

**SCF**  
Sovcomflot



2011



# SCF GROUP OVERVIEW:

- Russia’s largest shipping company and one of the five global leaders in sea-borne energy solutions. A specialist in the transportation of crude oil, petroleum products and liquefied natural gas (LNG);
- The Group offers a wide range of marine services for offshore upstream oil & gas projects;
- One of the first Russian companies founded in accordance with international standards. In 2013 SCF celebrates the 25th anniversary of its establishment as a joint stock company;
- Rated investment grade by the Standard & Poor’s and Fitch agencies;
- The fleet includes 158 vessels with a total deadweight of more than 12 million tonnes;
- The newest, most technically advanced and rapidly growing fleet in the world – the average age of vessel is seven years;
- The company services the largest offshore oil & gas projects in the world (current and prospective) – Sakhalin-1, Sakhalin-2, Varandey, Tangguh, Peregrino, Prirazlomnoye, Yamal LNG, Shtokman;
- A key player in the development of Arctic navigation. SCF Group has opened up the Northern Sea Route for large-capacity cargo shipments and is steadily increasing its presence in the segments of marine logistics and supply services for the development of the largest hydrocarbon deposits of the Arctic region;
- Winner of prestigious international industry awards, including those from Lloyd’s List, Seatrade, Marine Money;
- A worldwide presence: representative offices and subsidiaries in St. Petersburg, Moscow, Novorossiysk, Murmansk, Vladivostok, Yuzhno-Sakhalinsk, London, Madrid, Singapore and Limassol;
- A reliable team of high-class professionals with many years’ of work experience even in the most challenging ice and climate conditions of the Arctic – more than 9,300 people at sea and ashore.



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\* as at 31 March 2012

Suezmax tanker Vladimir Tikhonov, 160,000 tonnes (dwt), underway in the Northern Sea Route, East-Siberian Sea





**Ilya Klebanov**

Chairman of the Board of Directors  
OAO Sovcomflot

2011 was one of the most difficult years for the tanker industry in more than a decade. The level of charter rates reached a record low.

The OAO Sovcomflot Board of Directors is therefore satisfied with the fact that even in such a difficult period for the industry, the company increased its revenue and ended the year in profit. SCF Group's industrial business model, balanced chartering, and conservative financial policies have ensured its leading position in the industry, guaranteed its financial stability, and provided for consistent implementation of its investment programme.

An event of key importance for the Group was the approval of its development strategy by the Board of Directors. This envisages further growth of the

business, with a priority on the LNG transportation segment and servicing the extraction of offshore hydrocarbons. The company has sufficient potential to consolidate its leading positions in conventional tanker transportation. It also looks forward to developing its unique expertise in the field of energy shipping in difficult environments, including areas of pack and floating ice as well as other challenging climatic conditions.

Sovcomflot's development strategy was drafted within the framework of the guidelines of the Energy and Transportation Strategies of the Russian Federation. It envisages the more active participation of SCF Group in the servicing of Russia's foreign trade. It also presumes an increase in the export of shipping services on the basis of long-term contracts with

*Sovcomflot's development strategy was drafted within the framework of the guidelines of the Energy and Transport strategies of the Russian Federation.*

leading international oil and gas companies. An important element of the company's development plan is the implementation of a series of measures aimed at further improving the Group's corporate structure, increasing the efficiency of its business processes, and further developing its human resources potential.

The Board of Directors believes that implementation of the Group's strategy will allow Sovcomflot to strengthen its leading industry positions, thereby making it more appealing to Russian and international investors.

During the implementation of its investment programme, Sovcomflot will pay special attention to innovation and broaden its cooperation with Russian ship-building companies, especially those located in the country's North-West and Far East.

Next year the company will celebrate its twenty-fifth anniversary. In 1988 Sovcomflot became one of the first joint-stock companies in Russia's recent history. During these years the company has acquired significant experience.

Finally, let me express my sincere gratitude to all customers, partners, employees, and especially veterans of the company for their invaluable contribution to the successful development of OAO Sovcomflot.

Timofey Guzhenko, 70,000 tonnes (dwt) Arctic shuttle tanker,  
Barents Sea







**Sergey Frank**  
President and CEO  
OAO Sovcomflot

Despite some signs of improvement in the world economy and trading in 2011, the freight market continued to display an imbalance between supply and demand which had adverse effects for shipowners. The ClarkSea Tanker Index fell by more than 20 per cent compared to 2010. Meanwhile, freight rates reached their lowest levels for more than a decade, and the market capitalisation index for publicly-listed tanker companies fell by 40 per cent.

However, even in these extremely unfavorable market conditions, OAO Sovcomflot continued with the steady implementation of its strategic plan and programmes. These are aimed at increasing the company's competitive strength and the efficiency of its fleet operations, broadening the spectrum and quality of services offered, and maintaining high navigational safety standards.

The investment programme for 2011 was fully implemented. During the past year, SCF Group's

fleet was strengthened by 11 new vessels, with a total deadweight of more than one million tonnes. The company operates one of the newest and most technology-intensive tanker fleets in the world. Meanwhile, SCF Group increased its revenue by 9.6 per cent in 2011 and generated a net profit of USD 53.7 million in the same year.

Another important milestone was the strengthening of the company's position in the servicing of oil and gas projects on the continental shelf. This saw a greater involvement of the SCF fleet with servicing the Sakhalin hydrocarbon deposits, to the benefit of our partners – Exxon Neftegas Ltd (Sakhalin-1 project) and the Sakhalin Energy Investment Company (Sakhalin-2 project). In 2011, a number of contracts were signed with

*In 2011 a number of contracts were signed with significant international companies, including leaders in LNG transportation and the servicing of offshore industrial projects – areas of key importance for the company.*

significant international companies, including leaders in LNG transportation and the servicing of offshore industrial projects – areas of key importance for the company. In September 2011, Sovcomflot successfully entered the market for offshore geological exploration. This followed the entry into operation of a modern hi-tech research vessel *Vyacheslav Tikhonov*, under contract with OAO NK Rosneft and ExxonMobil. SCF Group's tankers also began the transportation of oil from the Peregrino international project, on Brazil's continental shelf (operated by Statoil). Elsewhere, the company expanded its presence and strengthened its positions in the growing markets of South and South-East Asia, having established a representative office in Singapore.

The search was continued for new, effective and safe logistical solutions for offshore projects in the Barents and Kara seas. SCF also examined the possibilities of using large-capacity tankers of a high ice-breaker class in the period when navigation is

possible in the Arctic. Importantly, 2011 saw SCF master a new high-latitude passage along the Northern Sea Route. The Suezmax tanker *Vladimir Tikhonov* successfully passed between the Atlantic and Pacific Oceans in the shortest registered time span. It made this vessel the largest in history to have transited the Northern Sea Route.

Looking ahead, we see no fundamental reasons for any substantial improvement in the tanker market in 2012. However, we remain optimistic about the future, believing that the company has the necessary potential for further development, as envisaged by the Group's development strategy.

On behalf of Sovcomflot's Executive Board, I should like to express my gratitude to our shareholders, customers and partners for their support over the year. I am also extremely grateful to the Group's employees, in particular our shipmasters and crews, for their continued diligence and professional work.



Supply vessel SCF Sakhalin, 4,298 tonnes (dwt) servicing the oil production platform "Orlan", Okhotsk Sea, September 2011



# SCF Group of Companies

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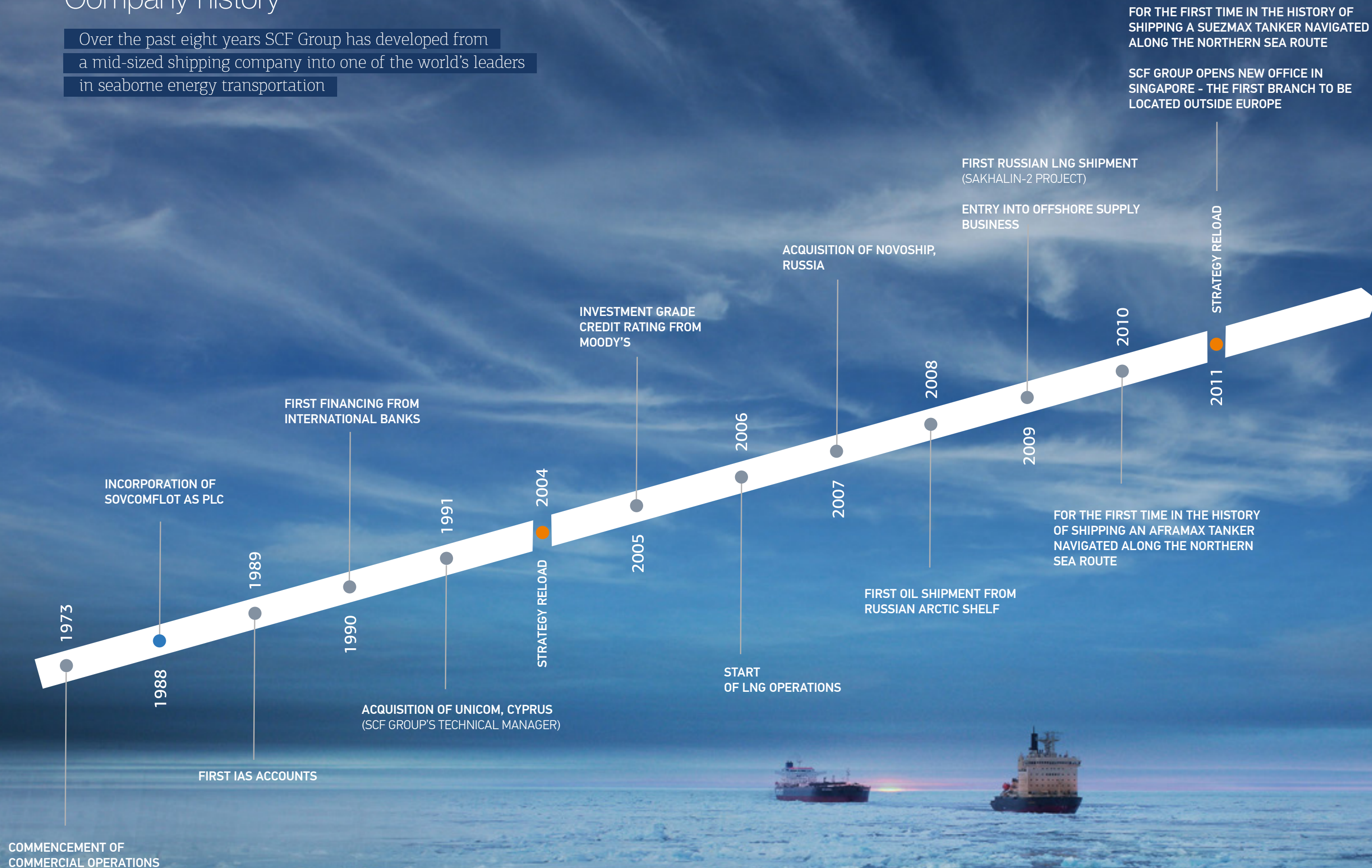
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# Company history

Over the past eight years SCF Group has developed from a mid-sized shipping company into one of the world's leaders in seaborne energy transportation







# STRATEGY

The corporate development strategy will allow SCF Group to achieve steady and reliable growth, whilst opening new horizons for the company and raising it to a new level of world leadership





Tanker Velikiy Novgorod, one of two ultra-modern ice-class LNG-carriers each of nearly 170,000 cubic metres cargo capacity, being built to order from SCF Group for Gazprom Global LNG (GGLNG)

## SCF – 2017 DEVELOPMENT STRATEGY – NEW GROWTH OPPORTUNITIES

In 2011, the Sovcomflot Board of Directors signed off the updated Group strategy to 2017. This takes into account the basic provisions of national development programmes and strategies related to the maritime, energy, shipbuilding and technology sectors.

The timing of the strategy update was determined by three important considerations:

- A dramatic deterioration in the global conventional energy shipping market, with freight rates dropping to 10-year lows, and returns going down to single-digit numbers, as a result of the global economic downturn and a protracted decline in the tanker shipping cycle. Whilst a market comeback is imminent, we expect it not to occur before 2013.



### **Vladimir Emelianov, Vice-President of OAO Sovcomflot, Chief Strategy Officer:**

*“Considering the current position of the Company in the global market for marine services, and taking into account latest market developments, as well as emerging opportunities, SCF Group has elaborated a balanced strategy focused on the sustainable enhancement of shareholder value. We expect to meet our growth and profitability targets by means of expansion in the high added value “industrial” segments - notably offshore exploration and production related marine services - while maintaining our leadership position in conventional tankers.”*

- Stable growth and a strong market in “specialised” shipping segments, such as LNG and crude oil shuttle tankers.
- Continued global expansion of offshore oil and gas E&P services, which is expected to grow at 10-14% per annum over the near future, where our special longer-

term focus is on Russia. Unlocking the vast hydrocarbon deposits of the Russian Arctic and Far East should result in annual production of 110 million tonnes of crude and up to 160 million cubic metres of natural gas by 2030 – all of which is expected to generate massive demand for marine-related services.

## SCF Group has implemented a well-balanced development strategy aimed at steady and reliable growth

Our strategic objectives for the years ahead are as follows:

- Expansion of the shuttle tanker fleet and consolidation of Sovcomflot's position within the top three global crude oil shuttle tanker owners and operators.
- Expansion of the LNG tanker fleet, operating globally under long-term contracts with oil and gas majors, which should put Sovcomflot into pole position for servicing possible future Russian LNG flows from the Sakhalin, Shtokman and Yamal projects.
- Building a strong presence in offshore marine services (with a focus on marine seismology, drilling, and platform supply, as well as the harsh environments' segment), where our goal is to become a global market leader. The targeted market share in the Russian hydrocarbon shelf projects is 25-50%.
- To turn Sovcomflot into a “national champion” in its priority segments (servicing drilling platforms, marine seismological research, sea drilling). The emphasis is going to be on the Arctic, a destination which must allow the full potential of SCF's work experience within difficult climatic conditions to be realised.
- Maintaining leadership in conventional energy shipping, with up to 140 crude, product and chemical tankers in operation by 2017.

Overall, the realisation of the development strategy should lead to a step-by-step transformation of SCF into a diversified global operator, capable of providing shareholders with a high return on capital invested at any stage of the economic cycle.





## 2011 RESULTS

In 2011 SCF Group developed business segments to service offshore oil and gas production. The Company's fleet was strengthened by **11 new vessels of 1.12 million tonnes deadweight in total**





Suezmax tanker SCF Surgut  
158,000 tonnes (dwt)



**Evgeniy Ambrosov, Senior Executive Vice-President of OAO Sovcomflot:**

*"SCF Group is implementing a balanced freight policy, which is designed to optimise the Company's income through an appropriate combination of long-term project commitments, whilst retaining some flexibility to exploit opportunities on the spot market. During the year our ships have achieved particularly impressive results in the segment of offshore oil and gas extraction services – the income from this type of activity increased by almost 50 per cent."*

## Sovcomflot operates one of the largest and newest commercial fleets in the world

standard sized tankers, SCF benefits from this advantage during the period of winter navigation in the Baltic Sea. In what is a highly competitive market, the tanker division is constantly improving the quality of its oil shipments, providing excellent service to its customers. In August 2011, as a result of winning a Statoil tender, the Group's oil tankers started shipments from the Peregrino project on Brazil's continental shelf. The project envisages the use of up to six vessels.

A landmark event of 2011 was the steel cutting for the Group's first VLCC class tanker – one of the largest types of vessel for crude oil transportation. This is a new area of activity not only for SCF Group, but also for the entire Russian shipping industry. An order has been placed for the construction of two ships of 320,000 tonnes deadweight

million tonnes. In 2011 the fleet was augmented by four new product carriers: *SCF Plymouth*, *SCF Pacifica*, *SCF Pearl* and *SCF Prudencia*, and three further tankers are currently under construction.

Over the past few years, the world's oil processing industry has undergone considerable change which relates to the entrance of new companies and oil traders into the market. The Group has adapted quickly to the new realities and has shared certain spot market operations with Glencore International AG, one of the largest oil traders, through a new joint venture.

### Gas division

The Group's Gas division specialises in the provision of high-quality services for the shipment of liquefied natural gas (LNG) and liquefied petroleum gas (LPG). SCF's fleet includes six LNG gas carriers and two LPG gas carriers, amounting to some 800,000 cubic meters carrying capacity. Four more LNG carriers and two LPG carriers are under construction. SCF's gas fleet operates only under

medium and long-term contracts with leading international oil and gas companies. It complies with the highest industry standards of operation. The Group's Development Strategy identifies gas shipments as one of the key areas for its growth.

In 2011, SCF Group celebrated the fifth anniversary of its entry into the "gas club". Five years ago the Group started work as an independent LNG shipping operator. Last year SCF managed to consolidate its success by winning a Gazprom Global LNG tender for the long-term lease and

## SCF GROUP FLEET

Sovcomflot operates one of the largest and newest commercial fleets in the world – the company has 158 vessels, with an average age of seven years. In 2011 the Company continued to expand its fleet, adding 11 new ships with a total deadweight of 1.12 million tonnes. SCF's fleet is the world's largest by deadweight and the number of vessels in the Aframax tanker segment; it is also the largest operator of ice class tankers.

### Oil division

OAO Sovcomflot's oil tanker division satisfies the demand of Russian and international customers for heavy and light oil product shipments. The main group of ships comprises tankers of Aframax size (deadweight of 90,000-120,000 tonnes) and Suezmax size (deadweight of 130,000-160,000 tonnes). In terms of numbers of vessels and deadweight tonnage, SCF Group's Aframax tanker fleet is the largest in the world. This class of vessel is also the one in greatest demand for servicing Russia's foreign trade. As of 31 December 2011, the tanker division's fleet numbered 68 owned and chartered vessels, with a total deadweight of about 8.0 million tonnes. The Group's tankers are mainly used for shipments under long-term contract arrangements, although they also operate on the spot market. Being the world's largest operator of ice class Aframax



Aframax tanker NS Krymsk, 115,605 tonnes (dwt),  
operates within the Peregrino project (Brazil)

***SCF Group's Development Strategy envisages the maintenance of its leading positions in conventional tanker shipping. Special attention will be paid to the development of its ice class fleet, capable of servicing a considerable share of hydrocarbon exports via Russian ports.***

each; they will ship crude oil under long-term time charter agreements with China's PetroChina Company Limited.

### Oil products division

The oil products division provides a first-class service for hydrocarbons transportation for the oil industry's downstream business segment (i.e. processed oil products). The tankers carry a wide range of oil products, such as benzene, bitumen, fuel oils, petrochemicals and asphalt. At the end of 2011, the division consisted of 60 owned and chartered tankers, with a total deadweight of about three





SCF Polar LNG tanker of 70,218 cubic metres capacity, STS operations at Escobar, Parana river, Argentina (photo donated by Excelebrate Energy)

chartering of two ultra-modern LNG gas carriers of ice class, with a capacity of about 170,000 cubic metres each. Simultaneous with the placement of an order for the vessels, at the STX shipyard in South Korea, an agreement was signed with the United Shipbuilding Corporation on localising the construction of this type of vessel in Russia.

### Offshore division

SCF Group's SCF-2017 Development Strategy stipulates the transformation of the Group into a leading national operator – the leader in servicing hydrocarbons deposits on the

**By 2017, OAO Sovcomflot is planning to double its number of LNG and LPG carriers for operations based on long-term charter contracts. It also plans to continue preparations for servicing LNG exports which are due to start following new Russian projects for the extraction and liquefaction of natural gas (e.g. a new stage of the Sakhalin-2 project; Shtokman Gas Condensate Field; Yamal LNG).**

continental shelf. The Group's activity in servicing offshore projects in Russia and abroad is to become a major focus of its future growth.

SCF's Offshore division provides a wide range of specialised services, including: marine seismic exploration; the towage of floating drilling units; terminal management; safe shuttle shipments, for oil and gas in severe climatic conditions (ice-management); offshore drilling, etc. The division operates

only under long-term contract arrangements, and over a period of several years it has been implementing shipping and logistical support for large-scale oil and gas projects, such as: Sakhalin-1; Sakhalin-2; Varandey; Tangguh; Prirazlomnoye. In 2011, new agreements were concluded for operations serving the Shtokman, Yamal LNG and the Peregrino (Brazil) projects.

The Division's fleet includes 12 ice class specialised shuttle tankers, two ice-breaking supply vessels, and a seismic exploration vessel. In 2011, an order was placed for two more, new generation, ice-breaking supply vessels. This was the result of the Group having won an Exxon Neftegas tender for servicing the Arkutun-Dagi oil deposit.

SCF Group has also acquired six Aframax class tankers from Prisco Group, which has enabled it to consolidate the shipping component of its services to the Sakhalin-1 and Sakhalin-2 offshore oil and gas projects. In September 2011, the Group entered the marine geological exploration business segment, having chartered *Vyacheslav Tikhonov* (X-bow 3D), a new high-tech marine seismic exploration vessel. Immediately after Russia's flag was raised over *Vyacheslav Tikhonov* it began operations on the continental shelf of the Black Sea, under a contract with the Rosneft - Exxon Neftegas Ltd. alliance.



Suezmax tanker Vladimir Tikhonov, 160,000 tonnes (dwt), underway in the Northern Sea Route, East-Siberian Sea

### The Northern Sea Route

Operations in severe climatic and ice conditions are a trademark of SCF Group. No other company in the world has such a powerful fleet, one-third of which are ice class tankers, specially designed to operate in low temperatures.

In 2011, the Suezmax class tanker *Vladimir Tikhonov*, with a deadweight of 160,000 tonnes, became the largest ship to transit the Northern Sea Route (NSR). The tanker followed a new deep water route, to the north of the New Siberian

**According to the SCF-2017 Development Strategy, energy shipping in ice conditions is one of the key business areas for further development.**

Islands. She covered the distance of 8,500 miles, fully laden, in only 28 days. Of that route, more than two thousand miles were in the high-latitude zone of the NSR, which was covered by the ship in seven days. Ice channeling was performed by the world's most powerful atomic icebreakers,

*Yamal* and *50 Let Pobedy*, under the supervision of SCF Group specialists with many years' experience of safe navigation in the Arctic and Subarctic latitudes. For the Company, this is the second successful voyage from the Atlantic to the Pacific Ocean along the Northern Sea Route. In August 2010, the Aframax tanker *SCF Baltica* followed this route and on the successful completion of her voyage became the largest ship (with a deadweight of more than 117,000 tonnes) to cover this Arctic marathon, before *Vladimir Tikhonov* took the record from her.

The Northern Sea Route, being an alternative to the traditional route through the Suez Canal, is a safer (protected from pirates) and more cost effective route. The successful voyages of SCF confirm its high potential and strategic value, especially in the light of the intense development of hydrocarbons extraction and shipments from the high latitude deposits on Russia's continental shelf of the Barents Sea, the Pechora Sea and the Kara Sea, in order to service world markets.

#### Fact:

*A VLCC tanker of 320,000 tonnes (dwt) is capable of carrying a cargo of oil equal in weight to the amount of oil carried by 100 freight trains.*





## KEY FACTORS FOR GROWTH

SCF Group's existing business model has demonstrated a high degree of stability against the negative background of a depressed tanker market





Sovcomflot and Gazprom sign a cooperation agreement, St. Petersburg



**Nikolai Kolesnikov, Executive Vice-President of OAO Sovcomflot, Chief Financial Officer:** "Sovcomflot prefers a conservative financial policy. In 2011, this preserved access to debt capital, despite the tanker market's high volatility. Although the freight market environment remained negative, investments into areas of high value-added growth continued, in particular, servicing continental shelf projects and LNG shipping."

## SCF Group retains a competitive advantage from its high earnings stability and long-term earnings visibility

charterers. The largest international oil and gas companies (majors), the leading Russian energy companies and global oil traders are amongst the Group's customers.

SCF Group cooperates with the largest institutions within the Russian banking sector. An example of this was the signature, at the 2010 St. Petersburg International Economic

Forum, of two strategic agreements between Sovcomflot and leading Russian banks. The Group will cooperate with Vnesheconombank within the framework of the Yamal-LNG project, to develop joint proposals on financing the construction, acquisition and subsequent operation of ships required for the development of this project.

## SOVCOMFLOT – FINANCIAL STABILITY

SCF Group is a global operator with a leadership position in the international marine logistics market. The Group benefits from stable, long-term, sources of income and cash-flow which provide SCF with a significant competitive advantage relative to its peers.

In 2011 the Group increased its gross revenue by 9.6 per cent to USD 1.44 billion and saw time charter equivalent revenue almost unchanged (USD 927 million). As of the end of 2011, SCF Group was the only large tanker company

in the world which managed to remain profitable, despite the challenging industry conditions. The financial stability of Sovcomflot is confirmed not only by its key performance indicators, but also by the investment grade credit ratings assigned to it by the Fitch and Standard and Poor's international ratings agencies.

The stable economic position of SCF Group is a result of its conservative financial and commercial policies, with the bulk of the business based on long-term contracts with first-class



Sovcomflot and the Bank for Development and Foreign Economic Affairs (Vnesheconombank) sign a bilateral agreement on cooperation, St. Petersburg

### Fact:



*The debut 7-year Eurobond issue of OAO Sovcomflot was recognised as the best public debt offering of 2010 by a European shipping company, according to Marine Money Magazine. The Group benefited from the lowest coupon rate for a seven-year Eurobond from a Russian issuer.*





## SOVCOMFLOT – INNOVATIVE GROWTH



**Sergey Popravko, Senior Executive Vice-President of OAO Sovcomflot, winner of the 2011 Russian Government Award for Science and Technology:** *"We are operating in the global shipping business, where the main condition for preserving competitiveness remains constant technological improvement and innovative growth. SCF is an acknowledged leader in this sphere. Specialisation in seaborne transportation in the difficult climatic conditions of the Arctic and Subarctic seas remains a serious competitive advantage for SCF Group."*

## SCF Group operates one of the most technologically-advanced tanker fleets in the world

Innovative growth for Sovcomflot means moving forward ahead of its peers. The Group not only conforms to the highest international standards of safety, environmental management and energy efficiency, it is also developing its own even higher standards, continuously introducing new technological solutions. High-precision navigation, cutting-edge information and management technologies, having the most advanced shipboard equipment, continuous enhancement in the quality of staff training - this is just the beginning of SCF's list of development innovations. They

allow the company to set the pace of development in the global shipping industry.

In accordance with the Group's Research and Advanced Development policy, SCF Group seeks to order and operate high-performance and commercially viable ships. The use of innovative technological solutions by SCF Group allows it to optimise fleet maintenance costs, whilst also providing high levels of energy efficiency and safety in the crews' work and accommodation areas.





Vyacheslav Tikhonov – a new seismic exploration vessel in operation in the Black Sea



**Alexander Kurtynin, Vice-President of OAO Sovcomflot:** “The presence of the seismic research ship Vyacheslav Tikhonov in the Russian fleet will allow us to expand the range of services provided to oil and gas companies operating on the continental shelf. Jointly with the shipbuilders, we are also working on making the production of such vessels possible in Russia. This will help reduce the technological gap between Russian companies and the world’s majors in the sphere of marine geophysics. It will give an additional boost to the gradual replacement of imported services by domestic ones.”

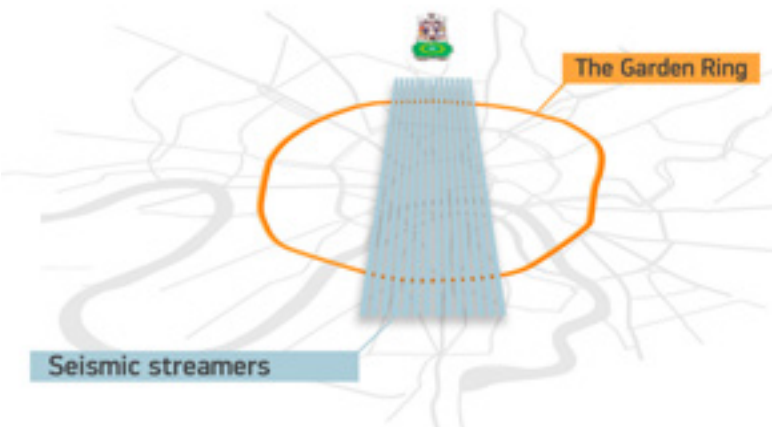
2011 was the most important stage in SCF Group’s innovative development. This reflects the implementation of breakthrough transportation and service solutions of great importance not only for the Group but also for Russia

**Mastering the marine geophysical exploration market**

In September 2011, in the port of Sochi, a flag-raising ceremony took place onboard the modern geophysical research vessel *Vyacheslav Tikhonov*. This is the first ship of its class in Russia. There are only six similar vessels in the

world, and *Vyacheslav Tikhonov* is the most advanced and the newest of them. Its main task is 3D geophysical research of the Earth’s surface, performed by a system of eight seismic streamers. The research is done by special waves which allow the vessel to determine the structure of the sea bottom, including valuable fossils and minerals (mostly oil and gas). SCF Group acquired the vessel on a long-term

**Fact:**



*The size and the amount of seismic streamers used by Vyacheslav Tikhonov allow her to carry out operations in an area of six square kilometres at a time (almost equal to the area of Moscow within the Boulevard Ring). In length, if put together, these seismic streamers exceed the diameter of the Garden Ring in Moscow.*



Vyacheslav Tikhonov onboard computer centre

severe climatic conditions of the Arctic and Subarctic seas. The research vessel *Vyacheslav Tikhonov* is distinguished not only by her advanced technological solutions, but also by her innovative design.

**Environmental and energy efficiency**

Enhancement of the environmental component and the promotion of greater energy efficiency are priorities within the Group’s plans for innovative development. In 2011, SCF began the implementation of a “slow steaming” concept – implying the operation of ship engines at below average loads and speeds. SCF has developed and started applying special recommendations for operating ships at slow steaming speeds, without causing engine damage. This has resulted in a reduction of CO2 emissions by 30 per cent.

***In 2012 in line with the implementation of the Group’s Innovation Programme, SCF plans to open its own engineering centre with headquarters in St. Petersburg which will become a research laboratory for the Group.***

bare boat charter, with the right of purchase, from one of the world leaders in marine geophysical exploration – the Polarcus company.

An optimised diesel-electric installation and propulsion unit, strengthened ice class and high standards of reliability allow this research ship to perform continuous operations in the

The S3ES system – Novoship (Ship Energy Environmental Efficiency System) is another innovative development in this sphere, which was patented by OAO Novoship in September 2011. MechShip, as it is

sometimes called in professional circles, allows the annual control of the condition of a ship’s equipment, fuel and lubricants consumption, engine operating parameters and the levels of emissions to the atmosphere. The system, which has already proven its effectiveness, has been introduced to all Novoship vessels and is now being integrated in other vessels of SCF Group’s fleet.

**Fact:**

*Vyacheslav Tikhonov collects information on the composition of the Earth’s crust using 64,000 sensors. Each sensor registers 3,000 physical indicators in a second. In one day the vessel registers such a volume of information, that it requires the equivalent of 10 modern PCs for its storage.*





**Mikhail Suslin, Advisor to CEO of OAO Sovcomflot, Chief Marine Inspector:**

*"The safety of a vessel at sea depends on the professionalism of the crew, as well the excellence of technical solutions used during a vessel's construction. Modern equipment enhances the accuracy of operations undertaken and the efficiency of the completed work allowing, for example, operations in limited visibility conditions as well as in other difficult situations. However, it will never be a substitute for the experience and intuition of a captain or navigator, or the well coordinated team work of the whole crew. Therefore SCF focuses, primarily, on continuous improvement of the skills and professionalism of its captains, crew members and onshore personnel, as well as on the use of the most advanced technologies in its fleet."*

recommendations of TMSA (Tanker Management Self-Assessment). It also envisages the development of a unified professional school for the Group, founded on the basis of best practice within the marine industry. Implementation of this programme stipulates the widespread use of innovative communication technologies, new analytical techniques for processing large volumes of data, and high-efficiency training methods.

**Safety at sea**

To improve SCF Group's safety policy, a decision was taken in 2011 to arrange a number of scientific and practical research projects designed to study the psychological and physiological aspects of seafarers' behavior, and to

establishments in its innovation programme. Sovcomflot was also one of the first companies to deploy the most effective tactics for counteracting piracy – the problem which has become a serious threat to navigational safety in recent years. In addition to implementing a "Citadel" concept, interaction with the Russian Navy and using a system of special training for crews, the Group's ships operating in regions of high piracy risk are accompanied by armed security. In 2011 alone, such tactics enabled the Group to defeat 10 different pirate attacks on its vessels.

International recognition has also confirmed the high safety standards associated with SCF Group's activity. All companies of the Group comply with the requirements of

## SCF GROUP – SAFETY COMES FIRST

Under any climatic conditions, braving the threat of pirate attacks, as well as other challenges, the Group provides high-quality and safe services at every stage of the shipment process, eliminating as far as possible the risks associated with providing such services.

To consolidate SCF Group's leading position in safety management, the SCF – 2015 Programme of Enhancing Navigational Safety and Services Quality has been in effect since 2011. It stipulates the unification of quality management services, in compliance with the



**Igor Pankov, Vice-President of OAO Sovcomflot, Head of Safety and Quality Department:**

*"Our slogan – 'Safety comes first!' Quality shipping of hydrocarbons and enabling the continuous operation of oil-and-gas production platforms are large-scale and extremely complex technical challenges which require high levels of responsibility from all participants."*

## Our company provides its customers with high-quality and safe services, at every stage of the transportation process

develop methods to reduce the negative impact of "human error" in their professional activity. The research will be performed jointly with specialist science institutes and educational establishments, and stipulates the development of an intellectual system of assessment of the success of seafarers' professional activities. Sovcomflot is the only Russian shipping company to include scientific research and the involvement of specialised higher education

the International Ship Operation Safety Code (ISOSC). In 2011, DNV, the world-renowned ship-classification society, conducted an audit of the safety system of OAO Novoship and confirmed its compliance with this international standard. According to statistics from the respected INTERTANKO tanker owners' association, Sovcomflot is amongst the world's leading tanker companies in terms of labour protection and ship safety, given its low accident rate.

**Fact:**

*A distance of more than three miles and more than 20 minutes may be required to stop a fully laden tanker with a deadweight of 250,000 tonnes.*





# SCF GROUP – A RELIABLE TEAM

SCF Group means, first and foremost, the people: ship masters and chief engineers; navigators; bosuns; technicians; seafarers and shore-based employees of our operating companies throughout Russia and internationally. The team's professionalism and congruence are the key to the Group's success and the pre-requisites for the sustainable development of Russia's shipping industry.

## Our qualifications

SCF Group's human resources strategy is a key determinant of the company's success. The Group performs the selection and training of young specialists and implements programmes of advanced training for seafarers and employees of shore-based operations, taking into account

the latest international standards, industry trends and legislative requirements. The selection and training of seafarers is performed in conjunction with leading Russian nautical educational establishments, as well as Novoship Training - a special sub-division of SCF Group.

In 2012 work is due to be completed on a new and unique Simulator Training Centre (STC) for OAO Sovcomflot, based in St. Petersburg. It is designed for the introduction and development of innovative techniques for training highly skilled seafarers to work in the difficult climatic conditions of the Arctic and Subarctic seas. At the heart of the Centre is a specialised simulator which reproduces a vessel's navigational bridge with an all-round view, which can be

# Human resources remain one of the key factors in SCF Group's success

adapted to any type of vessel operated by the Group today or planned for the future.

In accordance with an agreement signed in September 2011 by SCF Group, with Russia's oldest nautical school – the Admiral Makarov State Maritime Academy (SMA) – an educational training programme for seafarers (including cadets) will be implemented at the Simulator Training Centre, with the engagement of academic staff from the Academy. The agreement also stipulates the interaction of the SCF Simulator Training Centre with the Academy in scientific research work, in particular the evaluation of marine accidents and emergencies.

As part of the Group's cooperation with the SMA, in January 2011, a pilot programme of training cadets for SCF Group was commenced. To this end, the relevant regulation on the Training of Target Groups has been developed, 30 cadets have been selected and included in these groups. Their training has begun with the engagement of specialists

from Unicom St. Petersburg – the technical manager of SCF Group. The resulting experience will also be applied at other marine colleges. Meanwhile, the implementation of a Programme of Training of Junior Officers for Gas Carriers is progressing, within the scope of a shared project that has started jointly with the Admiral Makarov State Maritime Academy and subsidiaries of OAO Gazprom.

## Professional recognition

The professionalism of the Group's employees has been proven over time, under the most severe climatic conditions. This is evidenced by the excellent safety record of the company, achieved over a period of more than 20 years. The many state and corporate awards received annually by the Group's employees is further evidence of their professionalism.

In 2011, 62 employees from SCF Group were amongst the seafarers and shore-based personnel to receive official state awards. On 21 September 2011, in St. Petersburg, three of

**Fact:**

*In total, more than 9,300 people are employed by SCF Group across the world at sea and ashore.*





Crew of the Arctic shuttle tanker Vasily Dinkov

the Group's seafarers – crew members of SCF Baltica were awarded the Medal of the Order of Merit for the Motherland. Captain A. Nikiforov, Chief Engineer V. Volynets and Bosun I. Sokolov were recognised for their "Achievements in mastering the Arctic regions, and participation in an experimental Arctic voyage of the ice class tanker SCF Baltica, along the Northern Sea Route, as well as their excellent professional skills and distinguished labour."

In February 2012, the Government of the Russian Federation announced the winners of the 2011 awards for science and technology. Sergey Popravko, a member of the Board, the First Deputy General Director of OAO Sovcomflot, was named one of the winners of this honorary award. This was bestowed "For the development and industrial application of innovative scientific methodology and technological solutions designed to create an oil shipment system for the Arctic Ocean conditions (citing the example of the Varandey Oil Export Terminal)."



Vasily Dinkov, 70,000 tonnes (dwt) Arctic shuttle tanker, Barents Sea



**Igor Tonkovidov, the President of OAO Novoship:** "Our business is based upon qualified specialists, therefore we are building an organisational structure that allows us to use our human resources to the best possible effect: using training to develop the required skills and blocking the so-called "professionally inadmissible character flaws."

Sergey Popravko took part in the development of the project for the series of Arctic shuttle tankers of the Vasily Dinkov type for the shipment of crude oil from the Varandey FOIROT.

These vessels have enabled the introduction of a new system of hydrocarbons transportation in the severe climatic conditions of the Arctic region.

**SCF Group's Development Strategy for the period to 2017 stipulates further improvement to the Group's organisational structure and the development of its human resources through:**

- **Creating business divisions for all SCF's key business lines and a unified platform for the technical management of the fleet;**
- **Expanding the available human resources, due to the planned implementation of a system of measures aimed at continuous training, mentoring, assessment and advanced training for seafarers. In addition, promoting activities designed to attract new staff and improved results from the specialist colleges, in order to enhance the prestige of the naval profession;**
- **Engaging top-ranked international specialists to develop new business segments.**



SCF Group (Sovcomflot) and Admiral Makarov State Maritime Academy sign a cooperation agreement, St. Petersburg





# A SOCIALLY RESPONSIBLE COMPANY

Not limiting itself to the commercial side of its mission, SCF is making every effort to further the national interests of Russia by helping to develop the country's coastal regions, making a valuable input to the protection of the environment and wildlife, as well as enhancing the well-being of employees.





The official ceremony devoted to the 71st Anniversary of the first Northern convoy, during the Great Patriotic War (1941-1945), onboard HMS Belfast sponsored by SCF (Photo courtesy of Vadim Nesterenko, Victory Day London)

## SOVCOMFLOT – A SOCIALLY RESPONSIBLE COMPANY

Maintaining competitive employment conditions for our seafarers and the creation of a favourable work environment for them are amongst the top priorities for SCF Group. OAO Sovcomflot is already a leader in the labour market within its business segment. SCF's employment conditions are fully in line with international standards of the global shipping industry. The Group offers and continually seeks to enhance its voluntary health insurance and material incentives for staff and promotes a healthy lifestyle for its employees. SCF's corporate retirement programmes have been implemented over four successive years, to provide long-term security for employees, engaged both at sea and ashore, with an additional occupational pension. In conjunction with trade unions, the retiring shipboard employees receive considerable lump sum payments and voluntary health insurance. The Group pays increasing attention to employees' education. Training programmes for staff are

implemented on a regular basis, supported by Russia's higher maritime academies and colleges.

SCF Group places great importance on transparency in all aspects of its business. The Group is always ready for dialogue not only with its customers, partners and investors, but also with the news media, society and perhaps most importantly, with its employees. For these purposes the corporate newspaper "SCF Newsletter" is issued monthly. Since 2011, a corporate Twitter account has also been maintained, so that information about the Group and its industry reaches the most remote areas of the world where SCF crews are working. A community liaison office has also been opened and is represented on SCF Group's website.

Results from Russia's national corporate media competition "Serebryanye Niti 2011" saw the Group's corporate



**Vladimir Mednikov, Executive Vice-President of OAO Sovcomflot, Administrative Director:** "In parallel with solving the operational objectives, Sovcomflot is striving to assist the state through the implementation of social programmes, to stimulate development of the coastal regions of Russia, to create and support favourable social conditions for the Group's employees. The state cannot always react to all social challenges in a timely manner. In Sovcomflot, we believe that the joint efforts of the state and a socially responsible business will establish the right path, that will lead a prosperous society in Russia, whilst improving the quality of life in our country."

## The Group believes that the task of improving living standards in Russia can be achieved by the combined efforts of the government and socially responsible companies

newspaper awarded with a special diploma from the competition's board of industry experts. In 2011, on the initiative of SCF Group and with considerable assistance from it, "Morskoy Flot (Marine Fleet)" magazine was revived. This is one of the world's oldest industry publications, with a 130-year history.

### Investment in education

Seamanship is certainly hard work, which demands a high degree of professionalism and continuous advanced vocational training for captains, officers and crew.

In 2011 Sovcomflot expanded its cooperation with the Admiral Makarov State Maritime Academy, the oldest and one of the best high schools training shipboard staff not only in Russia, but anywhere in the world. SCF assists the academy with the restoration and equipping of classrooms and initiates joint educational programmes. For example, starting from 2012, cadets from the academy will have the opportunity for additional training in a unique new SCF Simulator Training Centre, built by the Group especially for the purposes of advanced vocational training for shipboard staff.

In May 2011, a number of events took place in St. Petersburg celebrating the 135th anniversary of the academy. Sovcomflot was an official partner of the anniversary and it also conducted a number of events, in which former graduates of the Admiral Makarov SMA took part. The events included participation from outstanding professionals, as well as senior and middle managers from SCF Group.

Sovcomflot is also working closely with other leading specialised schools of Russia, including the Admiral Nevelskoy Maritime State University. In particular, the Group is participating in the reconstruction of the University's training vessel - *Professor Khlyustin*.

### The Children's future is in safe hands

Providing support during maternity and childhood is one of the key facets of the Russian state's social policy. In this regard, SCF Group participates in the implementation of relevant charity programmes in the regions of Russia and the CIS states. The Group provides procurement and financial assistance to the Safonovskaya General Education Children's Home in the Smolensk Region, where orphaned children and children neglected by their parents reside and are raised.

### Fact:

*The heads of SCF Group companies are members of the Guardian Councils of all the three Russian maritime schools: the Admiral Makarov State Academy (St. Petersburg); the Admiral Nevelskoy Maritime State University (Vladivostok); the Admiral Ushakov Maritime State Academy (Novorossiysk), and they participate in the work of Scientific Councils of these institutions.*





Students of Safonovskaya Children's Home, Smolensk region

These children, deprived of the care and protection of their relatives, have found a new home in Safonovskaya, where they are educated, provided with material assistance and psychological support.

For many years the Group has been acting as a patron of St. Olga Children's Hospital in St. Petersburg and it provides financial assistance to acquire modern medical equipment. Last year the Group also included the Child Guidance and

Family Counselling Centre (City Hospital No. 5) in Sevastopol amongst its charity projects; the children and wives of Russian seafarers based in the city undergo treatment at this Hospital.

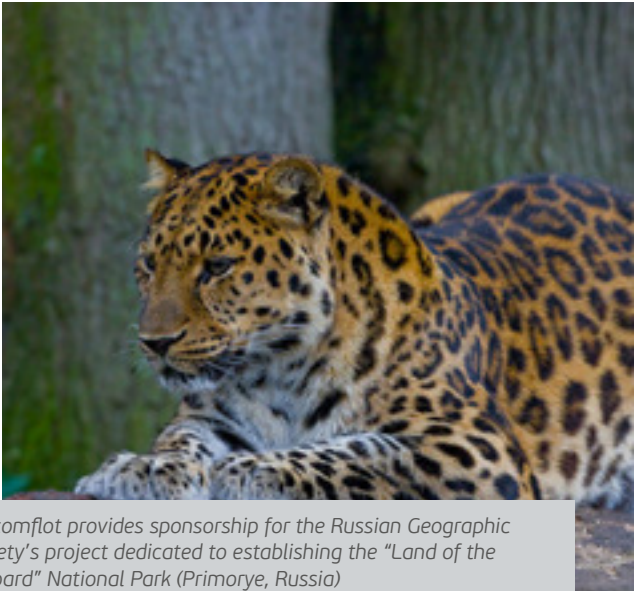
The children's home in the Akhtyrsky District of the Krasnodar Region, rehabilitation school No.9, and the children's hospital in Novorossiysk are also receiving regular support from SCF Group.



Intensive care department of St. Olga's childrens hospital, St. Petersburg

**Fact:**

Up to 600 children receive medical care at St. Olga Children's Hospital every day.



Sovcomflot provides sponsorship for the Russian Geographic Society's project dedicated to establishing the "Land of the Leopard" National Park (Primorye, Russia)

### A sound mind in a sound body

Sport is another important area of social activity for Sovcomflot. The Group considers a healthy way of life to be an integral factor for the well-being of society, so it implements sponsored projects aimed at supporting various water sports. The Group cooperates with the All-Russian

Yachting Sport Federation, through acquiring yachts and special equipment for regional yachting schools. It also facilitates the development of children within the sport of yachting.

In the future, SCF Group is planning to rebuild its own youth training centre for training the youth national team at the Water Sports Centre (Novorossiysk), which annually hosts the All-Russian qualifying competitions "Spring Breeze" and "Autumn Breeze".

For four consecutive years Sovcomflot has been supporting the International Sports Swimming Competitions of the "Vladimir Salnikov Cup". In 2011 more than 350 sportsmen from 15 different countries took part in competitions for the Cup, including the world and European champions and winners of the Olympic Games. The Cup provides considerable support towards the development of swimming, and the training of world-class Russian swimmers.

The Group devotes considerable attention to the well being of its employees: all ships of the SCF Group are equipped with gyms, saunas and swimming pools, so that seafarers may keep in good shape even during the longest voyages.



SCF Group's indoor soccer team

**Fact:**

The athletic prowess of Sovcomflot's employees was demonstrated by victory of the Group's team in the 2011 "Play-off Silver Series" of the Soccer Cup of the Russian Federation's Ministry of Transport.



# Consolidated financial statements

	2011 USD'000	2010 USD'000
Freight and Hire revenue	1,438,926	1,312,930
Voyage expenses and commissions	(511,651)	(372,023)
Time charter equivalent revenues	927,275	940,907
<b>Direct operating expenses</b>		
Vessels' running costs	332,317	299,363
Vessels' drydock cost amortisation	35,268	40,220
Charter hire payments	38,349	21,613
	(405,934)	(361,196)
Profit on vessels' trading	521,341	579,711
<b>Other operating expenses</b>		
Depreciation and amortisation		
Vessels' depreciation	223,726	204,020
Vessels' impairment provision	7,602	18,620
Other depreciation	5,092	5,470
Intangible assets' amortisation	8,397	8,422
	244,817	236,532
Allowance for credit losses	2,710	222
General and administrative expenses	93,125	86,399
Total other operating expenses	340,652	323,153
<b>Profit from vessel's operations</b>	<b>180,689</b>	<b>256,558</b>
Reversal for impairment of vessels under construction	-	19,659
Reversal of onerous contract provision	-	2,808
Gain / (loss) on sale of assets	12,190	(10,064)
Gain on disposal of investments	283	1,229
Other operating revenues	52,423	35,377
Other operating expenses	(44,030)	(31,753)
Release of provision	3,317	-
Share of losses in associated undertakings	(10,873)	(6,255)
<b>Operating profit</b>	<b>193,999</b>	<b>267,559</b>

<b>Other (expenses) / income</b>		
Interest expense	(142,117)	(113,832)
Financing costs	(4,400)	(3,305)
Interest income	22,027	39,159
Other non-operating income	8,565	43,242
Other non-operating expenses	(12,837)	(35,715)
Loss on ineffective hedging instruments	(1,512)	(624)
Gain / (loss) on derivative financial instruments held for trading	8,566	(5,413)
(Loss) / gain on investments held for trading	(3)	303
Foreign exchange differences	(1,086)	(3,419)
Net other expenses	(122,797)	(79,604)
<b>Profit before income taxes</b>	<b>71,202</b>	<b>187,955</b>
Income taxes	(17,526)	(23,670)
<b>Profit for the period</b>	<b>53,676</b>	<b>164,285</b>
Profit attributable to:		
Owners of the parent	52,256	163,148
Non-controlling interest	1,420	1,137
	<b>53,676</b>	<b>164,285</b>

## Fact:

The structured finance transaction SCF/Glencore JV was recognised as 2011 Deal of the Year, according to Marine Money Magazine.



## Consolidated Statement of Comprehensive Income

### For the period ended 31 December 2011

	2011 USD'000	2010 USD'000
Profit for the period	<b>53,676</b>	<b>164,285</b>
<b>Other comprehensive income:</b>		
Share of associates' other comprehensive income	1,149	(366)
Exchange differences on translation of foreign operations	(4,570)	(1,146)
Derivative financial instruments recycled and debited to the income statement	30,709	32,075
Fair value movement of derivative financial instruments debited to other comprehensive income	(75,398)	(47,624)
Available for sale financial assets	-	(1,280)
Other comprehensive income for the period, net of tax	(48,110)	(18,341)
Total comprehensive income for the period	5,566	145,944
Total comprehensive income attributable to:		
Owners of the parent	4,629	144,980
Non-controlling interest	937	964
	<b>5,566</b>	<b>145,944</b>

## Consolidated Statement of Financial Position – 31 December 2011

	2011 USD'000	2010 USD'000	2009 USD'000
Assets			
Non-current assets			
Fleet	5,460,390	5,229,773	4,758,134
Vessels under construction	334,977	231,341	503,585
Other fixed assets	65,380	55,149	45,037
Investment property	4,565	5,487	6,529
Other fixed assets under construction	9,866	7,292	2,878
Intangible assets	12,273	19,256	25,654
Investments in associates	1,273	1,464	2,866
Available-for-sale investments	1,381	1,646	1,645
Finance lease receivables	92,162	94,859	69,692
Derivative financial instruments	-	1,542	-
Trade and other receivables	33,525	15,908	1,779
Deferred tax assets	5,164	2,049	3,103
	<b>6,020,956</b>	<b>5,665,766</b>	<b>5,420,902</b>

<b>Current assets</b>			
Inventories	76,317	51,025	48,060
Trade and other receivables	237,563	233,830	160,041
Finance lease receivables	2,697	182	786
Current tax receivable	2,332	2,798	1,822
Other investments	-	647	3,466
Cash and bank deposits	389,742	512,172	335,695
	708,651	800,654	549,870
Non-current assets held for sale	9,800	46,622	31,446
	718,451	847,276	581,316
<b>Total assets</b>	<b>6,739,407</b>	<b>6,513,042</b>	<b>6,002,218</b>

<b>Equity and liabilities</b>			
Capital and reserves			
Share capital	405,012	405,012	405,012
Reserves	2,520,171	2,531,685	2,405,393
Equity attributable to owners of the parent	2,925,183	2,936,697	2,810,405
Non-controlling interest	159,989	186,324	202,317
<b>Total equity</b>	<b>3,085,172</b>	<b>3,123,021</b>	<b>3,012,722</b>

<b>Non-current liabilities</b>			
Trade and other payables	-	5,084	4,733
Secured bank loans	1,903,423	1,702,779	2,334,698
Finance lease liabilities	221,688	231,051	57,732
Provision for onerous contracts	-	-	2,808
Derivative financial instruments	120,826	77,253	57,604
Retirement benefit obligations	7,997	8,240	5,297
Other loans	797,005	796,498	-
Tax payable	-	1,508	1,987
Deferred tax liabilities	7,318	8,235	12,898
	<b>3,058,257</b>	<b>2,830,648</b>	<b>2,477,757</b>

<b>Current liabilities</b>			
Trade and other payables	245,276	253,803	172,389
Secured bank loans	258,776	173,231	196,878
Finance lease liabilities	9,363	52,248	54,099
Current tax payable	12,219	5,348	6,999
Provision for onerous contracts	-	-	10,110
Derivative financial instruments	67,263	74,743	71,264
Amount due to non-controlling interest	3,081	-	-
	595,978	559,373	511,739

<b>Total equity and liabilities</b>	<b>6,739,407</b>	<b>6,513,042</b>	<b>6,002,218</b>
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SCF Group fleet

Vessel's type	Number of vessels (units) 2011	Total DWT ('000 tonnes) 2011
Gas fleet (LNG) * / (LPG))	8	283
Arctic / Ice Shuttles	13	1,179
Oil Tankers (Suezmax, Aframax,Panamax)	58	7,246
Product Carriers (LR2, LR1 *, MR, Handymax)	46	2,335
Chemical and Asphalt Carriers	12	127
Dry Cargo Fleet	1	69
Specialised Fleet	11	11
Seismographic Research Vessels	2	4
Chartered in vessels	4	173
TOTAL:	155	11,426

\* with reference to SCF ownership share



Newbuilding programme

Ship's name	Shipyard	DWT (tonnes)	Ice class	Delivery
SCF Progress	HMD	74,000		18 January 2012
Nikolay Zuyev	DSME-Zvezda	120,600		31 May 2012
Georgy Maslov	DSME-Zvezda	120,600		September 2012
NS Energy	HMD	75,000	1B	November 2012
Vitus Bering	ATHS	3,950	ICE-10	December 2012
SCF Shanghai	BSHI	320,000		January 2013
NS Yakutia	HMD	75,000	1B	January 2013
Aframax LR2 Tanker	DSME-Zvezda	117,800	1C	January 2013
NS Ust Luga	HMD	75,000	1B	April 2013
Aleksey Chirikov	ATHS	3,950	ICE-10	April 2013
Svet	BSHI	320,000		May 2013
Aframax LR2 Tanker	DSME-Zvezda	117,800	1C	May 2013
NS Vanino	HMD	75,000	1B	August 2013
170,200 m3 LNGC	STX	94,700	Ice2	December 2013
170,200 m3 LNGC	STX	94,700	Ice2	May 2014
Total DWT (tonnes):		1,688,100		

Fact:

One modern gas tanker being built to order for SCF Group for Gazprom Global LNG will be capable of carrying sufficient gas to illuminate the city of Sochi, the capital of the 2014 Winter Olympic Games, for 20 days.





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