

SOVCOMFLOT ('SCF') Ship Recycling Policy

INTRODUCTION

1. As a responsible ship owner, SCF is committed to ensuring that its end-of-life vessels are as far as possible recycled in an environmentally friendly manner, and that risks of personal injury and death are minimised. To this end, SCF endeavour to comply with all applicable legislation in respect of the recycling of its end-of-life vessels where relevant. This legislation currently includes, but is not limited to:
 - (a) The Basel Convention on the Control of Trans-Boundary Movements of Hazardous Wastes and their Disposal, 1989 (**'the Basel Convention'**);
 - (b) United Nations Convention on the Law of the Sea (**'UNCLOS'**)
 - (c) The EU Waste Shipments Regulations EC No. 1013/2006 (**'the WSR'**)
 - (d) The International Convention for the Prevention of Pollution from Ships (**'MARPOL'**)
 - (e) The European Ship Recycling Regulation EC No. 1257/2013 (**'the SRR'**)
2. Even though it is recognised that at the time of issuance of this Ship Recycling Policy, The Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships 2009 (**'the HK Convention'**) is not yet in force, SCF intends to voluntarily comply with the HK Convention where possible.
3. It is acknowledged that non-compliance with the above legislation:
 - (a) Is not in accordance with best practices as a responsible ship owner;

- (b) Can result in fines against the company or fines or imprisonment against employees, officers and / or shareholders in the SCF group; and
- (c) Can negatively affect SCF's international reputation and its standing with industry stakeholders.

APPLICABILITY & AUTHORITY

4. This Policy is adopted for all vessels in the SCF fleet, irrespective of age, type or predominant trading location. The certification and survey procedures set out in the SRR and HK Convention respectively shall be adopted for all existing vessels and new-buildings.
5. This Policy shall apply each time that a vessel in the SCF fleet is considered for sale for (i) direct recycling (ii) indirect recycling via an intermediary cash buyer or (iii) further trading. Where it is reasonable anticipated that a vessel is of an age or condition where recycling within the proceeding twelve months period is a possibility¹, then even if the vessel is intended to be sold for further trading, SCF Compliance will undertake due diligence to ensure (i) the proposed buyer is a *bona fide* trading company and (ii) the buyer warrants it does not intend to recycle the vessel within 12 months in the memorandum of sale, save for recycling as a result of serious damage incurred to the vessel.
6. No sale of a vessel within the SCF fleet will be permitted unless all necessary documents have been provided and written confirmation that the sale complies with all applicable recycling legislation and the HK Convention has been received from SCF Compliance.
7. Advice can additionally be sought from SCF's external counsels through the guidance of SCF Legal Department, if required.

THE POLICY

A. Inventory of Hazardous Materials ('IHM') / Certification / Surveys during life time of vessel

¹ It is suggested that this applies to any vessel more than 10 years old.

8. All ships in the SCF fleet (whether being sold or not) shall comply with the survey and certification requirements of the HK Convention and SRR.

New Buildings

9. An Initial Survey must take place before the ship enters service, verifying *inter alia* an appropriate and accurate IHM has been prepared. Thereafter the ship shall comply with the requirements set out below for existing ships.

Existing Ships

10. An **Initial Survey** will be carried out for all existing ships in the SCF fleet, and all second hand ships purchased by SCF. The Initial Survey must verify that each ship has a valid IHM. All new SCF EU flag ships (built as of 31 December 2018) have already completed their Initial Survey. All the other SCF EU flag ships to be recycled after 31 December 2018 must have their Initial Survey by the time of recycling. All other EU flag and non-EU flag ships must complete their Initial Survey by 31 December 2020. Following completion of the Initial Survey, each ship shall carry on board at all times a copy of its **Inventory Certificate** issued by the relevant authority.
11. A **Renewal Survey** will take place every 5 years after the date of the Initial Survey subject to the term of harmonization with the ship's main class renewal date.
12. In the event any ship undergoes significant repairs, upgrades, conversions or refits to the extent that the structure of the ship is modified, then an **Additional Survey** shall be completed.
13. Prior to an EU flag ship being taken out of service a ship must complete a Final Survey, and be issued with a **Ready for Recycling Certificate**.
14. Surveys are to be carried out by the relevant Flag State.

B. Recycling

Preparation of vessels for recycling

15. No vessel shall be recycled unless a Ready for Recycling Certificate has been issued (for EU flag ships) and it possesses the Inventory Certificate and had passed the Renewal and/or Additional Survey (for non-EU flag ships).
16. In addition, SCF will take steps to ensure cargo residue, bunkers remaining on board, and any other waste on-board is removed / minimised as far as possible. In respect of tankers, all tanks must be in a condition ready for certification as safe-for-hot-works on arrival at the recycling facility, unless a cash buyer takes on this obligation when ship is sent for recycling.

Recycling facilities

17. SCF will endeavour to ensure their EU flag ships are only recycled at yards approved on the EU List (to the extent the SRR applies) or otherwise at yards certified as complying with the HK Convention. The flow chart below sets out which legislation may apply.

Cash buyers

18. SCF acknowledge the role of cash buyers in the recycling industry. SCF will only contract with cash buyers that:
 - (a) Guarantee to comply with all applicable legislation, the HK Convention and all industry best practices and guidelines; and
 - (b) Recycle a vessel at a yard on the EU List (as applicable) or otherwise certified by the HK Convention. Yards on the EU List can be found here:

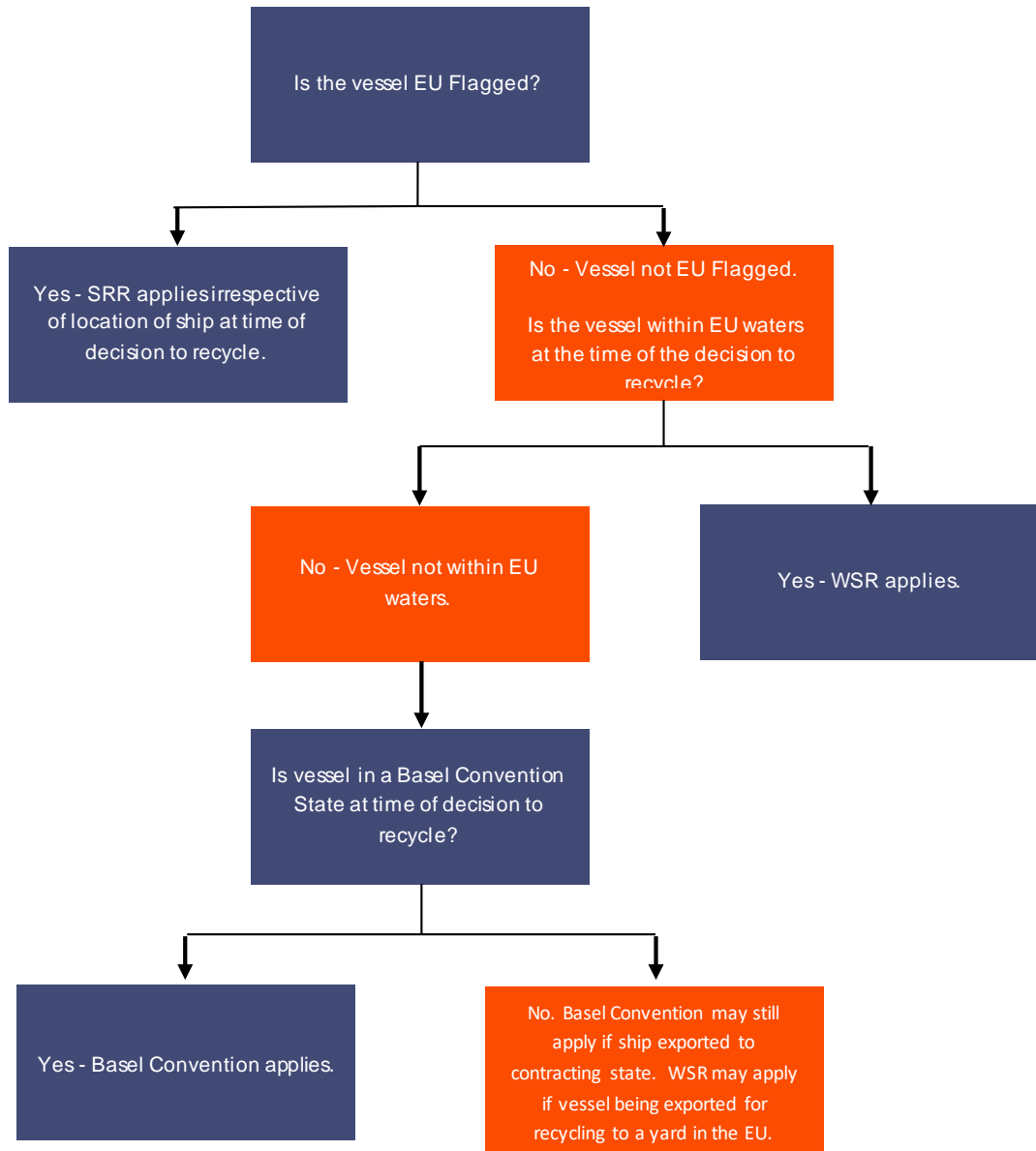
https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2018.310.01.0029.01.ENG&toc=OJ:L:2018:310:TO
 - (c) Will agree to the inclusion of the following clause (or a similar clause having the same effect) in the memorandum of sale:

The Buyer and Seller recognise that the Vessel is ultimately being sold for onwards recycling. The Seller is committed to recycling in an ethical, safe and environmentally friendly manner. It is a requirement of the Seller's Ship Recycling Policy that all ships in its fleet are recycled in compliance with the HK Convention (even if it is not yet in force). In this regard, the Buyer warrants that it will comply with all applicable ship recycling legislation and further will ensure that the Vessel is recycled strictly in compliance with the Hong Kong Convention (even if it is not yet in force), including but not limited to recycling the Vessel only at Hong Kong Convention compliant facilities which comply with MARPOL. The Buyer indemnifies the Seller in respect of any losses, liabilities, fines, penalties, judgements or otherwise that the Seller incurs arising out of or in connection with the Buyer's breach(es) of this provision.

19. SCF will endeavour to develop an approved list of cash buyers who are willing to abide by the above conditions.

Compliance with legislation

20. The flag of a vessel or its geographical location at the time of the decision to recycle and / or the time of exporting for recycling purposes determines the applicable legislation. The following flow chart is designed to assist identify which legislation is applicable. Compliance with all applicable legislation should always be verified if the sale of a vessel is contemplated by SCF Head of Compliance Group.



21. Notwithstanding that SCF shall comply with the requirements of the HK Convention and / or SRR as far as possible, the below table briefly summarises the requirements of each legislation.

| Applicable legislation | Requirements | Permitted recycling yards |
|-------------------------------|---|---|
| The SRR | <p>Vessel to undertake Initial Survey on entering SCF fleet, a Renewal Survey every 5 years thereafter and a Final Survey before recycling.</p> <p>Vessel to have an IHM at all times and a Ready for Recycling Certificate prior to recycling.</p> | EU List Yards ² only. |
| WSR | <p>Consent required from country of export and import prior to recycling.</p> <p>Request to be accompanied by a financial guarantee covering the costs of transportation, recycling and storage for 90 days.</p> | <p>Yards in EU or OECD³ countries only. Where possible vessels should be recycled at yards certified to HK Convention Standards.</p> <p>Export to non-OECD countries is banned.</p> <p>In practice, this means the vessel can be</p> |

² https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2018.310.01.0029.01.ENG&toc=OJ.L.:2018:310:TOC

³ The full list of OECD countries is: Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

| | | |
|------------------|--|--|
| | | recycled in the EU or Turkey. |
| Basel Convention | Consent required from country of export and import prior to recycling. | Yards in the jurisdiction of contracting states to the Basel Convention. In practice, this means all major ship recycling countries save for the USA. Where possible vessels should be recycled at yards certified to HK Convention Standards. |

C. Summary of steps to take prior to recycling

22. Prior to recycling:

- (a) Check vessel has an up to date Inventory Certificate and had passed the relevant surveys (for non-EU flag ships) and possesses Ready for Recycling Certificate (for EU flag ships).
- (b) Check steps have been taken to minimise cargo residue, bunkers, and any other waste on-board.
- (c) Check tanks have been prepared ready for hot-works, unless a cash buyer takes on this obligation when ship is sent for recycling.
- (d) Ensure that cash buyers agree to abide by this Policy and guarantee to recycle the vessel in accordance with the SRR and / or HK Convention, including only using SRR or HK Convention certified recycling facilities. Ensure MOA includes compliance warranty from cash buyers.

- (e) Get approval of Head of Compliance Group to proceed with recycling.
 - (f) If the vessel is potentially subject to the Basel Convention, WSR or SRR, seek advice from SCF Legal Department on compliance with applicable legislation.
23. If a vessel is being considered for sale generally, then due diligence should be carried out to ensure that the proposed buyer is a *bona fide* trader who does not intend to recycle the vessel within 12 months of purchase. The following clause (or a similar clause having the same effect) should be added in the memorandum of sale:

Buyer's Guarantee

The Buyer's guarantee that (i) the Vessel is purchased for the purpose of further trading for their own account, (ii) will not be sold by them for recycling or for any purpose other than trading and will not in fact be recycled by any party in the [12] [6] months following their completion of the purchase (unless the Vessel is subject to a casualty or suffers damage which requires this), [(iii) will not be resold in the 6 months following purchase for any reason (other than sale within Buyers group or for Buyer's finance purposes)] and (iv) the ship's name will be changed and all Seller's/present operators/Managers markings/branding will be removed promptly after purchase

If Buyer's breach the above guarantee they will compensate Seller for any loss or expense suffered by them or related companies in Seller's group and the Vessel's present Managers.

[Where the Vessel is sold for recycling or is recycled in breach of the above Guarantee the parties pre agree a sum of USD [1] million shall be payable and which the parties also agree is legitimate and proportionate protection of the Seller's interests given the regulatory position/adverse publicity and other risks for former owners when a ship is recycled shortly after it is sold.]

This is in addition to the Seller's right to seek injunctive relief and specific performance and damages for their losses.

This Policy will be reviewed and updated periodically in order to reflect changes in legislation and on-going learning and good practices.