.

3.9 EXPENDITURE OF NET PROFIT AND DIVIDEND POLICY

3.9.1 INFORMATION ON THE DISTRIBUTION OF PROFIT

In relation to the distribution of net profit and the payment of dividends, PAO Sovcomflot is governed by Instructions No. 774-r of the Russian Government dated 29 May 2006 «On Establishing the Position of the Shareholder – the Russian Federation in Joint-Stock Companies», as well as the Regulations on the Dividend Policy of PAO Sovcomflot.

In 2015 the net profit of the Group was USD 354.5 million. A resolution regarding how net profit should be allocated in the reporting year, including on dividend payments for 2015, will be adopted at the annual General Meeting of Shareholders in 2016.

3.9.2 DIVIDEND POLICY

The dividend policy is based on maintaining an optimal balance of interests between PAO Sovcomflot and its shareholder when distributing net profit, and on the need to increase the investment appeal of PAO Sovcomflot and its capitalisation.

On 14 December 2012 the OAO Sovcomflot Board of Directors approved the Dividend Policy, which sets dividends at a level no lower than 25% of the net profit attributable to the equity stake of the PAO Sovcomflot shareholder, in accordance with the audited consolidated financial statements prepared under IFRS, and converted into roubles at the CBR exchange rate at the end of the reporting period.

On 7 April 2015 the Board of Directors recommended that the General Meeting of Shareholders allocate RUB 1,126 million in dividend payments, based on the 2014 results. This amount of dividends accounted for 25% of the net consolidated profit attributable to the equity stake of the PAO Sovcomflot shareholder in accordance with the IFRS statements and 123.45% of the net profit according to the PAO Sovcomflot statements prepared under RAS. On 29 June 2015 the annual PAO Sovcomflot General Meeting of Shareholders adopted a resolution on the payment of dividends in accordance with recommendations from the Board of Directors. The amount of dividends was transferred in full by PAO Sovcomflot on 13 July 2015. Dividends based on the

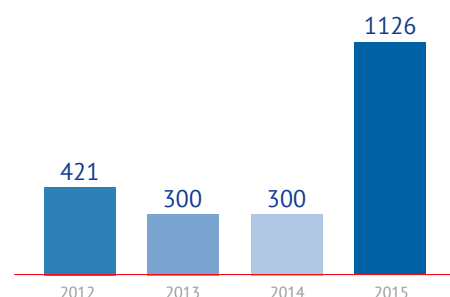
operating results for 2014 were paid in 2015 in full and by the deadlines stipulated under Russian law.

As at 31 December 2015 PAO Sovcomflot had no debt related to dividend payments.

On 13 April 2016, the Board of Directors recommended that a total of RUB 6.186 billion be allocated for dividend payments, based on the operating results of PAO Sovcomflot in 2015, which complies with the approved dividend policy and amounts to 25% of the net profit of the Group attributable to the stake of the shareholder of PAO Sovcomflot, in accordance with the audited consolidated financial statements prepared under IFRS, and converted into roubles at the CBR exchange rate as at 31 December 2015.

FIGURE 22

Dynamics of dividend payments to the Russian Federation, 2012-2015, RUB million



¹ For more details on profit indicators, see the Overview of Financial Performance sub-section



Vyacheslav Tikhonov, a 3D seismic vessel designed for geophysical exploration on the continental shelf of the Arctic seas

TABLE 18 Main areas of expenditure of the 2014 net profit

Area	Amount	Comment
Payment of declared (accrued) dividends on shares	0	Not applicable
Amount of dividends transferred to federal budget	RUB 1.126 billion	Paid from retained earnings of previous years
Amount allocated to reserve fund	0	Reserve fund is fully formed
Amount allocated to other funds in 2015, indicating names of the funds	0	There are no other funds
Amount allocated in 2015 to implement investment projects	0	
Other areas of the use of net profit in 2015	0	



SUSTAINABLE DEVELOPMENT

- The occupational health and safety activities of SCF Group are based on compliance with the principle Safety Comes First.
- The cornerstone of the success of SCF Group is the professionalism and coordinated work of its top specialists; primarily the captains and crews of its vessels, as well as onshore personnel in Russia and abroad.
- The sponsorship and charity activity of the Group is aimed at preserving the historical legacy, taking care of the health and physical development of the next generation, and supporting the national educational cluster.



**SAFETY COMES FIRST IS THE
KEY PRINCIPLE OF SCF GROUP
IN THE AREA OF SUSTAINABLE
DEVELOPMENT**

4.1 OCCUPATIONAL HEALTH AND SAFETY

THE OCCUPATIONAL HEALTH AND SAFETY ACTIVITIES OF THE GROUP ARE BASED ON THE PRINCIPLE *SAFETY COMES FIRST* – ONE OF THE KEY PRIORITIES OF SCF GROUP. THE GROUP SEEKS TO COMPLY NOT ONLY WITH RUSSIAN LEGISLATION, BUT ALSO WITH BEST PRACTICES AND INTERNATIONAL STANDARDS PERTAINING TO OCCUPATIONAL HEALTH AND SAFETY.

4.1.1 OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM

Occupational health and safety management is implemented at all levels of SCF Group. For example, the Board of Directors has set up the Committee for Innovative Development and Technical Policy, which conducts a preliminary review, analysis, and elaboration of recommendations on how the safety management system can be improved. The PAO Sovcomflot Executive Board has set up the Committee for the Safety of Navigation, Environmental Protection, Quality and New Technologies, which is responsible for establishing the areas, goals, and objectives of the Group's policy related to occupational health and safety.

The fleet is operated in accordance with an integrated safety management system based on the standard methods for ensuring the effective and safe technical operation of vessels and vessel equipment, approved as part of the International Safety Management Code (ISM Code), the ISO 9001 and ISO 140 001 standards, the Ship Safety Management System based on the ISM Code, and corresponding requirements

of the Flag Administration, the Group and best seamanship.

The Group has implemented a unified safety management system. The unification process began in 2009, with policies and basic practices. Subsequently, organisational structures were adapted to align with the unified standards.

SCF Group maritime safety and quality specialists perform R&D work aimed at studying the specifics of Arctic shipping, and support innovative projects, participate in developing industry regulations, and regularly participate in meetings of the Maritime Safety Committee of the Russian Chamber of Shipping.

4.1.2 KEY OCCUPATIONAL SAFETY AND ACCIDENT INCIDENCE RATE INDICATORS IN 2015

1. Occupational safety and work-related accidents

The Lost Time Injury Frequency (LTIF) in 2015 was 0.42 (84th position among 182 companies according to Intertanko), which is better than the average figure for the global tanker fleet, equal to 0.95 according to Intertanko. The Total Recordable Case Frequency (TRCF) was 1.14 (73rd position among 182 companies according to Intertanko), which is 52.5% lower than the industry average (2.40 according to Intertanko).

In 2015 there were no fatal work-related accidents.

2. Ship accidents

The number of serious accidents (causing damage of more than USD 250,000) fell from 11 incidents in 2014 to 11 in 2015.

The prevailing types of incidents were occupational injury cases. In 2015, there were no considerable (above statistical thresholds) spills of chemicals, oil or fuel.

Based on the results of analysing mechanical breakdowns, the Group approved an Action Plan to improve the quality of technical management and accident prevention measures. The Committee for Navigation Safety, Environmental Protection, Quality and New Technologies of the PAO Sovcomflot Executive Board regularly drafts recommendations that contain a list of actions to improve the quality of technical management on vessels.

47.5%
of the industry average

THE TOTAL RECORDABLE CASE FREQUENCY RATE AT THE GROUP IN 2015

4.2 EMPLOYEES

4.2.1 HR POLICY

All vessels in the SCF Group fleet are manned by highly professional captains and crew members, whose training and experience meet the best global standards. An important role in the attainment of goals set in the Group's Development Strategy is played by the professionalism of captains and crew members and also the employees of onshore units.

The Group has developed and implements a system of internal regulations governing the HR policy geared to attract, train, and develop personnel. In particular, in the area of professional development and employee motivation, the Regulations on Wages and Material Incentives for Employees and Regulations on the Professional Training/Retraining and Raising the Qualifications Level of Personnel are applied and continuously improved.

In the reporting period SCF Group carried out active HR work in the following main areas:

- Increasing the appeal of working on the Group's vessels and improving the system for selecting and training the competent fleet personnel required for vessels;

667
people

HIRED BY SCF GROUP IN 2015

- Enhancing social security for seafarers and onshore personnel in times of financial turbulence;
- Further improving the incentive system for senior and middle management to align the fixed and variable components of compensation with labour market realities;
- Further improving the staff motivation system, including implementation beginning in 2015 of the Long-Term Personnel Motivation Programme, which is designed for five years and is targeted at top and middle-level managers as well as best captains and chief engineers of SCF Group's vessels.

The Group's employees can be split into two categories: fleet personnel and onshore personnel (personnel of onshore units). In connection with the nature of the Group's operations, the number of fleet personnel significantly exceeds the number of onshore personnel, accounting for about 90% of the total Group headcount (6,540 people as at the end of 2015). In the reporting period 653 fleet personnel and 14 onshore personnel were hired, making up 10% and 1%, respectively, of the total number of employees of the respective categories.

SCF Group pays special attention to the career growth and professional development of its employees. For example, a performance appraisal is regularly conducted for the Group's employees; in 2015 all fleet and onshore personnel underwent such appraisals. Based on the results of work and appraisals, in 2015 the Group promoted 518 employees, including 390 fleet personnel and 128 onshore personnel.

The Group has also developed a programme to lower the average age of senior command staff, by promoting the most talented first officers and second engineering officers to the positions of captain and engineering officer.

The high retention rate of senior command staff demonstrates that SCF Group is considered as an attractive employer and is capable of retaining its professional staff. The retention rate of command staff in 2015 was 95%, and of senior command staff 97%.

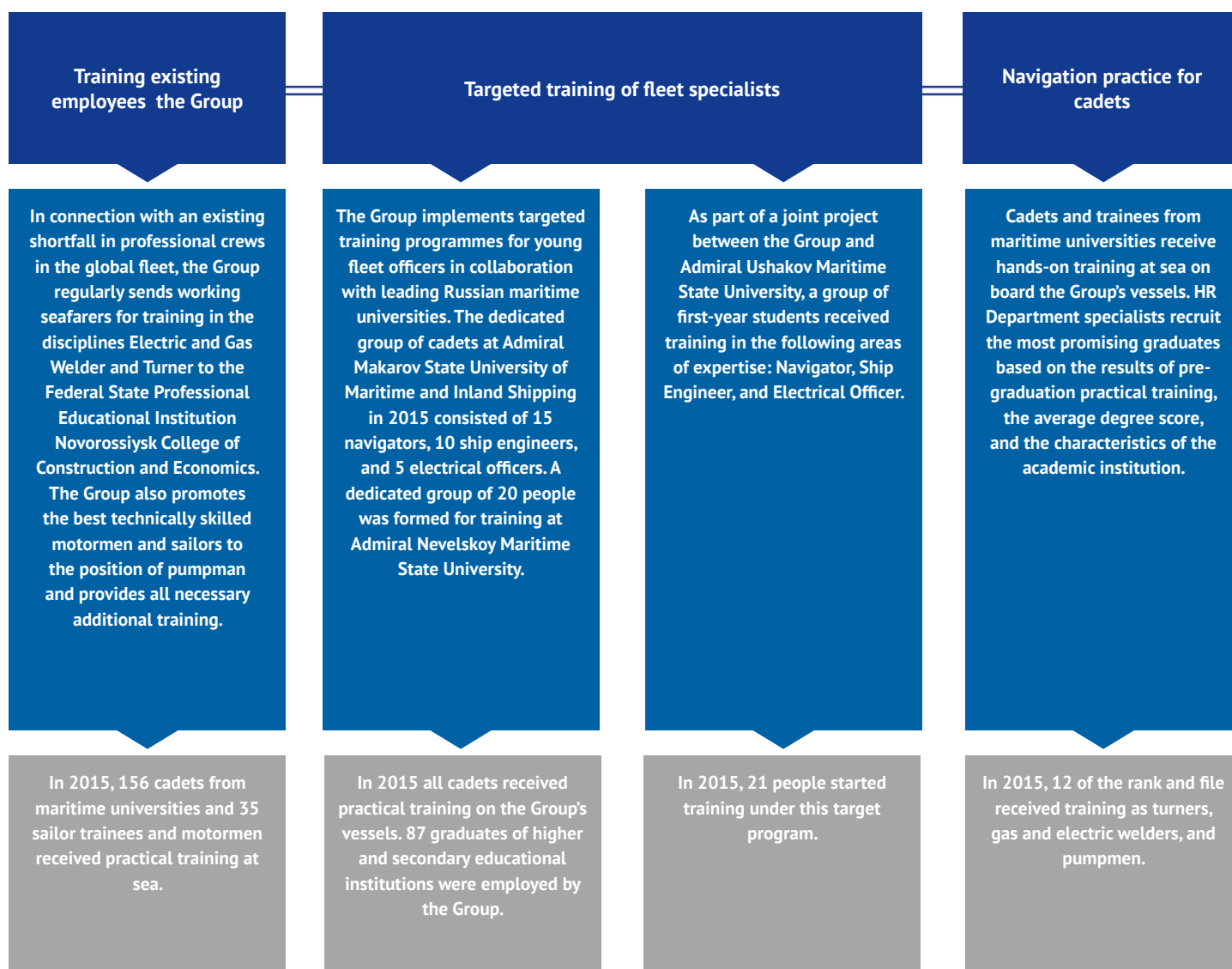
4.2.2 PROFESSIONAL DEVELOPMENT OF STAFF

Highly skilled employees are the foundation upon which the effective operation of a company is built. Hence the Group actively encourages and participates in the professional development of its staff.

The Group regularly organises seminars for fleet officers to exchange professional experiences. In the reporting year, 700 fleet officers participated in such seminars. Internships were organized for 17 senior fleet officers at the offices of two management companies, Unicom Management Services (Cyprus), Limassol and SCF Novoship Technical Management, Novorossiysk.

The Group's operating specifics create the need for subject matter specialists. As part of staff training and retraining, training is organised both through cooperation with maritime educational institutions and at in-house training centres.

In order to attract young skilled specialists, SCF Group fosters cooperation with Russian maritime educational institutions.

FIGURE 23 Main types of cooperation with maritime educational institutions

Currently, cooperation agreements have been concluded with the country's three main maritime universities: Admiral Ushakov Maritime State University; Admiral Makarov State University of Maritime and Inland Shipping, and Admiral Nevelskoy Maritime State University. The collaboration programme includes participation in the preparation and training of future specialists, the annual organisation of navigation practice, and the regular holding of meetings with cadets.

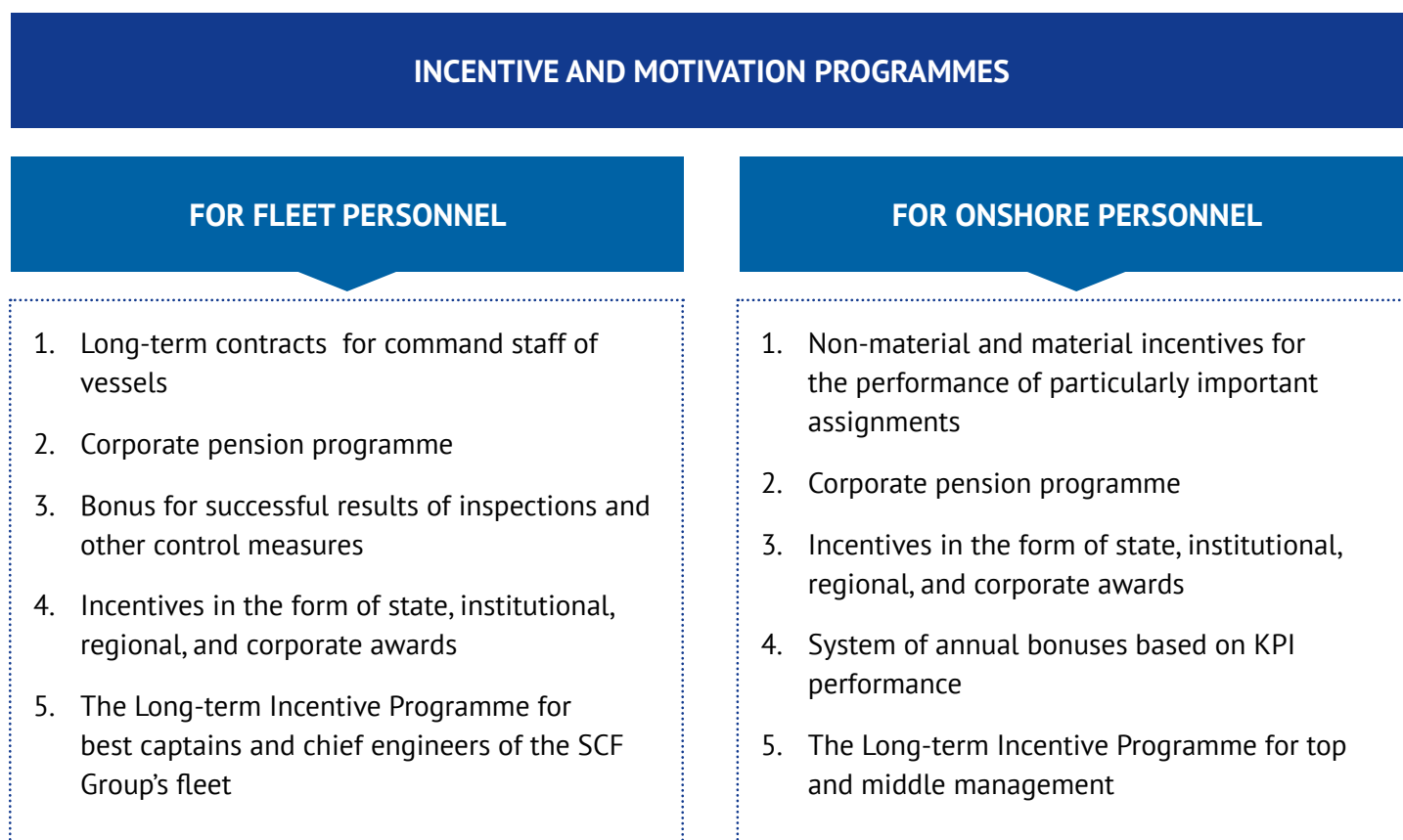
As part of mutually beneficial collaboration with universities, the Group plans to continue allocating funds for classroom equipment and purchasing additional teaching aids.

SCF Group also plans to continue developing its own fleet personnel training system meeting the highest international standards. This system is based on two in-house training centres:

1. The Sovcomflot Training Centre in St. Petersburg, which provides training covering the whole range of maritime operations in the Arctic, for example, the servicing of oil platforms, navigation in northern latitudes, navigation in ice – both independently and accompanied by icebreakers, etc. In 2015 400 people received training at the Centre in all areas.
2. TEC Novoship Training in Novorossiysk, which has been operational for more

than 10 years. Today this is one of Russia's leading maritime training centres. The centre has been certified by DNV to ISO 9001:2008 for Quality Management. According to 2015 results, 2,593 people were trained at TEC Novoship Training (including sailors from other companies).

To continuously raise the level and quality of knowledge and skills, short- and long-term upgrade programmes are implemented, both in Russia and abroad, for senior executives and middle-level managers. The ability to participate in these programmes reinforces the professional motivation of employees and their value as highly skilled members of staff.

FIGURE 24 Incentive and motivational programmes broken down by personnel categories

4.2.3 PERSONNEL MOTIVATION

The Group develops and implements various incentive and motivational programmes.

The Group regularly concludes Collective Bargaining Agreements between the Russian Professional Union of Sailors (RPUS) and SCF Group Management Companies. A collective bargaining agreement is an effective tool for guaranteeing a decent wage, safe working conditions, and providing medical insurance to the Group's employees.

At present the Group has a single medium-term collective bargaining agreement.

About 95% of the Group's employees are members of the trade union and are covered by collective bargaining agreements (including 100% of fleet personnel). The Group cooperates with the trade union in the following areas:

- Increasing wage levels;
- Preserving jobs;
- Ensuring safe working conditions;

- Insuring the fleet personnel of SCF Group against accidents during periods between voyages;
- New Year presents to children;
- Support programme for pensioners (one-time financial assistance, vouchers for health resort treatment, certificates of merit, and memorable gifts).

Employee awards

Rewarding employees for professional achievements is one areas of non-material motivation. In 2015, 289 members of onshore and fleet personnel of SCF Group received state, institutional, and corporate awards and recognitions.

Among the employees of the Group who received state and institutional awards were individuals who directly participated in the implementation of major LNG shipping projects, as well as Prirazlomnoye – the first oil and gas project in the Arctic.

95%
of Group employees

ARE MEMBERS OF THE
RUSSIAN PROFESSIONAL
UNION OF SAILORS

4.3 CHARITY AND SPONSORSHIP

CHARITY AND SPONSORSHIP WORK IN SCF GROUP IS CARRIED OUT IN ACCORDANCE WITH THE REGULATIONS ON CHARITY AND SPONSORSHIP APPROVED BY THE BOARD OF DIRECTORS IN 2008 AND IN STRICT ACCORDANCE WITH THE BUDGET APPROPRIATIONS FOR THE CURRENT FINANCIAL YEAR.

In 2015, the Group's expenses for sponsorship and charity totalled RUB 47.7 million, which corresponded to the budget indicators approved by the Company's Board of Directors. Sectoral and regional projects (RUB 12.4 million) and education (RUB 10.1 million) accounted for the largest shares of these expenses.



KEY AREAS OF SPONSORSHIP AND CHARITY

ENVIRONMENT

Support for the Eurasian Centre for the Preservation of Far Eastern Leopards Autonomous Non-Profit Organisation (Primorsky Krai)

The Far Eastern Leopard (Amur Leopard) is an endangered predator cat, whose population in Russia has been gradually increasing. At present, the Land of the Leopard national park counts about 80 animals.

Their population has been continuously growing since the creation of the park and has increased by 25-30 animals over the last five years.

The goal of the charitable project is to study, protect, and restore the Far Eastern Leopard species population, which is listed in the Red Book. Pursuant to a decision of the Executive Board, the regular financing of the project has been extended to 2020. Activities organised in 2015 included improving the security and fire safety systems of the Land of Leopard national park, further developing the research programme to install additional equipment for tracking animals and increase the stability of feed provisions.

47.7

million
RUB

THE GROUP'S
EXPENSES FOR
SPONSORSHIP AND
CHARITY IN 2015



Sergey Popravko, member of the Executive Board of PAO Sovcomflot, at the matriculation ceremony, Admiral Nevelskoy Maritime State University, Vladivostok

EDUCATION

Admiral Nevelskoy State Maritime University (Vladivostok)

Admiral Nevelskoy State Maritime University is the main specialised educational institution that produces skilled maritime workers in the Far East of Russia, and SCF Group is interested in continuous expansion of cooperation with the university. In the year marking the university's 125th anniversary a number of agreements were signed. These agreements provide for the creation of dedicated groups of students with Sovcomflot's financial support for work on SCF vessels in the future; support for professors and teachers, primarily post-graduate students and young university teachers; organization of internships for teachers on the company's specialised, high-tech vessels such as LNG carriers, shuttle Arctic tankers, ice-breaking platform supply vessels, and also gradual modernisation of the university's simulation training centre and fitting it with state-of-the-art equipment.

SCF Group pays special attention to the support of professional maritime education and actively collaborates with Admiral Makarov State University of Maritime and Inland Shipping (Saint Petersburg) and Admiral Ushakov Maritime State University (Novorossiysk).

St. Tikhon Orthodox Humanitarian University (Moscow)

The project started in 2015. Sovcomflot provided support for funding historical

and sociological research, organised on-the-job-training for students in Russian northern regions, including at the Plesetsk Cosmodrome and in the Mezensk District of the Arkhangelsk Region, rendered financial aid to the university's low-income students from families with many children and orphan students. With the active participation of Sovcomflot, the University and the Safonovo Orphanage Boarding School signed a cooperation agreement which, in particular, provides an opportunity for school graduates to enter the University.

Safonovo Orphanage Boarding School (Smolensk Region)

In 2015, 87 orphans and children deprived of parental care resided at the Safonovo

state-financed orphanage boarding school. SCF Group helps the staff of the orphanage to prepare children for independent lives, and make the upbringing of the orphans and children deprived of parental care as similar as possible to the conditions found in a family and at home.

With the support of the Group, the main premises used for the study and residence of the children have been renovated, the classrooms and places of residence have been fitted with necessary equipment, basic necessities have been procured, holiday events and leisure activities for the children are organised during vacations.

VETERANS' SUPPORT

Victory Day-London project

The project Victory Day-London is traditionally dedicated to the Arctic Convoys which served during the Second World War to deliver military cargo along corridors from Great Britain and the US to the northernmost ports of the USSR: Arkhangelsk and Murmansk. With the support of SCF Group, Russian convoy veterans have an opportunity to meet each year with their British counterparts. In the year of the 70th Anniversary of the Great Victory, Sovcomflot supported the initiative of the Russian Embassy in the United Kingdom and organised the issue of a special anniversary postage stamp and envelope, and also provided assistance in presenting medals commemorating the 70th Anniversary of the Victory in the Second World War to veterans of the British Arctic Convoys.



Veterans of the Arctic Convoys meet in London, 9 May 2015



SPORTS

International Vladimir Salnikov Cup Swimming Tournament (Saint Petersburg)

SCF Group has been a sponsor of the tournament since 2009. The Vladimir Salnikov Cup is an international swimming tournament featuring the strongest swimmers from Russia and the world. In 2015 the tournament attracted 369 sportsmen from various countries, who competed for

30 sets of awards. During the history of the tournament swimmers have repeatedly set new world and national records, as well as personal records. In 2015, records were beaten three times. The Cup's discovery was 19-year-old Evgeny Rylov, who earned the highest number of points under the FINA scoring system and won the tournament among men. The 2015 tournament leader in team scoring was the Saint Petersburg team: 6 gold medals, 5 silver medals, and 4 bronze medals. These international competitions are included in LEN and FINA calendars and are unofficially considered to be a qualification tournament among professional swimmers for selecting members of the Russian national team.

Support for the All-Russian Yachting Association (Moscow)

As part of support for children's and youth sailing sport, Sovcomflot has sponsored the All-Russian Yachting Association since 2010. During this period new schools and sections have been organised in Russian

regions and major children's tournaments have been held regularly, such as the Russian Open Sailing Championship in the Optimist class. In addition, comprehensive and systematic preparations were carried out for the Russian Paralympics.

HEALTHCARE

St. Olga's Children's Hospital (Saint Petersburg)

Over the past nine years SCF Group has been supporting St. Olga's Children's Hospital in St. Petersburg. During this time the intensive care and anaesthesiology ward of the hospital has been given specialised equipment which makes it possible to save the lives of new born children, substantially reduce the mortality rate among newly born babies treated at the hospital and stabilise it at a level below 1%. Treatment at the hospital is provided for children from different regions of the Russian Federation as well as neighbouring countries.



CULTURE

Russian American Project (Fort Ross, the United States)

The goal of the project is to preserve for history and future generations the memorial settlement Fort Ross, which represents a unique item of Russian culture heritage and history in the US. Sponsorship for this project is provided on an annual basis jointly with OAO AK Transneft and Chevron (USA). Fort Ross is a former Russian settlement and fortress on the coast of Northern California, founded in 1812 by the Russian-American Company for hunting and trading in furs. This is the most southern Russian settlement in North America, and currently a historic park in California and a venue where annual events are held, with the participation of researchers, politicians, and public figures from different countries. With the support of the project participants a documentary was created on the history of the settlement and its current status. The documentary was well received, both by specialists and the public at large.

Support for Russia's historical heritage (publications)

As part of the project providing support to research into Russia's cultural and

historical heritage, Sovcomflot supports annual scientific conferences held aboard the legendary icebreaker Krasin and helps publish materials of conferences under the common title Polar Readings.

In cooperation with the Russian Geographic Society, two unique books, Northern Expedition of 1733-1743 and Lomonosov's Project and Chichagov's Expedition, were republished. These books are dedicated to great geographic discoveries of Russian

researchers of the Arctic that gave rise to systematic scientific research of this region.

Books from both projects were sent to major national scientific centres, libraries, educational institutions, military and maritime schools, and have received very positive feedback from readers.

Sectoral and Regional Projects Sponsorship

As part of assistance in developing high quality maritime navigation and creating the necessary conditions to enhance the competitiveness of the national merchant marine fleet, SCF Group in close cooperation with the Maritime Board of the Russian Government provided sponsorship support for two major international forums: Maritime Industry of Russia and International Transport Week 2015 held in Moscow in June and December 2015, respectively. The joint exposition of Sovcomflot and the Maritime Board showcased technical solutions, including those implemented at Russian shipbuilding plants, which enable safe, high quality operation of high-tech vessels providing services to large industrial projects on the continental shelf of the Arctic and Subarctic seas (Varandey and Prirazlomnoye projects).



Maksim Sokolov, Russia's Minister of Transport, and Sergey Frank, President and CEO of the SCF Group, at the Group's exhibition stand, Transport of Russia Expo, Moscow, December 2015

4.4 ENVIRONMENTAL PROTECTION

THE ENVIRONMENTAL ASPECT OF SCF GROUP'S ACTIVITIES IN THE AREA OF SUSTAINABLE DEVELOPMENT ENCOMPASSES CONTROL OVER ITS IMPACTS ON LIVING AND NON-LIVING NATURAL SYSTEMS, INCLUDING ECOSYSTEMS, LAND, AIR, AND WATER.

SCF Group realises its high responsibility for the quality of the environment and seeks to minimise its adverse impacts on the environment by introducing innovations, reducing energy consumption, and increasing staff qualifications.

The vessels used by the Group comply with modern international requirements on navigation safety and environmental protection. Virtually all the new tankers of the Group have an additional class symbol indicating compliance with the highest environmental safety standards, which attests to the responsible attitude of PAO Sovcomflot to environmental issues. This is also confirmed by there being no significant spills of chemical substances, oil, or fuel in 2015.

SCF Group implements a number of different organisational and technical measures to maintain the environmental safety of the fleet at a high level on a continuous basis. The Group adheres in its production activities to a number of international legislative acts and regulatory requirements on environmental protection.

4.4.1 ENVIRONMENTAL PROTECTION POLICY

The SCF Group environmental protection policy is included in the general management system of the safe operation of vessels and the prevention of pollution, established in accordance with the International Safety Management Code.

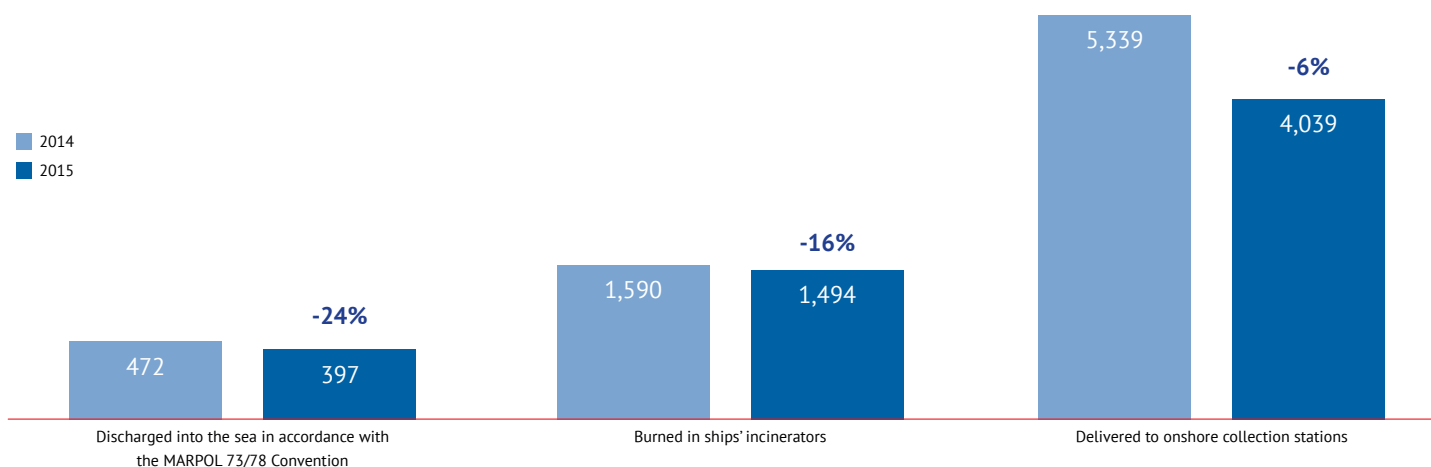
The main goals of the SCF Group environmental protection policy are to increase the level of environmental safety of the fleet and to increase the capitalisation of the Group by ensuring the reliable and environmentally safe provision of services related to the maritime transport of cargo. Under the Environmental Protection Policy the Group implements the following measures:

- Environmental monitoring and audit
- Programmes aimed at increasing the competencies and awareness of personnel in relation to environmental protection
- Investment programmes to increase the energy efficiency and environmental safety of main production activities
- Environmental risk management programmes, which include risk identification and assessment,

implementation of environmental protection measures, and monitoring and assessing the adequacy of adopted actions.

SCF Group's environmental management system was developed and is now up and running. The system was established in accordance with the principles, goals and objectives of the Environmental Protection Policy, and encompasses all structural units, from ships' crews to top management.

¹ The International Convention for the Prevention of Pollution from Ships (MARPOL 73/78) including corresponding annexes, the International Safety Management Code, International Convention for the Control and Management of Ships' Ballast Water and Sediments of 2004, Council Directive No. 2012/33/EU of the European Union "On a Reduction in the Sulphur Content of Certain Liquid Fuels", 2001 Guidelines for the Control and Management of Ships' Biofouling to Minimise the Transfer of Invasive Aquatic Species, the Montreal Protocol on Substances that Deplete the Ozone Layer of 1987, and the International Safety Guide for Oil Tankers and Terminals.

FIGURE 26 Waste management in 2014-2015, cubic meters

4.4.2 ATMOSPHERIC EMISSIONS

The shipping industry is currently the largest contributor to greenhouse gas emissions in the global transport system, accounting for up to 2% of global CO₂ emissions.

The downward trend in greenhouse gas emissions is attributable to the Group constantly supplementing the fleet with energy efficient and environmentally safe new generation vessels involving the extensive use of innovative technologies, developing a Ship Energy Efficiency Plan (SEEMP) for each ship in order to control energy efficiency and emissions of hazardous substances from exhaust fumes, and implementing EU Council Directive 2012/33/EU "On a Reduction of the Sulphur Content of Certain Liquid Fuels", using ship fuel with a reduced sulphur content.

4.4.3 WASTEWATER AND WASTE MANAGEMENT

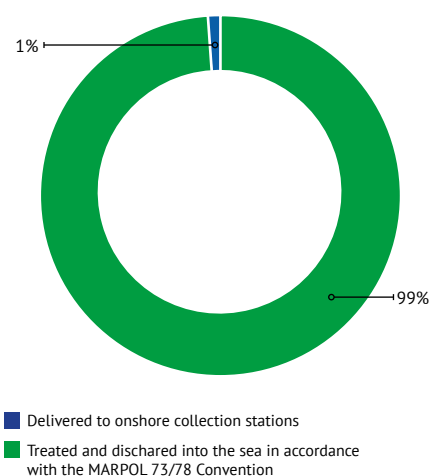
One of the main environmental impacts resulting from the operation of the SCF Group fleet is wastewater and waste, which are discharged into oceans during the movement of ships. The activities of the Group to reduce the level of wastewater and waste discharges into the oceans are implemented pursuant to the internal procedures of the Group, which encompass the requirements of both international and domestic legislation.

At present a combined waste treatment method is applied on the Group's ships, comprising mechanical, chemical, physical and chemical (including electrolysis) and biological methods. All the ship's plants have the approval of the country of the flag of the vessel on the compliance of the wastewater treatment plants with the requirements of Annex IV of the MARPOL 73/78 Convention. The quality of discharged water is confirmed by a wastewater plant certificate (type approval certificate). In order to minimise discharges of treated wastewater from vessels within a 12-mile coastal zone and in harbours, SCF Group vessels are equipped with additional tanks to hold wastewater and to subsequently deliver it to onshore collection stations.

In 2015, 483 cubic meters (1%) of wastewater was delivered to onshore collection stations, whereas 61,475 cubic meters (99%) of pre-treated effluent was dumped into the ocean. No unscheduled discharges of wastewater took place in 2015.

FIGURE 27

Wastewater management in 2015, cubic meters



In 2015, the amount of waste delivered to onshore collection stations decreased (by 24% against 2014); the amount of waste dumped into the sea, in accordance with the MARPOL 73/78 Convention, dropped by 16% and the amount of waste burned in ships' incinerators contracted by 6%.

It is important to note that the total amount of waste was also reduced year on year. These results demonstrate that SCF Group adheres to the principles of mitigating adverse environmental impacts during waste management.

TABLE 19 Consumption of fuel in 2015

Type of fuel	Quantity, '000 tonnes	Cost, USD million
Fuel oil	193,3	257.6
Diesel fuel	904.0	108.4
Natural gas motor fuel	52.2	0
Total	1,149.5	365.0

4.4.4 CONSUMPTION OF ENERGY AND ENERGY EFFICIENCY

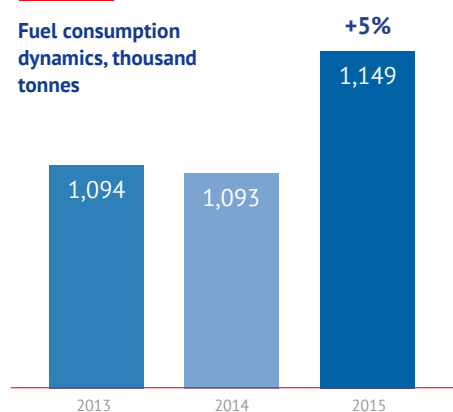
Different types of ship fuel are the main types of energy resources consumed as a result of the production activities of the Group.

SCF Group is actively engaged in work to implement a state programme to introduce gas fuel in transport. As a result of this work, in 2015 the Group's fleet added three new Velikiy Novgorod-type gas tankers equipped with combustion engines which operate on gas motor fuel.

After the commissioning of new LNG carriers, the share of gas motor fuel used by the Group's vessels accounted for 4.54% of the fleet's total fuel consumption in 2015.

TABLE 28

Fuel consumption dynamics, thousand tonnes



4.4.5 ENERGY EFFICIENCY INITIATIVES

SCF Group recognises that reducing energy consumption is crucial in order to minimise adverse environmental impacts. Accordingly, the Group has developed and implemented the Energy Conservation and Energy Efficiency Programme, aimed at the efficient use of fuel and energy resources and at increasing the environmental safety of the fleet. The following actions are being implemented as part of the Programme:

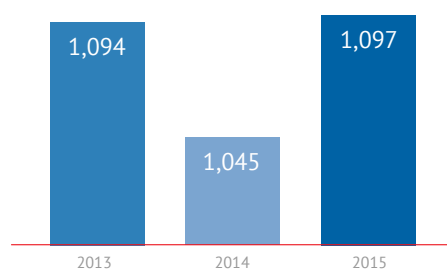
- Using the Slow Steaming system on ships to reduce fuel consumption and emissions
- Monitoring and optimising the heating and ventilation expenses of ships' living quarters
- Optimising the power output in navigation and harbour modes
- Establishing an energy conservation culture on ships

- Checking fuel and oil consumption meters on ships
- Monitoring the state of the hull and its timely cleaning
- Ensuring that the main engine cylinder lubrication level is not higher than the recommended level
- Replacing incandescent light bulbs with energy-saving bulbs, installing lighting control devices (motion sensors, light sensors, timers)
- Using the S3ES-Novoship programme to collect and process information on the use of fuels and oils
- Performing energy audits on the Group's ships.

Energy audits are conducted regularly on the Group's ships. These make it possible to obtain reliable information about the expenditure on fuel and oil and the energy efficiency performance indicators of ship engines and boilers, identify opportunities for energy conservation, and increase the energy and environmental efficiency of ship power plants.

FIGURE 29

Total fuel consumption for the fleet, thousand tonnes



The Group is very satisfied with the environmental protection results for 2015: atmospheric greenhouse gas emissions were reduced, fleet fuel consumption was reduced, and energy and resource efficiency initiatives, as well as rational waste management initiatives, were implemented. Such actions confirm the adherence of the Group to sustainable development principles and make it possible to attain significant positive results in terms of reducing adverse environmental impacts.

APPENDICES

General information about PAO Sovcomflot	78
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GENERAL INFORMATION ABOUT PAO SOVCOMFLOT

Full name of the company	Public Joint-Stock Company Sovcomflot
Number and date of issue of the certificate of state registration as a legal entity	Registered by the Moscow Registration Chamber on 18 December 1995 (certificate series BB No. 039.329 dated 18 December 1995. Information on state registration was entered in the Unified State Register of Legal Entities on 31 July 2002, primary state registration number (PSRN) 1027739028712 (certificate series 77 No. 007866796 on the entry of a record in the Unified State Register of Legal Entities on a legal entity registered before 1 July 2002)
Place of registration	3a, Moyka River Embankment, St. Petersburg, 191186
Address of the standalone division in Moscow	6, Gasheka Street, Moscow, 125047
Contact telephone	(495) 660 40 00
Fax	(495) 660 40 99
E-mail address	sovcomflot@scf-group.ru
Webpage	http://www.scf-group.ru/
Shareholder	The Russian Federation, represented by the Federal Agency for State Property Management (all PAO Sovcomflot shares are federally owned)
Amount of authorised capital (roubles)	RUB 1,966,697,210 (one billion nine hundred and sixty-six million six hundred and ninety-seven thousand two hundred and ten)
Total number of shares	1,966,697,210 (one billion nine hundred and sixty-six million six hundred and ninety-seven thousand two hundred and ten) shares
Number of ordinary shares	1,966,697,210 (one billion nine hundred and sixty-six million six hundred and ninety-seven thousand two hundred and ten) shares
Nominal value of ordinary shares (roubles)	The nominal value of an ordinary share amounts to 1 (one) rouble per share
State registration number of the issue of ordinary (preferred) shares and date of state registration	1-01-10613-A; 27 November 2007
Number of shares owned by the Russian Federation	1,966,697,210 (one billion nine hundred and sixty-six million six hundred and ninety-seven thousand two hundred and ten) shares
Interest of the Russian Federation in the authorised capital, indicating the interest of the Russian Federation in ordinary and preferred shares (percentages).	The Russian Federation owns 100% of the ordinary shares of PAO Sovcomflot. PAO Sovcomflot has no preferred shares in issue
Existence of the special right of the Russian Federation to participate in the company's management (the "Golden Share").	The Russian Federation has no special right to participate in the management of PAO Sovcomflot (the "Golden Share").

Information on inclusion in the list of strategic enterprises and strategic joint-stock companies	<p>OAo Sovcomflot was included in the list of strategic joint-stock companies by Russian Presidential Decree No. 1009 dated 4 August 2004 "On Approving the List of Strategic Enterprises and Strategic Joint-Stock Companies"</p>
Full name and address of the registrar	<p>Joint-Stock Company Independent Registration Company 8 Ivana Franko Street, Moscow, 121108, Russia</p>
Full name and address of the Company's auditor	<p>Limited Liability Company Ernst & Young 77c1 Sadovnicheskaya Nab., Moscow, 115035, Russia</p>
Account bank	<p>VTB Bank (PAO), Saint Petersburg</p>
Legal advisors	<p>Watson, Farley & Williams LLP, London INCE & Co International LLP, London Reed Smith LLP, London</p>
Main lines of business	<p>Advisory and management services, including:</p> <ul style="list-style-type: none"> – Planning and organising the transport of cargo and passengers – Advice on the current status and development outlook of different segments of the shipping market – Developing promising projects in the shipping sector – Advice on operations related to the acquisition and sale of vessels – Marketing, studying the state of the market and working with cargo owners – Advice on insurance issues and organising insurance coverage – Participation in negotiations to achieve operational goals and preparing corresponding draft documents and agreements; preparing draft corporate and contractual documents – Audit of draft documentation regarding different types of contracts, transactions, including the financing of the sale and purchase of vessels and orders with shipyards, refinancing, etc. – Analysis of legal disputes – Organising audits – Payment management and advice on financial issues – Representing the client at shipping and transport systems conferences and seminars – Other business development activities <p>Participation in other organisations</p>
Information on inclusion in the list of strategic enterprises and strategic joint-stock companies	<p>PAO Sovcomflot was included in the list of strategic joint-stock companies by Russian Presidential Decree No. 1009 dated 4 August 2004 "On Approving the List of Strategic Enterprises and Strategic Joint-Stock Companies".</p>
Company headcount	<p>92</p>
Operating period of the Company in the respective sector	<p>28 years.</p>

FINANCIAL STATEMENTS

Consolidated Income Statement For the period ended 31 December 2015

	Note.	2015 \$'000	2014 \$'000
Freight and hire revenue	4, 7	1 483 002	1 377 880
Voyage expenses and commissions	4, 8	-242 916	-333 904
Time charter equivalent revenues		1 240 086	1 043 976
Direct operating expenses			
Vessels' running costs	9	338 745	349 116
Charter hire payments	45	52 812	52 675
		-391 557	-401 791
Net earnings from vessels' trading		848 529	642 185
Other operating revenues	12	20 215	31 907
Other operating expenses	12	-10 814	-24 605
Depreciation, amortisation and impairment	10	-312 871	-321 533
General and administrative expenses	11	-105 914	-104 010
Gain on sale of assets	16, 18	9 895	9 904
Loss on sale of subsidiary		-727	-
Gain / (loss) on sale of equity accounted investments		5 402	-356
Allowance for credit losses		-782	1 848
Share of profits in equity accounted investments	22	15 765	12 874
Operating profit		468 698	248 214
Other (expenses) / income			
Financing costs	14	-140 492	-138 325
Interest income		16 749	16 672
Other non-operating income	47	40 559	3 402
Other non-operating expenses	46	-4 868	-8 620
Gain on ineffective hedging instruments	25(a)	683	442
Gain on derivative financial instruments held for trading	25(b)	-	6 164
Foreign exchange gains		17 212	21 026
Foreign exchange losses		-26 765	-57 996
Net other expenses		-96 922	-157 235
Profit before income taxes		371 776	90 979
Income tax expense	26	-17 304	-7 085
Profit for the period		354 472	83 894
Profit attributable to:			
Owners of the parent		339 461	80 058
Non-controlling interests	35	15 011	3 836
		354 472	83 894
Earnings per share			
Basic earnings per share for the period attributable to equity holders of the parent	27	\$0.173	\$0.041

Consolidated Statement of Comprehensive Income For the period ended 31 December 2015

	Note.	2015 \$'000	2014 \$'000
Profit for the period		354 472	83 894
Other comprehensive income:			
Share of associates' other comprehensive income		-27	-84
Share of joint ventures' other comprehensive income	22	6 013	2 703
Exchange loss on translation from functional currency to presentation currency		-16 795	-27 954
Reclassification adjustment relating to foreign investments disposed of during the period		1 834	-
Derivative financial instruments recycled and debited to the income statement	25(a)	25 050	20 081
Fair value movement of derivative financial instruments debited to other comprehensive income	25(a)	-17 541	-23 265
Other comprehensive income for the period, net of tax to be reclassified to profit or loss in subsequent periods		-1 466	-28 519
Remeasurement (losses) / gains on employee benefit obligations		-550	1 252
Other comprehensive income, net of tax not to be reclassified to profit or loss in subsequent periods		-550	1 252
Total other comprehensive income for the period, net of tax		-2 016	-27 267
Total comprehensive income for the period		352 456	56 627
Total comprehensive income attributable to:			
Owners of the parent		338 969	55 819
Non-controlling interests		13 487	808
		352 456	56 627

Consolidated Statement of Changes in Equity For the period ended 31 December 2015

	Share capital \$'000	Share premium \$'000	Reconstruction reserve \$'000
At 1 January 2014	405 012	818 845	-834 490
Profit for the period	-	-	-
Other comprehensive income			
Share of associates' other comprehensive income	-	-	-
Share of joint ventures' other comprehensive income	-	-	-
Exchange loss on currency translation from functional currency to presentation currency	-	-	-
Derivative financial instruments recycled and debited to the income statement (Note 25 (a))	-	-	-
Fair value movement of derivative financial instruments debited to other comprehensive income (Note 25 (a))	-	-	-
Remeasurement gains on retirement benefit obligations	-	-	-
Total comprehensive income	-	-	-
Dividends (Note 34)	-	-	-
At 31 December 2014	405 012	818 845	-834 490
Profit for the period	-	-	-
Other comprehensive income			
Share of associates' other comprehensive income	-	-	-
Share of joint ventures' other comprehensive income	-	-	-
Exchange loss on currency translation from functional currency to presentation currency	-	-	-
Reclassification adjustment relating to investments disposed of during the period	-	-	-
Derivative financial instruments recycled and debited to the income statement (Note 25 (a))	-	-	-
Fair value movement of derivative financial instruments debited to other comprehensive income (Note 25 (a))	-	-	-
Remeasurement losses on retirement benefit obligations	-	-	-
Total comprehensive income	-	-	-
Dividends (Note 34)	-	-	-
Effect of acquisition of non-controlling interests in PAO Novoship (Note 43)	-	-	-
At 31 December 2015	405 012	818 845	-834 490

Hedging reserve \$'000	Currency reserve \$'000	Retained earnings \$'000	Attributable to owners of the parent \$'000	Non-controlling interests \$'000	Total \$'000
-81 319	-6 082	2 652 261	2 954 227	157 045	3 111 272
-	-	80 058	80 058	3 836	83 894
-	-84	-	-84	-	-84
2 703	-	-	2 703	-	2 703
-	-24 792	-	-24 792	-3 162	-27 954
20 081	-	-	20 081	-	20 081
-23 265	-	-	-23 265	-	-23 265
-	-	1 118	1 118	134	1 252
-481	-24 876	81 176	55 819	808	56 627
-	-	-8 954	-8 954	-1 464	-10 418
-81 800	-30 958	2 724 483	3 001 092	156 389	3 157 481
-	-	339 461	339 461	15 011	354 472
-	-27	-	-27	-	-27
6 021	-8	-	6 013	-	6 013
-	-15 230	-	-15 230	-1 565	-16 795
-	1 734	-	1 734	100	1 834
25 050	-	-	25 050	-	25 050
-17 541	-	-	-17 541	-	-17 541
-	-	-491	-491	-59	-550
13 530	-13 531	338 970	338 969	13 487	352 456
-	-	-20 543	-20 543	-8 196	-28 739
-	-53	1 594	1 541	-1 758	-217
-68 270	-44 542	3 044 504	3 321 059	159 922	3 480 981

Consolidated statement of Financial Position - 31 December 2015

	Note.	2015 \$'000	2014 \$'000	2013 \$'000
ASSETS				
NON-CURRENT ASSETS				
Fleet	16	5 388 542	5 278 983	5 206 150
Vessels under construction	17	368 453	237 250	244 584
Intangible assets	18	4 668	3 989	4 524
Other property, plant and equipment	19	60 284	70 657	83 323
Investment property	20	7 468	10 341	16 973
Other assets under construction	21	-	-	11 992
Investments in associates		104	118	1 130
Investments in joint ventures	22	98 306	82 430	72 507
Available-for-sale investments		1 012	1 012	1 012
Loans to joint ventures	23	52 468	59 942	65 526
Finance lease receivables	24	66 956	71 469	78 908
Derivative financial instruments	25	8 050	7 438	10 356
Trade and other receivables	29	16 002	17 363	17 765
Deferred tax assets	26	7 387	3 575	2 228
Bank deposits	4, 30	10 000	12 315	8 100
		6 089 700	5 856 882	5 825 078
CURRENT ASSETS				
Inventories	28	37 568	45 825	64 719
Loans to joint ventures	23	8 320	4 750	4 750
Trade and other receivables	4, 29	174 605	155 172	145 144
Finance lease receivables	24	4 875	4 193	3 656
Current tax receivable		888	593	2 017
Cash and bank deposits	4, 30	357 427	272 201	273 440
		583 683	482 734	493 726
Non-current assets held for sale	31	28 130	93 163	74 252
		611 813	575 897	567 978
Total assets		6 701 513	6 432 779	6 393 056
EQUITY AND LIABILITIES				
CAPITAL AND RESERVES				
Share capital	32	405 012	405 012	405 012
Reserves		2 916 047	2 596 080	2 549 215
Equity attributable to owners of the parent		3 321 059	3 001 092	2 954 227
Non-controlling interests	35	159 922	156 389	157 045
Total equity		3 480 981	3 157 481	3 111 272
NON-CURRENT LIABILITIES				
Trade and other payables	37	16 045	330	261
Secured bank loans	38	1 596 434	1 587 956	1 598 257
Finance lease liabilities	39	173 690	183 810	193 291
Derivative financial instruments	25	32 135	37 808	42 266
Retirement benefit obligations	40	3 067	3 390	7 405
Other loans	41	875 492	842 882	798 092
Provisions	36	-	3 244	6 354
Deferred tax liabilities	26	776	1 258	2 477
		2 697 639	2 660 678	2 648 403
CURRENT LIABILITIES				
Trade and other payables	4, 37	181 676	183 998	231 348
Other loans	41	16 984	-	-
Secured bank loans	38	289 142	394 652	363 259
Finance lease liabilities	39	10 120	9 481	8 850
Current tax payable		2 042	1 653	3 206
Derivative financial instruments	25	22 929	24 836	26 718
		522 893	614 620	633 381
Total liabilities		3 220 532	3 275 298	3 281 784
Total equity and liabilities		6 701 513	6 432 779	6 393 056

Consolidated Statement of Cash Flows For the period ended 31 December 2015

	Note.	2015 \$'000	2014 \$'000
OPERATING ACTIVITIES			
Cash received from freight and hire of vessels	4	1 460 200	1 363 106
Other cash receipts		61 127	44 556
Cash payments for voyage and running costs	4	-649 887	-740 125
Other cash payments		-110 420	-168 633
Cash generated from operations	42	761 020	498 904
Interest received		2 901	2 455
Income tax paid		-22 158	-10 259
Net cash inflow from operating activities		741 763	491 100
INVESTING ACTIVITIES			
Expenditure on fleet		-45 022	-26 888
Expenditure on vessels under construction		-516 181	-492 434
Expenditure on assets held for sale		-	-419
Interest capitalised	17	-10 375	-8 157
Expenditure on other property, plant and equipment		-3 444	-3 971
Investment in joint venture		-107	-
Loan repayments from joint ventures		4 272	7 030
Loans issued to joint ventures		-	-1 020
Proceeds from sale of subsidiary net of cash disposed		1 232	-
Proceeds from sale of equity accounted investments	48	6 300	-
Proceeds from sale of vessels		112 909	123 298
Proceeds from sale of other property, plant and equipment		10 035	8 711
Capital element received on finance leases	24	4 141	4 108
Interest received on finance leases	24	13 115	17 593
Dividends received from equity accounted investments	22	2 762	2 531
Bank term deposits	4, 30	1 442	391
Other receipts		-	285
Net cash outflow used in investing activities		-418 921	-368 942
FINANCING ACTIVITIES			
Proceeds from borrowings		493 081	426 846
Repayment of borrowings		-546 670	-361 824
Financing costs		-8 196	-7 269
Repayment of finance lease liabilities		-9 718	-9 098
Restricted deposits	4, 30	1 469	-4 215
Funds in retention bank accounts	30	-6 982	-2 062
Interest paid on borrowings		-118 541	-116 643
Interest paid on finance leases		-12 521	-13 141
Dividends paid		-21 331	-10 192
Acquisition of non-controlling interests	35	-217	-
Net cash outflow used in financing activities		-229 626	-97 598
INCREASE IN CASH AND CASH EQUIVALENTS			
		93 216	24 560
Cash and Cash Equivalents at 1 January	4, 30	253 840	256 750
Net foreign exchange difference		-14 376	-27 470
Cash and Cash Equivalents at 31 December	4, 30	332 680	253 840

LIST OF KEY INTERNAL REGULATIONS SERVING AS THE BASIS FOR THE COMPILATION OF THIS ANNUAL REPORT

- | | | |
|---|--|---|
| 1. The Long-Term Development Programme of SCF Group | 13. Regulations on the Professional Training / Retraining and Raising the Qualifications Level of PAO Sovcomflot Personnel | 26. The PAO Sovcomflot Charter; |
| 2. The PAO Sovcomflot Corporate Governance Code | 14. Regulations on the PAO Sovcomflot Internal Audit Commission | 27. Regulations on the PAO Sovcomflot Risk Management System |
| 3. The Environmental Protection Policy of PAO Sovcomflot | 15. Regulations on the PAO Sovcomflot Board of Directors | 28. Regulations on the Finance Department -Treasury of PAO Sovcomflot |
| 4. Regulations on the Payment of Compensation and the Reimbursement of Expenses to PAO Sovcomflot Board of Director Members | 16. Regulations on Wages and Material Incentives for PAO Sovcomflot Employees | |
| 5. Regulations on the Chief Executive Officer of PAO Sovcomflot | 17. Regulations on the PAO Sovcomflot Internal Audit Department | |
| 6. Regulations on the Dividend Policy of PAO Sovcomflot | 18. The Employee Long-Term Incentive Programme of PAO Sovcomflot | |
| 7. Regulations on the Audit Committee of the PAO Sovcomflot Board of Directors | 19. The PAO Sovcomflot Innovative Development Programme | |
| 8. Regulations on the Committee for Innovative Development and Technical Policy of PAO Sovcomflot | 20. Programme on the Sale of PAO Sovcomflot Non-Core Assets | |
| 9. Regulations on the HR and Compensation Committee of the PAO Sovcomflot Board of Directors | 21. The PAO Sovcomflot Energy Conservation and Energy Efficiency Programme | |
| 10. Regulations on the Strategy Committee of the PAO Sovcomflot Board of Directors | 22. The PAO Sovcomflot Project Management Regulation | |
| 11. Regulations on the Procedure for Performing Procurements of Goods, Work and Services for the Needs of PAO Sovcomflot | 23. The Standard for Auditing the Implementation of the PAO Sovcomflot Long-Term Development Programme | |
| 12. Regulations on the PAO Sovcomflot Executive Board | 24. The PAO Sovcomflot Development Strategy | |
| | 25. The Technical Policy of PAO Sovcomflot | |

GLOSSARY

ABBREVIATIONS

EBITDA	Earnings before interest, taxes, depreciation and amortisation	LIBOR	London Interbank Offered Rate	RF	Russian Federation
LTIF	Lost time injury frequency	MARPOL	International Convention for the Prevention of Pollution from Ships	LNG	Liquefied natural gas
SCF	Sovcomflot	ISM Code	International Safety Management Code	LPG	Liquefied petroleum gas
TRCF	Total recordable cases frequency	IFRS	International financial reporting standards	CBR	Central Bank of Russia
ANO	Autonomous non-profit organisation	VAT	Value-added tax		
NF	Naval forces, the navy	R&D	Research and development		
DWT	Deadweight	NCA s	Non-Core Assets		
LDP	Long-term development programme	PAO	Public joint-stock company		
FESRC	Far Eastern Shipbuilding and Ship Repair Centre	SUR	Seafarers' Union of Russia		
KPI s	Key performance indicators	RAS	Russian accounting standards		
ICSS	Integrated control safety system	RSP P	Russian Union of Industrialists and Entrepreneurs		

DEFINITIONS

The Group of Companies and the Group – Sovcomflot Group of SCF Group

Deadweight – The total weight of net load carried by a ship and measured in tonnes

MARPOL 73/78 Convention – International Convention for the Prevention of Pollution from Ships

Non-Core Assets – a) The non-current assets of the Company that form part of the property, plant and equipment classified as immovable property, intangible assets, and construction in progress, which do not contribute to the core and related business and are included in the register of non-core assets; b) shares convertible into equity securities, and participation interests in the

authorised (joint) capitals of legal entities, whose businesses/activities are not related to running the core and related business, which are included in the register of non-core assets.

PAO Sovcomflot – Public Joint-Stock Company Modern Commercial Fleet, parent company of SCF Group

Time-charter equivalent – The regular average daily income of vessels during a voyage charter that the ship owner should earn on any shipment destination

Chartering of a vessel – The agreement to hire a vessel to perform a specific shipment (journey) or the hiring of a vessel for a specific time period

Shuttle tanker – Oil tanker performing regular journeys between the operating field and ground terminal or oil refinery

ISO 9000 – Series of international standards describing requirements on the quality management system of organisations and enterprises

ISO 14000 – Series of international standards on the establishment of an environmental management system



Safety Comes First

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