

PAO SOVCOMFLOT

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

PAO Sovcomflot

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of PAO Sovcomflot

We have audited the accompanying consolidated statements of financial position of PAO Sovcomflot (“the Company”) as of 31 December 2015 and 2014, and the related consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for each of the two years in the period ended 31 December 2015. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PAO Sovcomflot at 31 December 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the two years in the period ended 31 December 2015, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ernst & Young LLC

17 March 2016

PAO Sovcomflot

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	<u>(242,916)</u>	<u>(333,904)</u>
Time charter equivalent revenues		<u>1,240,086</u>	<u>1,043,976</u>
Direct operating expenses			
Vessels' running costs	9	338,745	349,116
Charter hire payments	45	<u>52,812</u>	<u>52,675</u>
		<u>(391,557)</u>	<u>(401,791)</u>
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	<u>15,765</u>	<u>12,874</u>
Operating profit		<u>468,698</u>	<u>248,214</u>
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		<u>(26,765)</u>	<u>(57,996)</u>
Net other expenses		<u>(96,922)</u>	<u>(157,235)</u>
Profit before income taxes		371,776	90,979
Income tax expense	26	<u>(17,304)</u>	<u>(7,085)</u>
Profit for the period		<u>354,472</u>	<u>83,894</u>
Profit attributable to:			
Owners of the parent		339,461	80,058
Non-controlling interests	35	<u>15,011</u>	<u>3,836</u>
		<u>354,472</u>	<u>83,894</u>
Earnings per share			
Basic earnings per share for the period attributable to equity holders of the parent	27	<u>\$0.173</u>	<u>\$0.041</u>

PAO Sovcomflot

**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

PAO Sovcomflot

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
		<u>6,089,700</u>	<u>5,856,882</u>	<u>5,825,078</u>
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
		<u>583,683</u>	<u>482,734</u>	<u>493,726</u>
Non-current assets held for sale	31	28,130	93,163	74,252
		<u>611,813</u>	<u>575,897</u>	<u>567,978</u>
Total assets		<u><u>6,701,513</u></u>	<u><u>6,432,779</u></u>	<u><u>6,393,056</u></u>
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		<u>3,321,059</u>	<u>3,001,092</u>	<u>2,954,227</u>
Non-controlling interests	35	159,922	156,389	157,045
Total equity		<u>3,480,981</u>	<u>3,157,481</u>	<u>3,111,272</u>
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
		<u>2,697,639</u>	<u>2,660,678</u>	<u>2,648,403</u>
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
		<u>522,893</u>	<u>614,620</u>	<u>633,381</u>
Total liabilities		<u>3,220,532</u>	<u>3,275,298</u>	<u>3,281,784</u>
Total equity and liabilities		<u><u>6,701,513</u></u>	<u><u>6,432,779</u></u>	<u><u>6,393,056</u></u>

Approved by the Executive Board and authorised for issue 17 March 2016

*Signed*S.O. Frank
President and Chief Executive Officer*Signed*N.L. Kolesnikov
Chief Financial Officer

PAO Sovcomflot

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

	Share capital \$'000	Share premium \$'000	Reconstruction reserve \$'000	Hedging reserve \$'000	Currency reserve \$'000	Retained earnings \$'000	Attributable to owners of the parent \$'000	Non- controlling interests \$'000	Total \$'000
	(Note 32)	(Note 32)	(Note 33)					(Note 35)	
At 1 January 2014	405,012	818,845	(834,490)	(81,319)	(6,082)	2,652,261	2,954,227	157,045	3,111,272
Profit for the period	-	-	-	-	-	80,058	80,058	3,836	83,894
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	(84)	-	(84)	-	(84)
Share of joint ventures' other comprehensive income	-	-	-	2,703	-	-	2,703	-	2,703
Exchange loss on currency translation from functional currency to presentation currency	-	-	-	-	(24,792)	-	(24,792)	(3,162)	(27,954)
Derivative financial instruments recycled and debited to the income statement (Note 25 (a))	-	-	-	20,081	-	-	20,081	-	20,081
Fair value movement of derivative financial instruments debited to other comprehensive income (Note 25 (a))	-	-	-	(23,265)	-	-	(23,265)	-	(23,265)
Remeasurement gains on retirement benefit obligations	-	-	-	-	-	1,118	1,118	134	1,252
Total comprehensive income	-	-	-	(481)	(24,876)	81,176	55,819	808	56,627
Dividends (Note 34)	-	-	-	-	-	(8,954)	(8,954)	(1,464)	(10,418)
At 31 December 2014	405,012	818,845	(834,490)	(81,800)	(30,958)	2,724,483	3,001,092	156,389	3,157,481
Profit for the period	-	-	-	-	-	339,461	339,461	15,011	354,472
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	(27)	-	(27)	-	(27)
Share of joint ventures' other comprehensive income	-	-	-	6,021	(8)	-	6,013	-	6,013
Exchange loss on currency translation from functional currency to presentation currency	-	-	-	-	(15,230)	-	(15,230)	(1,565)	(16,795)
Reclassification adjustment relating to investments disposed of during the period	-	-	-	-	1,734	-	1,734	100	1,834
Derivative financial instruments recycled and debited to the income statement (Note 25 (a))	-	-	-	25,050	-	-	25,050	-	25,050
Fair value movement of derivative financial instruments debited to other comprehensive income (Note 25 (a))	-	-	-	(17,541)	-	-	(17,541)	-	(17,541)
Remeasurement losses on retirement benefit obligations	-	-	-	-	-	(491)	(491)	(59)	(550)
Total comprehensive income	-	-	-	13,530	(13,531)	338,970	338,969	13,487	352,456
Dividends (Note 34)	-	-	-	-	-	(20,543)	(20,543)	(8,196)	(28,739)
Effect of acquisition of non-controlling interests in PAO Novoship (Note 43)	-	-	-	-	(53)	1,594	1,541	(1,758)	(217)
At 31 December 2015	405,012	818,845	(834,490)	(68,270)	(44,542)	3,044,504	3,321,059	159,922	3,480,981

Notes

Hedging reserve: The hedging reserve contains the effective portion of the cash flow hedge relationships incurred as at the reporting date of the Group including its joint arrangements and associates.
Currency reserve: The currency reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries, joint arrangements and associates.

PAO Sovcomflot

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		<u>(110,420)</u>	<u>(168,633)</u>
Cash generated from operations	42	761,020	498,904
Interest received		2,901	2,455
Income tax paid		<u>(22,158)</u>	<u>(10,259)</u>
Net cash inflow from operating activities		<u>741,763</u>	<u>491,100</u>
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		<u>(418,921)</u>	<u>(368,942)</u>
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		<u>(229,626)</u>	<u>(97,598)</u>
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		<u>(14,376)</u>	<u>(27,470)</u>
Cash and Cash Equivalents at 31 December	4, 30	<u>332,680</u>	<u>253,840</u>

PAO Sovcomflot

Notes to the Consolidated Financial Statements – 31 December 2015

1. Organisation and Trading Activities

PAO Sovcomflot ("Sovcomflot" or "the Company") is a public joint stock company organised under the laws of the Russian Federation and was initially registered in Russia on 18 December 1995, as the successor undertaking to AKP Sovcomflot, in which the Russian Federation holds 100% of the issued shares.

The Company's registered office address is 3A, Moika River Embankment, Saint Petersburg 191186, Russian Federation and its head office is located at 6 Gasheka Street, Moscow 125047, Russian Federation.

The Company, through its subsidiaries (the "Group"), is engaged in ship owning and operating on a world-wide basis with a fleet of 121 vessels at the period end, comprising 106 tankers, 1 chartered in seismic vessel, 8 gas carriers, 2 bulk carriers and 4 ice breaking supply vessels. For major changes in the period in relation to the fleet see also Notes 16, 17 and 31. In addition the Group through its subsidiaries owns 9 escort tug vessels which have been chartered out on bareboat charter to a former associated undertaking (see Note 24).

Sovcomflot's various subsidiaries conduct all of the Group's operations and own all of the Group's operating assets. In line with established international shipping practice, most of the Group's vessels are each owned and financed by individual wholly owned subsidiaries of the Group's intermediate holding companies, Fiona Trust and Holding Corporation ("Fiona"), Intrigue Shipping Limited ("Intrigue"), Sovcomflot Bulk Shipping Inc. ("SBSI") and SCF Gas Carriers Limited ("SCF Gas").

Ship management services for the Group's vessels are provided by Sovcomflot's subsidiaries SCF Novoship Technical Management LLC, Unicom Management Services (Cyprus) Limited ("Unicom"), SCF Unicom Singapore Pte Ltd and Unicom Management Services (St. Petersburg) LLC.

A list of significant subsidiary companies is disclosed in Note 43 to these consolidated financial statements. The ultimate controlling party of PAO Sovcomflot is the Russian Federation.

2. Directors and Management

The corporate structure of PAO Sovcomflot comprises a Board of Directors which is responsible for strategic planning and management, policy decisions and overall supervision of the Group and an Executive Board which is responsible for the supervision of the most important operational matters, material investments, supervision of subsidiaries and procedures implementation of decisions of the Shareholders and Board of Directors by Group companies.

The Board of Directors and the Executive Board as at the date of approval of these consolidated financial statements are:

<u>Members of the Board of Directors</u>	<u>Initial date of appointment</u>	
I.I. Klebanov (Chairman)	3 November 2011	Senior State Counsellor of the Russian Federation, 1st Class
A.G. Belova	30 June 2014	Professor of the National Research University Higher School of Economics
W.A. Chammah	29 June 2015	Partner of "Chammah & Partners" LLC
I.F. Glumov	29 June 2015	General Director of OJSC "Severneftegaz"
A.Y. Klyavin	30 June 2012	President of The National Chamber of Shipping
D.G. Moorhouse	29 June 2010	Member of the Board of Directors
M.I. Poluboyarinov	30 June 2012	Member of the Board of Management and First Deputy Chairman of State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"
A.V. Sharonov	30 June 2014	Dean of Moscow School of Management "SKOLKOVO"
S.O. Frank	10 November 2004	President and Chief Executive Officer of PAO Sovcomflot

The members of the Board of Directors are elected at the Annual General Meeting of the Shareholders and remain in office until the next Annual General Meeting where they are eligible for re-election. The current Board of Directors was elected at the Annual General Meeting on 29 June 2015. Mr Klebanov was re-elected Chairman on 7 August 2015.

<u>Members of the Executive Board</u>	<u>Date of appointment</u>	
S.O. Frank (Chairman)	4 October 2004	President and Chief Executive Officer of PAO Sovcomflot
E.N. Ambrosov	13 July 2009	Senior Executive Vice-President of PAO Sovcomflot, Chief Operating Officer
V.N. Emelianov	12 September 2011	Vice-President of PAO Sovcomflot, Chief Strategy Officer
N.L. Kolesnikov	19 July 2005	Executive Vice-President of PAO Sovcomflot, Chief Financial Officer
C.B. Ludgate	22 February 2007	Managing Director of Sovcomflot (UK) Ltd
M.C. Orphanos	12 May 2010	Managing Director of Sovcomflot (Cyprus) Limited
A.V. Ostapenko	16 October 2012	Executive Vice-President of PAO Sovcomflot, Administrative Director
S.G. Popravko	19 July 2005	Managing Director of Unicom Management Services (Cyprus) Limited
I.V. Tonkovidov	14 January 2011	Executive Vice-President of PAO Sovcomflot, Technical Director
Y.A. Tsvetkov	14 December 2012	President of PAO Novoship

PAO Sovcomflot

**Notes to the Consolidated Financial Statements – 31 December 2015
(Continued)**

3. Significant Accounting Policies**(a) Basis of preparation and accounting**

The consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on the historical cost basis except where fair value accounting is specifically required by IFRS, as explained in the accounting policies below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The financial statements are presented in U.S. Dollars, which is also the currency of the Group's primary economic environment and the functional currency of the Group's major subsidiaries.

(b) Basis of consolidation

These consolidated financial statements include the financial statements of PAO Sovcomflot and its subsidiaries ("controlled investees") as at 31 December 2015. Control is achieved when the Group:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated statement of financial position, consolidated income statement and consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in a change of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

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**Notes to the Consolidated Financial Statements – 31 December 2015
(Continued)**

3. Significant Accounting Policies (Continued)**(c) Business combinations**

Business combinations are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred / assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations", are recognised at their fair values at the acquisition date.

Business combinations involving entities under common control are excluded from the scope of IFRS 3 provided that they are controlled by the same party both before and after the business combination. These transactions are accounted for on a pooling of interests basis. The financial position, financial performance and cash flows of the combined Group are brought together as if the companies had always been a single entity.

The Group initiates and performs a review of all acquisition transactions during each period to consider the transaction to be either a business combination or an asset acquisition in accordance with IFRS 3. When the acquisition is not a business combination by its nature, the Group identifies and recognises the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38 "Intangible Assets") and liabilities assumed. The cost of the group is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.

(d) Segmental reporting

The Group consists of five reportable operating segments: crude oil transportation, oil product transportation, gas transportation, offshore development services and other. The segments are fully explained in Note 15.

The requirements of IFRS 8 "Operating Segments" on segment reporting are based on the information about the components of the entity that management uses to make decisions about operating matters. The operating segments are identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, which is defined as the Board of Directors of the Company, in order to allocate resources to the segment and assess its performance. The Group has only one geographical segment, because management considers the global market as a whole, and as the individual vessels are not limited to specific parts of the world with the exception of vessels operating on Russian continental shelf projects. Furthermore, the internal management reporting does not provide such information.

The segment income statement comprises revenues and expenses directly attributable to the segment i.e. freight and hire revenue, voyage expenses and commissions, vessels' running costs and charter hire payments, vessels' drydock cost amortisation, vessels' depreciation, vessels' impairment provision and reversal thereof, gains or losses on sale of vessels and exchange differences. Non-current assets consist of the vessels used in the operation of each segment. Not allocated items primarily comprise assets and liabilities as well as revenues and expenses relating to the Group's administrative functions and investment activities, cash and bank balances, interest bearing debt, and income tax.

(e) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are included in these consolidated financial statements from the date on which the investee becomes an associate or a joint venture, using the equity method of accounting. The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture. Investments in associates and joint ventures are carried in the consolidated statement of financial position at cost and adjusted for by post-acquisition changes in the Group's share of net assets of the associate or joint venture, less any impairment in the value of individual investments. Losses of an associate or joint venture in excess of the Group's interest in that associate or joint venture (which includes any long term interests, that in substance form part of the Group's net investment in the associate or joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss in the period in which the investment is acquired.

(f) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (as defined in Note 3(e)), have rights to the assets and obligations for the liabilities relating to the arrangement.

The Group recognises in relation to its interest in a joint operation its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation;
- Share of the revenue from the sale of the output by the joint operation; and
- Expenses, including its share of any expenses incurred jointly.

The Group's share of the assets, liabilities, income and expenses of joint operations are recognised within the equivalent items in the consolidated financial statements on a line-by-line basis.

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Notes to the Consolidated Financial Statements – 31 December 2015
(Continued)

3. Significant Accounting Policies (Continued)

(g) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less cost to sell. Depreciation ceases from the date that the non-current asset is classified as held for sale.

(h) Freight and Hire revenue

Freight and Hire revenue includes the Group's share of revenues arising under vessel pooling arrangements and represents vessel earnings during the period. Vessel earnings are measured at the fair value of the consideration received or receivable, net of address commissions.

Freight revenues are earned for the carriage of cargo on behalf of the charterer, in the spot market and on contracts of affreightment, from one or more locations of cargo loading to one or more locations of cargo discharge in return for payment of an agreed upon freight rate per ton of cargo. Freight contracts contain conditions regarding the amount of time available for loading and discharging of the vessel. If these conditions are breached, the Group is compensated for the additional time incurred in the form of demurrage revenue which is recognised when it can be measured reliably in accordance with the terms and conditions of the respective charter party agreements.

Hire revenues are earned for exclusive use of the services of the vessel by the charterer for an agreed period of time.

Time charter equivalent revenues describe the earnings of any charter contract once voyage expenses and commissions relating to the performance of the contract have been deducted from the gross revenues. The term is commonly used in the shipping industry to measure financial performance and to compare revenue generated from a voyage charter to revenue generated from a time charter.

Voyage expenses, primarily consisting of port, canal and bunker expenses that are unique to a particular charter, are paid for by the charterer under time charter arrangements or by the Group under voyage charter arrangements. Furthermore, voyage related expenses include commission on income paid to third party brokers by the Group.

Freight revenue and voyage expenses are apportioned into accounting periods on the basis of the proportion of the voyage completed at the end of the financial reporting period on a discharge to discharge port basis. The impact of recognising voyage expenses ratably over the length of each voyage is not materially different on a quarterly and annual basis from the method of recognising such costs on an accruals basis. Full provision is made for any losses forecast on voyages in progress at the end of the financial reporting period.

The Group does not begin recognising revenue until a charter has been agreed to by the Group and the charterer, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage. In applying its revenue recognition method, management believes that the discharge to discharge port basis of calculating voyage results provides greater degree of accuracy than the load to load port basis. In the application of this policy, the Group recognises revenue only when (i) the amount of revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the transaction will flow to the entity; (iii) the transactions stage of completion at the balance sheet date can be measured reliably; and (iv) the costs incurred and the costs to complete the transaction can be measured reliably.

Revenues from time charters (hire revenues) are accounted for as operating leases and recognised on a straight line basis over the rental periods of such charters, as service is performed. Accrual is made for all hire receivable to the end of the financial reporting period in respect of time charters in progress. Any contractual rate changes over the contract term, to the extent they relate to the firm period of the contract, are taken into account when calculating the daily hire rate. Revenues from variable hire arrangements are recognised to the extent the variable amounts earned beyond an agreed fixed minimum hire are determinable at the reporting date and all other revenue recognition criteria are met. Revenues from time charters received in the period and relating to subsequent periods are deferred and recognised separately as deferred revenue in trade and other payables.

A number of the Group's vessels participate in vessel pooling arrangements with third parties. Pool revenue is generated from each vessel participating, undertaking either voyage or time charters. The Group recognises all revenue (and voyage costs) earned by its vessels through participation in the pools under the specific voyage and time charters that the vessels undertake via their pool participation. Revenue and voyage costs arising under such charters are recognised in the same way as voyage charters and time charters as set out above.

All pool agreements in which the Group participates contain profit share clauses, under which the Group's vessels and the third parties' vessels net earnings (time charter equivalent) are shared. The pool measures net earnings based on the contractual rates, the duration of each voyage and, the relevant voyage costs recognised upon delivery of the services in accordance with the terms and conditions of the charter parties. The Group's share of the net earnings in the pools is dependent on the number of days the Group's vessels have been available for the pools in relation to the total available pool earning days during the period. These profit sharing arrangements may give rise to a liability to the third party or a receivable to the Group. These amounts are settled periodically.

The results of the profit sharing arrangements are recognised in full by the Group within freight and hire revenues assuming a reliable estimate can be made. Any adjustment remaining unsettled at the period end is either recognised in accrued income under current assets or accrued liabilities under current liabilities.

(i) Operating revenues and operating expense

Other operating revenues and other operating expense comprise income and directly related expenses from non-core non-vessel operating related activities, rental operations derived from investment properties and the commercial and technical management of third party owned vessels.

Other operating revenues are measured at the fair value of the consideration received or receivable. Revenues from non-core vessel operating activities and revenues from the provision of commercial and technical management services are recognised by reference to the time of provision of the activities and services. Revenues from rental income from investment properties are accounted for on a straight line basis over the rental periods of such properties.

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Notes to the Consolidated Financial Statements – 31 December 2015
(Continued)

3. Significant Accounting Policies (Continued)

(j) Interest income

Bank and other interest receivable is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(k) Currency translation

Transactions and balances

Transactions during the period in currencies other than the functional currencies of the various Group entities have been translated into their functional currencies (mostly the U.S. Dollar) at rates ruling at the time of the transaction.

At the end of each reporting period, monetary assets and liabilities denominated in currencies other than the functional currencies are retranslated at the rates ruling at that date.

Non-monetary items that are measured in terms of historical cost in currencies other than the functional currencies are not retranslated. Non-monetary items measured at fair value in currencies other than the functional currencies are translated using the exchange rates at the date when the fair value was determined.

Group companies

The assets and liabilities of the Group's entities that have functional currencies other than the U.S. Dollar are translated from their functional currency into U.S. Dollars at the rate of exchange ruling at the reporting date. Income and expenses are translated into U.S. Dollars at the average rate of exchange for the period unless exchange rates fluctuate significantly in which case they are translated, for significant transactions, at the exchange rate ruling at the date of the transaction, and, for other transactions, the average rate of exchange for shorter periods, depending on the fluctuation of the exchange rates.

Differences arising on retranslation of their opening net assets and results for the period are dealt with as movements in other comprehensive income. On disposal of an entity with a functional currency other than the U.S. Dollar, the deferred cumulative amount recognised in equity relating to that particular operation is recognised in the income statement.

Any goodwill arising on the acquisition of an entity with a functional currency other than the U.S. Dollar and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the acquired entity. They are expressed in the functional currency of the acquired entity and are translated at the rate of exchange ruling at the reporting date.

Exchange rates

For the purposes of these consolidated financial statements, the exchange rates used are as follows:

	2015 Closing \$1	2015 Average \$1	2014 Closing \$1	2014 Average \$1	2013 Closing \$1
Russian Roubles	72.8827	61.3194	56.2584	38.6475	32.7292
Pounds Sterling	0.6750	0.6542	0.6435	0.6071	0.6051
Euros	0.9145	0.9025	0.8232	0.7531	0.7251

(l) Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset (see also Note 3(s)). To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period (with consideration to the effect of effective hedging of floating rate debt) less any investment income on the temporary investment of those borrowings.

To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is calculated using the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalises during a period does not exceed the amount of borrowing costs incurred during that period. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(m) Leasing

Finance leases are leases which transfer substantially all the risks and benefits incidental to ownership of the leased item. Leases which do not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Group as lessee - Finance and operating lease payables

Finance leases are recorded in the financial statements of the Group at the lower of fair value of the leased property and net present value of the minimum lease payments, each determined at the inception of the lease. The present value of the minimum lease payments is calculated by discounting the total minimum lease payments outstanding, at the date of the lease agreement, at the interest rate implicit in the lease. Finance costs are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

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Notes to the Consolidated Financial Statements – 31 December 2015
(Continued)

3. Significant Accounting Policies (Continued)

(m) Leasing (continued)

Group as lessor - Finance lease receivables

At the commencement of the lease term, amounts due from lessees are recognised as receivables in the statement of financial position at the amount equal to the net investment in the lease which is the present value of the minimum lease payments receivable, plus any unguaranteed residual value, each determined at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. Any initial direct costs are added to the amount recognised as an asset. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding.

(n) Employee benefits

Retirement benefit costs

The Group operates a number of retirement benefit schemes for its shore-based staff and seafarers.

Defined contribution retirement benefit plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Defined benefit retirement benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan. The cost of providing benefits is determined annually using the projected unit credit method.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation.

Long-term service retirement benefit plans

The Group's net obligation in respect of long-term service retirement benefit plans is calculated separately for each plan. The cost of providing benefits is determined annually using the projected unit credit method. The long-term service benefit obligation recognised in the statement of financial position represents the present value of the defined lump-sum benefit obligation.

The Group recognises all gains and losses arising from the remeasurement of both defined benefit retirement benefit plans and long-term service retirement benefit plans in other comprehensive income in the period in which they arise.

The discount rate used to calculate the present value is the yield, at the end of the financial reporting period, on government bonds that have maturity dates which approximate the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

Past service cost is recognised immediately in profit or loss.

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long term employee benefits are measured at the present value of the estimated future cash flows expected to be made by the Group in respect of services provided by the employees up to the reporting date. Re-measurements of the long term employee benefit liability are recognised in profit or loss when they occur.

(o) Property, plant and equipment and depreciation

The Group's property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and any accumulated impairment loss.

Cost comprises of the acquisition or construction cost of the asset, after deducting trade discounts and rebates, and any costs directly attributable to the acquisition or construction up to the time that the asset is ready for its intended use. Costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management are capitalised as part of the cost of the asset. Subsequent expenditures for conversions and major improvements are capitalised when they appreciably extend the life, increase the earning capacity or improve the efficiency or safety of the vessels; otherwise they are charged to profit or loss as incurred.

Depreciation in respect of the Group's fleet is charged so as to write off the book value of the vessels, less an estimated residual value, on a straight line basis over the anticipated useful life of the vessels (from date of construction) which is as follows:

Oil, product and chemical tankers	25 years
LPG carriers	30 years
LNG carriers	35 years
Bulk carriers	25 years
Ice breaking supply vessels	25 years

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Notes to the Consolidated Financial Statements – 31 December 2015
(Continued)

3. Significant Accounting Policies (Continued)

(o) Property, plant and equipment and depreciation (continued)

The residual value for each vessel is calculated by reference to its lightweight tonnage and the estimated price of steel per lightweight tonne. The price of steel per lightweight tonne used to calculate residual values as of the end of each reporting period was as follows:

	2015	2014	2013
	\$ per	\$ per	\$ per
	LWT	LWT	LWT
Oil, product and chemical tankers	300	495	445
LNG and LPG carriers	310	495	445
Bulk carriers	305	465	415
Ice breaking supply vessels	300	495	445

Depreciation in respect of buildings and other property, plant and equipment is charged so as to write off their cost on a straight-line basis to its residual value over the anticipated useful lives of the assets concerned at a rate of between 2% and 5% and between 5% and 33% per annum, respectively. Land is not depreciated.

Leasehold improvements are included within other property, plant and equipment and are depreciated over the non-cancellable period of the operating lease to which they relate.

The residual value and useful life of each asset is reviewed at each financial period end and, if expectations differ from previous estimates, the changes are accounted for prospectively in the income statement in the period of the change and future periods. An increase in the residual value of an asset will decrease the depreciation charge for the period and future periods and vice versa until the residual value is reassessed.

(p) Intangible assets

Intangible assets comprise computer software. Computer software is carried in the statement of financial position at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is charged so as to write-off the cost of the computer software on a straight line basis over the useful economic life of the software concerned at a rate between 10% and 33%

The amortisation period of each intangible is reviewed at each financial period end. Any changes in the expected useful life are treated as a change in accounting estimate and are accounted for prospectively in the income statement in the period of change and future periods. Amortisation of the capitalised intangible assets is included in the depreciation, amortisation and impairment line in the consolidated income statement.

(q) Drydocking and special survey costs

The vessels are required to undergo planned drydockings for replacement of certain components, major repairs and maintenance of other components, which cannot be carried out while the vessels are operating. Each vessel is inspected by a classification society surveyor annually, with either the second or third annual inspection being a more detailed survey (an "Intermediate Survey") and the fifth annual inspection being the most comprehensive survey (a "Special Survey"). The inspection cycle resumes after each Special Survey. Vessels are typically required to undergo special surveys, which include inspection of underwater parts ("bottom survey"), every 60 months.

Drydocking surveys are required to be held twice within the five-year survey cycle, with a maximum of 36 months between inspections, for bottom surveys and for repairs related to inspections. An in-water survey may be permitted in lieu of a drydocking for the intermediate survey, although the vessel must carry out a drydocking in conjunction with a special survey.

Drydocking and special survey costs, to the extent that they are incurred directly to meet regulatory requirements, are capitalised as a separate component of vessel cost and are amortised on a straight line basis over the estimated period to the next drydocking. Amortisation of the capitalised drydocking costs is included in the depreciation, amortisation and impairment line in the consolidated income statement. Expenditures for normal maintenance and repairs, whether incurred as part of the drydocking or not, are expensed as incurred.

Drydocking costs may include the costs associated but not limited to the service and replacements of main engine and propulsion machinery, boilers, engine room tanks, auxiliary machinery, various gears and systems of shaft seals, safety and navigation equipment, anchor and deck machinery, turbo chargers, steering gears, electrical equipment, controls and automated systems, cargo, fuel and ballast tanks and applying of antifouling and hull paint.

Where a vessel is acquired new, or constructed, a proportion of the cost of the vessel is allocated to the components expected to be replaced at the next drydocking based on the expected costs related to the first-coming drydocking, which is based on experience and past history of similar vessels.

For second hand vessels, the actual cost of the previous drydocking component is used, amortised to the date of acquisition, taking into account the drydocking cycle of the vessel. Where the actual cost of the previous drydocking is not known, the expected costs related to the first-coming drydocking, amortised to the date of acquisition is used as an indication of the cost of the previous drydocking component, which is again based on experience and past history of similar vessels.

(r) Investment property

Investment property is stated in the statement of financial position at cost less accumulated depreciation and any accumulated impairment loss. Depreciation is provided on the same basis as for other property, plant and equipment as described in Note 3(o).

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised. Transfers to, or from, investment property are made only when there is a change in use evidenced by end of owner-occupation, for a transfer from owner-occupied property to investment property, commencement of owner-occupation, for a transfer from investment property to owner occupied property and commencement of development with a view to sell, for a transfer from investment property to inventories.

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**Notes to the Consolidated Financial Statements – 31 December 2015
(Continued)**

3. Significant Accounting Policies (Continued)**(s) Assets under construction**

Assets under construction are carried at cost, less any recognised impairment loss. Cost comprises shipyard payments and any other costs directly attributable to the construction including supervision fees and expenses, professional fees and capitalised borrowing costs.

Interest payable attributable to finance newbuildings under construction, is added to the cost of those newbuildings, until such time as the newbuildings are ready for their intended use and are delivered to the Group. Upon completion the assets are transferred to the appropriate class of property, plant and equipment.

(t) Impairment

At the end of each financial reporting period, the Group assesses whether there is any indication that its property, plant and equipment may have suffered an impairment loss. If any indication exists, the Group estimates the asset's recoverable amount.

The assessment of whether there is an indication that an asset is impaired is made with reference to trading results, predicted trading results, market rates, technical and regulatory changes and market values. If any such indication exists, the recoverable amount of the asset or cash generating unit (CGU) is estimated in order to determine the extent of any impairment loss.

The first step in this process is the determination of the lowest level at which largely independent cash flows are generated, starting from the individual asset level. A CGU represents the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows generated from other assets or groups of assets. In identifying whether cash inflows from an asset or group of assets are largely independent, and therefore determining the level of CGUs, the Group considers many factors including management's trading strategies, how management makes decisions about continuing or disposing of the assets, nature and terms of contractual arrangements and actual and predicted employment of the vessels. Based on the above, the Group has determined it has CGUs of varying sizes ranging from individual vessels to multiple vessels of the same class with similar or identical characteristics.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is determined as the amount at which assets may be disposed of on a willing seller, willing buyer basis, less directly associated costs of disposal. In estimating fair value, the Group considers recent market transactions for similar assets, and the views of reputable shipbrokers.

If the recoverable amount is less than the carrying amount of the asset or the CGU, the asset is considered impaired and an expense is recognised equal to the amount required to reduce the carrying amount of the vessel or the CGU to its recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior periods. Such reversal is recognised in the income statement.

(u) Inventories

Inventories are stated at the lower of cost or net realisable value and comprise bunkers (where applicable), luboils, victualing and slopchest stocks, other inventories and spares and consumables acquired on board bareboat chartered in vessels. Cost is calculated using the first in first out method. Other stores and spares relating to vessel operations are charged to running costs when purchased and no account is taken of stocks remaining on board at the end of the period.

(v) Financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group has become a party to the contractual provisions of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument, or, where appropriate, a shorter period, to its net carrying amount.

Trade receivables

Trade receivables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method, as reduced by appropriate allowances for estimated irrecoverable amounts. An allowance is made when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables. A provision is made for outstanding demurrages based on prior years' experience. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired.

The amount of the allowance is the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The amount of the allowance is recognised in the income statement.

When a trade receivable is uncollectible, it is written off against the appropriate allowance account. Subsequent recoveries of amounts previously written off are credited against allowance of credit losses in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and on deposit with banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

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**Notes to the Consolidated Financial Statements – 31 December 2015
(Continued)**

3. Significant Accounting Policies (Continued)

(v) Financial instruments (continued)

Financial assets at fair value through profit or loss (“FVTPL”)

Financial assets are classified as at FVTPL when the financial asset is held for trading or it is designated upon initial recognition as at FVTPL.

A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling it in the near term; or on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or it is a derivative that is not designated and effective as a hedging instrument. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Available-for-sale financial assets

Available-for-sale financial assets include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Unlisted and listed shares held by the Group are classified as being available-for-sale financial assets and are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income with the exception of impairment losses and foreign exchange gains and losses on available-for-sale monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the fair value reserve is included in profit or loss for the period. Investments in equity shares that are not traded in an active market and where fair value cannot be estimated on a reasonable basis are stated at cost less impairment losses.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Bank borrowings

Interest bearing bank loans and overdrafts are initially measured at fair value (proceeds received, net of direct issue costs), and are subsequently measured at amortised cost, using the effective interest rate method.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the fair value of the proceeds received, net of direct issue costs.

Derecognition of financial liabilities

A liability is generally derecognised when the contract that gives rise to it is settled, eliminated, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if and only if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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**Notes to the Consolidated Financial Statements – 31 December 2015
(Continued)**

3. Significant Accounting Policies (Continued)**(v) Financial instruments (continued)**Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign exchange rates.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate movements on its bank borrowings.

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The Group designates certain derivatives as hedges of interest rate risk on its bank borrowings. Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised in other comprehensive income and any ineffective portion is recognised immediately in the income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated income statement as the recognised hedged item. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss as a reclassification adjustment.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

A derivative instrument that is not a designated and effective hedging instrument is required to be classified as held for trading under IAS 39 "Financial Instruments: Recognition and Measurement". IAS 1 "Presentation of Financial Statements" clarifies that such an instrument must be separated into current and non-current portions unless it is held primarily for trading in which case it is classified as current. Therefore, an entity separates such a derivative instrument into current and non-current portions based on an assessment of the facts and circumstances and classifies it accordingly.

- 1) When management holds a derivative as an economic hedge (and does not apply hedge accounting), for a period beyond twelve months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item as discussed below in scenarios 2 and 3;
- 2) An embedded derivative that is not closely related to the host contract, which is required to be accounted for separately, is classified consistent with the cash flows of the host contract;
- 3) A derivative instrument that is a designated and effective hedging instrument is classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made; and it is applied to all designated and effective hedging instruments.

(w) Taxation

Income tax expense represents the sum of the current tax and deferred tax.

Current tax

The tax currently payable is based on taxable profits for the period which are subject to the fiscal regulations of the countries in which the Company and its subsidiaries are incorporated. Income taxes in respect of the Company are accounted for in accordance with Russian fiscal regulations. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

A deferred tax liability is recognised on unremitted earnings of subsidiaries incorporated in jurisdictions that do not have a double tax treaty with the Russian Federation to the extent that it is probable that the temporary tax difference arising on dividend distribution out of unremitted earnings will reverse in the foreseeable future.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to other comprehensive income, in which case the tax is also recognised directly in other comprehensive income, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the consideration transferred on acquisition.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tonnage tax

Tonnage tax is payable by the Group in the countries of registration of its vessels by reference to the registered tonnage of each vessel. Tonnage tax is not a tax on income as defined by IAS 12 "Income Taxes" and is therefore included in general and administrative expenses under non-income based taxes.

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Notes to the Consolidated Financial Statements – 31 December 2015
(Continued)

3. Significant Accounting Policies (Continued)

(x) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation, and are discounted to present value where the effect of discounting is material.

Contingent liabilities are not recognised in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the financial statements unless recovery is virtually certain but are disclosed when an inflow of economic benefits is only probable.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(y) Insurance claims

Amounts for insurance claims are recognised when amounts are virtually certain to be received, based on the management's judgement and estimates of independent adjusters as to the amount of the claims.

(z) Earnings per share

Basic earnings per share is calculated by dividing the consolidated profit or loss for the period available to equity holders of the parent by the weighted average number of shares outstanding during the period.

4. Reclassification of comparatives

In the course of preparation of the financial statements for 2015, the Group represented certain comparatives in order to be consistent with the current year's presentation. The below changes were made to the comparative figures:

a) Address commissions

The reclassification relates to address commissions of \$9.5 million previously presented in voyage costs and commissions. Address commissions represent a discount provided directly to the charterers based on a fixed percentage of the agreed upon charter rate. Since address commissions represent a discount on services rendered by the Group and no identifiable benefit is received in exchange for the consideration provided to the charterer, these commissions are now presented as a reduction of revenue.

b) Restricted deposits

The reclassification relates to restricted deposits of \$8.5 million (2013 – \$8.1 million) and \$3.8 million (2013 – Nil) previously classified as restricted deposit and as cash and cash equivalents, respectively, under current cash and bank deposits. These deposits have been reclassified and included as restricted deposits under non-current bank deposits. The \$3.8 million of restricted deposits has also been presented as a movement in financing activities and cash and cash equivalents in the statement of cash flows.

c) Liabilities relating to future periods

The reclassification relates to invoices received for insurance and financing costs prior to the end of each reporting period for periods commencing after the end of the reporting period and remained unsettled as of the period end. Such invoices were previously included in prepayments with a corresponding credit in trade and other payables. The Group has refined its policy regarding recognition of amounts invoiced but not yet due on the basis that the Group has no contractual obligation to effect payment of these invoices until the period covered by the invoices has commenced. Consequently both the prepayment and the liability recognised in respect of the invoices received have been derecognised unless settlement of the invoice had been effected prior to the end of the reporting period.

Impact on consolidated income statement

	As previously reported 2014 \$'000	Reclassified 31/12/2014 \$'000	As currently reported 2014 \$'000
Freight and hire revenue	1,387,366	(9,486)	1,377,880
Voyage expenses and commissions	(343,390)	9,486	(333,904)
Time charter equivalent revenues	<u>1,043,976</u>	<u>-</u>	<u>1,043,976</u>

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Notes to the Consolidated Financial Statements – 31 December 2015
(Continued)

4. Reclassification of comparatives (Continued)

Impact on consolidated statement of financial position

	As previously reported 2014 \$'000	Reclassified 2014 \$'000	As currently reported 2014 \$'000	As previously reported 2013 \$'000	Reclassified 2013 \$'000	As currently reported 2013 \$'000
Non-current assets						
Bank deposits	-	12,315	12,315	-	8,100	8,100
Total non-current assets	<u>5,844,567</u>	<u>12,315</u>	<u>5,856,882</u>	<u>5,816,978</u>	<u>8,100</u>	<u>5,825,078</u>
Current assets						
Trade and other receivables	161,109	(5,937)	155,172	150,955	(5,811)	145,144
Cash and bank deposits	284,516	(12,315)	272,201	281,540	(8,100)	273,440
Total current assets	<u>594,149</u>	<u>(18,252)</u>	<u>575,897</u>	<u>581,889</u>	<u>(13,911)</u>	<u>567,978</u>
Total assets	<u>6,438,716</u>	<u>(5,937)</u>	<u>6,432,779</u>	<u>6,398,867</u>	<u>(5,811)</u>	<u>6,393,056</u>
Non-current liabilities						
Trade and other payables	-	330	330	-	261	261
Total non-current liabilities	<u>2,660,348</u>	<u>330</u>	<u>2,660,678</u>	<u>2,648,142</u>	<u>261</u>	<u>2,648,403</u>
Current liabilities						
Trade and other payables	190,265	(6,267)	183,998	237,420	(6,072)	231,348
Total current liabilities	<u>620,887</u>	<u>(6,267)</u>	<u>614,620</u>	<u>639,453</u>	<u>(6,072)</u>	<u>633,381</u>
Total equity and liabilities	<u>6,438,716</u>	<u>(5,937)</u>	<u>6,432,779</u>	<u>6,398,867</u>	<u>(5,811)</u>	<u>6,393,056</u>

Impact on consolidated statement of cash flows

	As previously reported 2014 \$'000	Reclassified 2014 \$'000	As currently reported 2014 \$'000
Operating Activities			
Cash received from freight and hire of vessels	1,372,592	(9,486)	1,363,106
Cash payments for voyage and running costs	(749,611)	9,486	(740,125)
Cash generated from operations	<u>498,904</u>	<u>-</u>	<u>498,904</u>
Net cash inflow from operating activities	<u>491,100</u>	<u>-</u>	<u>491,100</u>
Financing Activities			
Restricted deposits	(400)	(3,815)	(4,215)
Net cash outflow from financing activities	<u>(93,783)</u>	<u>(3,815)</u>	<u>(97,598)</u>
Increase / (decrease) in Cash and Cash Equivalents	<u>28,375</u>	<u>(3,815)</u>	<u>24,560</u>
Cash and Cash Equivalents at 31 December	<u>257,655</u>	<u>(3,815)</u>	<u>253,840</u>

The above changes did not have an impact in the statement of comprehensive income or the statement of changes in equity. Disclosures in notes affected by the reclassifications were revised accordingly.

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**Notes to the Consolidated Financial Statements – 31 December 2015
(Continued)**

5. Adoption of New and Revised International Financial Reporting Standards**Amendments to IFRSs and the new Interpretations that are mandatorily effective for the current period**

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual accounting periods beginning on 1 January 2015. The nature and the impact of each new standard or amendment are described below:

IAS 19 (“Employee Benefits”) – These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. This amendment is not expected to be relevant to the Group, since none of the entities of the Group have defined benefit plans with contributions from employees or third parties (effective from annual periods beginning on or after 1 July 2014).

Annual Improvements to IFRSs 2010–2012 Cycle

These improvements are effective from annual periods beginning or after 1 July 2014 and the Group has applied these amendments for the first time in the current period. None of these amendments however impact the Group. They include:

- IFRS 2 “Share-Based Payment” – “Definition of vesting condition”
- IFRS 3 “Business Combinations” – “Accounting for contingent consideration in a business combination”
- IFRS 8 “Operating Segments” – “Aggregation of operating segments”
- IFRS 8 “Operating Segments” – “Reconciliation of the total of the reportable segments’ assets to the entity’s assets”
- IFRS 13 “Fair Value Measurement” – “Short-term receivables and payables”
- IAS 16 “Property, Plant and Equipment” – “Revaluation method—proportionate restatement of accumulated depreciation”
- IAS 24 “Related Party Disclosures” – “Key management personnel”
- IAS 38 “Intangible Assets” – “Revaluation method – proportionate restatement of accumulated amortisation”

Annual Improvements to IFRSs 2011–2013 Cycle

These improvements are effective from annual periods beginning or after 1 July 2014 and the Group has applied these amendments for the first time in the current period. None of these amendments however impact the Group. They include:

- IFRS 1 “First-time Adoption of International Financial Reporting Standards” – “Meaning of ‘effective IFRSs’”
- IFRS 3 “Business Combinations” – “Scope exceptions for joint ventures”
- IFRS 13 “Fair Value Measurement” – “Scope of paragraph 52 (portfolio exception)”
- IAS 40 “Investment Property” – “Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property”

New and revised IFRSs in issue but not yet effective

At the end of the reporting period, the following Standards and Interpretations which are relevant to the Group’s operations were in issue but not yet effective.

The effect from the application of IFRS 9 (“Financial Instruments”) – “Classification and Measurement”, IFRS 11 (“Joint Arrangements”) – “Amendments regarding the accounting for acquisitions of an interest in a joint operation”, IFRS 15 (“Revenue from Contracts with Customers”) and IFRS 16 (“Leases”) and has not yet been assessed.

Management anticipates that the adoption of all other Standards and Interpretations in future periods will have no impact on the results and financial position presented in these financial statements, other than changes to the disclosures required in the financial statements, except for IFRS 9 “Financial Instruments” issued in November 2009 and amended in October 2010, December 2011, November 2013 and July 2014. The Group does not intend to adopt this standard before its effective date.

IAS 39 (“Financial Instruments: Recognition and Measurement”) – “Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets and liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the ‘own use’ scope exception” (when IFRS 9 will be applied – see below).

IFRS 7 (“Financial Instruments: Disclosures”) – “Additional hedging disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9” (when IFRS 9 will be applied – see below).

IFRS 9 (“Financial Instruments”) – “Classification and Measurement”. Finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition (effective for annual periods beginning on or after 1 January 2018).

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition:

- IFRS 9 will change the categories of financial assets to those that are carried at amortised cost and those that are carried at fair value. This will mainly affect the classification of the Group’s available for sale financial assets and held to maturity investments.
- IFRS 9 will also affect the accounting for changes in fair value of a financial liability (designated at fair value through profit or loss) attributable to changes in the credit risk of that liability.

In particular for financial liabilities that are designated at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

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**Notes to the Consolidated Financial Statements – 31 December 2015
(Continued)**

5. Adoption of New and Revised International Financial Reporting Standards (Continued)

New and revised IFRSs in issue but not yet effective (continued)

IFRS 10 (“Consolidated Financial Statements”) and IAS 28 (“Investments in Associates and Joint Ventures”) – “Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture”. This amendment has no impact to the Group as the Group did not make any sales or contribution of assets to its associates or joint ventures during the period (effective for annual periods beginning on or after 1 January 2016).

IFRS 10 (“Consolidated Financial Statements”), IFRS 12 (“Disclosure of Interests in Other Entities”) and IAS 28 (“Investments in Associates and Joint Ventures”) – “Amendments regarding the application of the consolidation exception by investment entities”. This amendment has no impact to the Group as it is not an investment entity (effective for annual periods beginning on or after 1 January 2016).

IFRS 11 (“Joint Arrangements”) – “Amendments regarding the accounting for acquisitions of an interest in a joint operation”. Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) amends IFRS 11 such that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11 (effective for annual periods beginning on or after 1 January 2016).

IAS 1 (“Presentation of Financial Statements”) – “Amendments resulting from the disclosure initiative”. The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgement in presenting their financial reports. Management has not yet considered any changes or amendments to be made to the financial reports (effective for annual periods beginning on or after 1 January 2016).

IAS 16 (“Property plant and equipment”) and IAS 38 (“Intangibles”) – “Amendments to IAS 16 and IAS 38 to prohibit entities from using a revenue based depreciation method for items of property, plant and equipment”. This amendment has no impact to the Group as the Group uses residual value calculated by reference to lightweight tonnage and the estimated price of steel per lightweight tonne of each vessel and for other property, plant and equipment does not use revenue-based methods to depreciate/amortise its non-current assets (effective for annual periods beginning on or after 1 January 2016).

IAS 7 (“Statement of Cash flows”) – “Amendments resulting from the disclosure initiative” The amendments aim at clarifying IAS 7 to improve information provided to users of financial statements about an entity’s financing activities. Management has not yet considered any changes or amendments to be made to the financial reports (effective for annual periods beginning on or after 1 January 2017).

IFRS 15 (“Revenue from Contracts with Customers”). IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers (effective for annual periods beginning on or after 1 January 2018).

IFRS 16 (“Leases”), IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17 (effective for annual reporting periods beginning on or after 1 January 2019).

Annual Improvements to IFRSs 2012–2014 Cycle

The “September 2014 Annual Improvements to IFRSs” is a collection of amendments to IFRSs in response to four standards. These improvements are effective from 1 January 2016 and are not expected to have a material impact on the Group. It includes the following amendments:

- IFRS 5 “Non-current assets held for sale and Discontinued Operations” – “Changes in methods of disposal”
- IFRS 7 “Financial Instruments: Disclosures” – “Servicing contracts” and “Applicability of the amendments to IFRS 7 to condensed interim financial statements”
- IAS 19 “Employee Benefits” – “Discount rate: regional market issue”
- IAS 34 “Interim Financial Reporting” – “Disclosure of information elsewhere in the interim financial report”

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**Notes to the Consolidated Financial Statements – 31 December 2015
(Continued)**

6. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions and conditions. The following are the critical accounting judgements concerning the future and the key sources of estimation uncertainty at the end of the reporting period that have the most significant effect on the amounts recognised in the financial statements.

Critical Accounting JudgementsClassification of charter agreements as either finance or operating leases

Lease contracts are classified as operating or finance leases at the inception of the lease. Once determined, the classification is not subsequently changed unless the provisions of the contract were changed. To a certain extent, the classification depends on estimates based on conditions in the contract. In the judgement, a “substance over form” approach is used.

The value of assets held under finance leases are recognised in the statement of financial position at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. No conditional lease payments are included and the value can therefore be determined with relative certainty.

Investments in joint arrangements and associates

Judgement is exercised upon classification of an investment as a joint operation or a joint venture. This is determined by reference to the type of the joint arrangement and judgement is exercised on whether the Group has rights to the assets and obligations for the liabilities of that arrangement (joint operation) or if the Group has rights to the net assets of the arrangement (joint venture).

Investments in associates and joint ventures are recognised using the equity method of accounting. The classification of entities partly owned by other enterprises depends amongst other things on the individual conditions and clauses in shareholders' agreements and other contractual documents. The exercise of judgement as to the influence and level of control on these conditions and clauses in the agreements determines whether a particular entity should be accounted for as joint operation or under the equity method.

The Group consolidates its share of losses of associates and joint ventures to the extent that it is believed that the Group has a constructive obligation to do so. The determination of the presence of a constructive obligation requires the exercise of judgement, as invariably such an obligation is not contained within any legal agreement and may take the form of an implied commitment to, or an expectation of, a third party.

Determination of cash generating units for value in use calculations

In determining the CGUs the Group considers various factors including management's trading strategies, nature and terms of contractual arrangements and actual and predicted employment of the vessels. The Group also considers other factors such as investment and discontinuance decisions, and how management monitors financial performance.

The determination as to whether the cash inflows of groups of vessels which form a CGU are largely dependent on each other requires judgement to be exercised in assessing all the available data and information noted above, particularly with reference to assumptions and judgements with regard to future planned and expected employment of the vessels within a CGU. Should these judgements be proven, through the passage of time, to be incorrect or subject to change or amendment in future periods it is possible that additional impairment charges may arise, or reversals of impairments may occur.

Key Sources of Estimation UncertaintyCarrying amount of vessels and vessels under construction

The carrying amount of vessels and vessels under construction may not represent their fair market value at any point in time. The market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Both charter rates and newbuilding costs tend to be cyclical in nature. Management reviews vessels, including vessels under construction, for indicators of impairment whenever events or changes in circumstances indicate the carrying amount of the vessels may not be recoverable. Impairment testing requires an estimate of future cash flows over the period of expected use of the vessels and the choice of a suitable discount rate and an assessment of recoverable amount based on comparable market transactions. If actual results differ from the estimates and assumptions used in estimating future cash flows then this could result in potential impairment losses recognised in future periods. Additional information is disclosed in Note 16 to these financial statements.

Anticipated useful economic life of the fleet and the estimates of residual values

Depreciation of vessels is charged so as to write down the value of those assets to their residual value over their respective estimated useful lives. Estimates of useful economic life of vessels are based on managements' experience by comparison to similar vessels in the industry. However, the actual life of a vessel may be different. Residual values are difficult to estimate given the long lives of vessels, the uncertainty as to future economic conditions and the future price of steel. Residual values are calculated by reference to the value of steel as of the end of each of the previous reporting dates, obtained from independent professional brokers. Changes to estimates of useful lives and residual values may affect the annual depreciation charge and thereby the results for the period significantly.

Recoverability of finance lease receivable

The finance lease receivable is subject to an allowance for impairment as disclosed in Notes 24 and 29. In determining the required level of allowance for impairment, management has considered projections of estimating future cash flows expected to be received from the lessee. The cash flow projections are based on certain assumptions, judgements and estimates. Should these assumptions and judgements be proven to be inaccurate, additional impairment charges or reversal of previous impairment charges may arise.

Outcomes of legal claims

The Group has been pursuing a number of legal claims, referred to in Notes 46 and 47. Judgement is applied in estimating outcomes of these legal claims based on legal advice received. Should these judgements be proven to be inaccurate, additional charges or reversal of charges may arise. The majority of the claims received judgment in December 2010 and December 2012 and management has recognised assets and liabilities in relation to these judgments based on legal advice. The Group was unsuccessful on a number of claims in the December 2010 and December 2012 judgments and as a result it is possible that the Group will face further liabilities. In respect of the successful claim in the December 2012 judgement the Group has been granted leave to appeal the judgment of 15 April 2015 referred to in Note 47 and it is possible that further assets may be recognised in the future. The Group's exposure in respect of these claims is disclosed in Notes 46 and 47.

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Notes to the Consolidated Financial Statements – 31 December 2015
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7. Freight and Hire Revenue

	2015 \$'000	2014 \$'000
Freight	619,107	562,786
Hire	863,895	815,094
	<u>1,483,002</u>	<u>1,377,880</u>

8. Voyage Expenses and Commissions

	2015 \$'000	2014 \$'000
Bunkers	137,371	208,082
Port costs	87,109	103,314
Commissions	13,059	14,574
Other voyage costs	5,377	7,934
	<u>242,916</u>	<u>333,904</u>

9. Vessels' Running Costs

	2015 \$'000	2014 \$'000
Crew costs	200,730	205,999
Technical costs	92,530	97,301
Insurance costs	20,461	22,333
Lubricating oils	13,342	14,070
Other costs	11,682	9,413
	<u>338,745</u>	<u>349,116</u>

10. Depreciation, Amortisation and Impairment

	2015 \$'000	2014 \$'000
Vessels' depreciation (Note 16)	250,035	231,961
Vessels' drydock cost amortisation (Note 16)	35,022	39,793
Vessels' impairment provision (Note 16 and Note 31)	23,175	42,758
Vessels' reversal of impairment provision (Note 31)	(1,148)	(823)
Other depreciation and amortisation (Note 18 and Note 19)	5,787	7,844
	<u>312,871</u>	<u>321,533</u>

11. General and Administrative Expenses

	2015 \$'000	2014 \$'000
Administration expenses	93,614	92,361
Non-income based taxes	11,177	10,383
Bank charges and fees	1,123	1,266
	<u>105,914</u>	<u>104,010</u>

Administration expenses are analysed as follows:

	2015 \$'000	2014 \$'000
Office costs and other general expenses	87,764	86,463
Legal and professional	3,379	3,512
Audit and accountancy	2,471	2,386
	<u>93,614</u>	<u>92,361</u>

Non-income based taxes are analysed as follows:

	2015 \$'000	2014 \$'000
Irrecoverable value added tax	10,050	9,319
Tonnage tax	1,127	1,064
	<u>11,177</u>	<u>10,383</u>

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12. Other Operating Revenues and Expenses

	2015 \$'000	2014 \$'000
Other operating revenues	20,215	31,907
Cost of sales		
- Wages and salaries	(1,932)	(4,533)
- Payroll taxes	(592)	(1,380)
- Other cost of sales	(5,010)	(13,987)
Administrative expenses	(1,590)	(2,130)
Other expenses	(613)	(1,455)
Investment property depreciation (Note 20)	(1,077)	(1,120)
Other operating expenses	(10,814)	(24,605)
Net other operating income	9,401	7,302

Other operating revenues comprise income from non-core non-vessel operating activities, rental income derived from investment properties (Note 20) and income from the commercial and technical management of vessels belonging to joint ventures and third party owners performed by the Group.

13. Employee Costs

Employee costs recorded within Vessels' Running Costs, General and Administrative Expenses and Other Operating Revenues and Expenses, are analysed as follows:

	2015 \$'000	2014 \$'000
Seafarers		
- Short term and other long term employee benefits	166,123	159,657
- Payroll taxes	1,657	1,853
- Defined contribution pension plans	1,477	1,717
- Long-term service defined benefit plans	5	37
	169,262	163,264
Shore based staff		
- Short term and other long term employee benefits	73,597	64,014
- Payroll taxes	9,535	8,990
- Defined contribution pension plans	1,268	1,563
- Long-term service defined benefit plans	103	131
	84,503	74,698
Total employee costs	253,765	237,962

Effective 1 January 2015, the Group introduced a long term incentive employee benefit plan ("LTIP"), approved by the Company's board of directors, for a selected number of seafarers and shore based personnel. The total duration of the plan is five years with awards payable in years 2018, 2019 and 2020. The plan is unfunded.

Under the LTIP employees will be eligible to receive award subject to the fulfilment of target key performance indicators ("KPIs") set as part of the Company's strategy (long-term development programme).

The calculation for the period ended 31 December 2015 is based on the assumption that the performance vs. set KPI targets achieved as of 31 December 2015 will be sustained over the entire LTIP evaluation period (2015-2017) and the recipient's continued employment with the Group, as stipulated by the LTIP bylaws. Should this estimation be proven to inaccurate and the target KPIs not met, reversal of charges may arise.

These benefits are accounted for as other long-term employee benefits with accrued liabilities included in non-current trade and other payables (Note 37) in the statement of financial position. Current service costs and related social charges, recognised as employee benefits under the programme, for the period, are included in crew costs under vessels' running costs and in administrative expenses under general and administrative expenses in the income statement.

14. Financing costs

	2015 \$'000	2014 \$'000
Interest on secured bank loans	47,589	45,197
Interest on interest rate swaps	30,680	33,112
Interest on other loans	42,562	38,903
Interest on finance lease liabilities	12,487	13,109
Other interest	5,109	5,298
Other financing costs	2,065	2,706
	140,492	138,325

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15. Segment Information

For management purposes, the Group is organised into business units (operating segments) based on the main types of activities and has five reportable operating segments as follows:

- Crude oil transportation. This segment transports mainly crude oil for the Group's customers worldwide. As of 31 December 2015 the Group's fleet in this segment consisted of 59 crude oil carriers (2014 – 60).
- Oil products transportation. This segment transports mainly refined petroleum and other oil products and chemicals for the Group's customers worldwide. As of 31 December 2015, the Group's fleet in this segment consisted of 34 petroleum product carriers, (2014 – 43), including 16 chemical and oil carriers (2014 – 19 chemical and oil carriers and 2 asphalt and bitumen carriers). The 9 (2014 – 9) oil product tankers owned through joint ventures are disclosed in Note 22.
- Gas transportation. This segment transports LNG and LPG. As of 31 December 2015, this segment's fleet consisted of 4 LNG carriers (2014 – 2) and 4 LPG carriers (2014 – 4). The 4 (2014 – 4) LNG carriers owned through joint ventures are disclosed in Note 22.
- Offshore development services. This segment contains the Group's shuttle tankers and specialised supply vessels. The Group's shuttle tankers provide dedicated services to transport oil from specific offshore facilities to customers' receiving terminals or onward shipment hubs. Supply vessels are likewise dedicated to providing supplies to these offshore facilities continuously. As of 31 December 2015, this segment's fleet consisted of 13 shuttle tankers (2014 – 13) and 4 ice breaking supply vessels (2014 – 4).
- Other (<10% of revenue). This segment comprises bulk cargo carriers and seismic vessels. As of 31 December 2015, this segment's fleet consisted of 2 bulk carriers (2014 – 3) and 1 chartered in seismic vessel (2014 – 1). This segment also includes supply vessels chartered in from time to time for the support of the seismic vessels.

Management monitors the performance of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss directly attributable to vessels. However Group financing (including finance costs and finance income), general and administrative expenses and income taxes are managed on a Group basis and are not allocated to operating segments. No operating segments have been aggregated to form the above reportable operating segments.

Management considers the global market as one geographical segment and does not therefore analyse geographical segment information on revenue from customers or non-current segment assets.

Period ended 31 December 2015

	Crude Oil \$'000	Oil Product \$'000	Gas \$'000	Offshore \$'000	Other \$'000	Total \$'000
Freight and hire revenue	695,783	314,467	137,826	230,175	104,751	1,483,002
Voyage expenses and commissions	(153,710)	(74,138)	(364)	(1,342)	(13,362)	(242,916)
Time charter equivalent revenues	542,073	240,329	137,462	228,833	91,389	1,240,086
Direct operating expenses						
Vessels' running costs	(154,032)	(95,105)	(22,272)	(47,957)	(19,379)	(338,745)
Charter hire payments	-	-	-	-	(52,812)	(52,812)
Net earnings from vessels' trading	388,041	145,224	115,190	180,876	19,198	848,529
Vessels' depreciation	(115,934)	(46,831)	(26,068)	(58,333)	(2,869)	(250,035)
Vessels' drydock cost amortisation	(18,240)	(6,015)	(4,847)	(5,178)	(742)	(35,022)
Vessels' impairment provision (net)	(5,417)	(6,565)	-	-	(10,045)	(22,027)
Gain / (loss) on sale of vessels	2,561	(923)	-	-	-	1,638
Net foreign exchange gains / (losses)	-	1,336	-	(815)	(10,734)	(10,213)
Segment operating profit / (loss)	<u>251,011</u>	<u>86,226</u>	<u>84,275</u>	<u>116,550</u>	<u>(5,192)</u>	<u>532,870</u>
Unallocated						
General and administrative expenses						(105,914)
Financing costs						(140,492)
Other income and expenses						84,652
Net foreign exchange gains						660
Profit before income taxes						<u>371,776</u>
Carrying amount of fleet in operation	<u>2,275,627</u>	<u>943,693</u>	<u>973,870</u>	<u>1,130,102</u>	<u>65,250</u>	<u>5,388,542</u>
Carrying amount of non-current assets held for sale	<u>14,550</u>	<u>13,580</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,130</u>
Deadweight tonnage of fleet used in operations ('000)	<u>7,651</u>	<u>1,903</u>	<u>472</u>	<u>1,196</u>	<u>153</u>	<u>11,375</u>

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15. Segment Information (Continued)

Period ended 31 December 2014

	Crude Oil \$'000	Oil Product \$'000	Gas \$'000	Offshore \$'000	Other \$'000	Total \$'000
Freight and hire revenue	624,972	327,399	85,679	224,042	115,788	1,377,880
Voyage expenses and commissions	(203,878)	(113,944)	(2,453)	(1,624)	(12,005)	(333,904)
Time charter equivalent revenues	421,094	213,455	83,226	222,418	103,783	1,043,976
Direct operating expenses						
Vessels' running costs	(153,668)	(111,570)	(18,135)	(44,936)	(20,807)	(349,116)
Charter hire payments	-	-	-	-	(52,675)	(52,675)
Net earnings from vessels' trading	267,426	101,885	65,091	177,482	30,301	642,185
Vessels' depreciation	(107,038)	(51,586)	(13,201)	(56,537)	(3,599)	(231,961)
Vessels' drydock cost amortisation	(19,469)	(11,001)	(2,990)	(5,003)	(1,330)	(39,793)
Vessels' impairment provision (net)	-	(35,555)	-	-	(6,380)	(41,935)
Gain / (loss) on sale of vessels	4,728	(510)	(420)	-	-	3,798
Net foreign exchange gains / (losses)	-	46	-	(831)	(31,009)	(31,794)
Segment operating profit / (loss)	<u>145,647</u>	<u>3,279</u>	<u>48,480</u>	<u>115,111</u>	<u>(12,017)</u>	<u>300,500</u>
Unallocated						
General and administrative expenses						(104,010)
Financing costs						(138,325)
Other income and expenses						37,990
Net foreign exchange losses						(5,176)
Profit before income taxes						<u>90,979</u>
Carrying amount of fleet in operation	<u>2,437,633</u>	<u>991,198</u>	<u>587,753</u>	<u>1,178,542</u>	<u>83,857</u>	<u>5,278,983</u>
Carrying amount of non-current assets held for sale	<u>-</u>	<u>93,163</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,163</u>
Deadweight tonnage of fleet used in operations ('000)	<u>7,811</u>	<u>2,146</u>	<u>284</u>	<u>1,196</u>	<u>222</u>	<u>11,659</u>

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16. Fleet

	Vessels \$'000	Drydock \$'000	Total Fleet \$'000
Cost			
At 1 January 2014	6,671,203	155,838	6,827,041
Expenditure in period	3,831	23,291	27,122
Transfer from vessels under construction (Note 17)	500,498	10,470	510,968
Transfer to non-current assets held for sale (Note 31)	(306,531)	(7,255)	(313,786)
Disposals in period	(89,082)	(2,636)	(91,718)
Write-off of fully amortised drydock cost	-	(20,054)	(20,054)
At 31 December 2014	6,779,919	159,654	6,939,573
Expenditure in period	1,193	43,809	45,002
Transfer from vessels under construction (Note 17)	408,836	8,000	416,836
Transfer to non-current assets held for sale (Note 31)	(63,938)	(3,372)	(67,310)
Disposals in period	(54,832)	(1,791)	(56,623)
Write-off of fully amortised drydock cost	-	(41,368)	(41,368)
At 31 December 2015	7,071,178	164,932	7,236,110
Depreciation, amortisation and impairment			
At 1 January 2014	1,555,334	65,557	1,620,891
Charge for the period	231,961	39,793	271,754
Impairment provision	30,254	-	30,254
Transfer to non-current assets held for sale (Note 31)	(209,883)	(4,766)	(214,649)
Eliminated on disposal	(25,448)	(2,158)	(27,606)
Write-off of fully amortised drydock cost	-	(20,054)	(20,054)
At 31 December 2014	1,582,218	78,372	1,660,590
Charge for the period	250,035	35,022	285,057
Impairment provision	14,225	-	14,225
Transfer to non-current assets held for sale (Note 31)	(43,446)	(3,127)	(46,573)
Eliminated on disposal	(23,333)	(1,030)	(24,363)
Write-off of fully amortised drydock cost	-	(41,368)	(41,368)
At 31 December 2015	1,779,699	67,869	1,847,568
Net book value			
At 31 December 2015	5,291,479	97,063	5,388,542
At 31 December 2014	5,197,701	81,282	5,278,983
At 31 December 2013	5,115,869	90,281	5,206,150
	2015	2014	2013
Market value (\$'000)	5,092,750	4,777,500	4,355,000
Current insured values (\$'000)	5,830,970	5,856,922	5,587,372
Total deadweight tonnage (dwt)	11,243,584	11,390,550	11,497,966

Summary of fleet at period end:

Type of vessel	Number of vessels		Dwt'000		Carrying value \$ million	
	2015	2014	2015	2014	2015	2014
Oil tankers	58	60	7,548	7,814	2,276	2,439
Shuttle tankers	13	13	1,176	1,176	823	857
Product carriers	32	32	1,881	1,881	944	991
LNG and LPG carriers	8	6	472	284	974	588
Bulk carriers	2	3	150	219	65	84
Ice breaking supply vessels	4	4	17	17	307	320
	117	118	11,244	11,391	5,389	5,279
Vessels held for sale (Note 31)	3	11	127	265	28	93
	120	129	11,371	11,656	5,417	5,372

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16. Fleet (Continued)

As at 31 December 2015, management carried out an assessment of whether there is any indication that the fleet may have suffered an impairment loss. For CGUs with indications of impairment management assessed their recoverable amount, which is the higher of their fair value less costs to sell, as assessed by management at the period end and supported by independent professional valuations, and their value in use.

Results of the impairment review for the period ended 31 December 2015

Operating segment	CGU	Methodology	Applied pre-tax discount rate %	Impairment losses \$'000	Recoverable amount \$'000
Crude oil segment	Aframax crude oil tanker (1 CGU)	Fair value less cost to sell (level 1)	n/a	5,417	14,550
Other segment	Bulk carriers (2 CGUs)	Value in use	7.05 & 7.17	7,310	65,472
Other segment	Bulk carrier (1 CGU)	Fair value less cost to sell (level 2)	n/a	1,498	6,188
				<u>14,225</u>	<u>86,210</u>

The impairment recognised in the period ended 31 December 2015 based on value in use related to the Group's two other bulk carriers and resulted from the deterioration of the bulk market and current market expectations for freight rate estimates. The impairment recognised in the period ended 31 December 2015 based on fair value less costs to sell resulted from management's decision to dispose of one of its bulk carriers and one of its aframax crude oil tankers. Both vessels were reclassified as held for sale in the statement of financial position as at the reporting period end.

Results of the impairment review for the period ended 31 December 2014

Operating segment	CGU	Methodology	Applied pre-tax discount rate %	Impairment losses \$'000	Recoverable amount \$'000
Oil product segment	3 chemical oil product tankers and 2 asphalt chemical tankers (5 CGUs)	Fair value less cost to sell (level 2)	n/a	11,178	50,126
Oil product segment	4 MR product tankers (4 CGUs)	Value in use	6.29	12,696	38,769
Other segment	Bulk carrier (1 CGU)	Fair value less cost to sell (level 2)	n/a	6,380	7,920
				<u>30,254</u>	<u>96,815</u>

The impairment recognised in the period ended 31 December 2014 resulted from management's decision to dispose of nine oil product vessels and a bulk carrier. The nine oil product vessels satisfied the criteria of being classified as held for sale at period end and as such were reclassified in the statement of financial position (Note 31). Four of the nine oil product vessels were impaired to their value in use before being classified as held for sale as this materially exceeded their fair value less costs to sell.

Value in use calculations involve estimating the discounted future cash flows, which require judgements concerning long-term forecasts of future revenues and costs related to the vessels to be made by management as well as judgements about the discount rate used in the calculations. These forecasts are uncertain as they require assumptions to be made regarding demand for products and services, future market conditions and future technological developments. Value in use calculations are mainly sensitive to the freight rates and discount rates applied in the calculations. Significant and unanticipated changes in these assumptions could result in a material impairment provision in a future period.

The main inputs and assumptions used in performing the value in use calculations as at period end are as follows:

- Contracted hire rates, for vessels on time charter, until the expiry of the current agreements;
- Freight rate estimates in the years 2016 to 2018 based on Baltic Exchange Forward Freight Assessments for the relevant route that applies to each vessel, or where Baltic Exchange Forward Freight Assessments are not available for the relevant route, publically available market forecasts. These are adjusted for any premium/discount earned by each vessel on the relevant route compared to the historic average without any inflationary increase;
- Freight rate estimates after 2018 based on the historical ten year earnings averages for each type of vessel, obtained from independent brokers' research as adjusted for any premium/discount earned by each vessel on the relevant route compared to the historical average without any inflationary increase;
- Operating expenses based on the Group's operating budget approved by the Group for 2016 and increasing at a rate of 3% (2014 – 3%) per annum for the first five years thereafter (up to 2021);
- The technical element of the operating expenses increasing at a rate of 3% per annum from year six for the remaining useful economic life of the vessels reflecting increase in technical expenses due to the aging of the vessels;
- Annual utilisation for each vessel of 363 days based on the fleet's historical performance less any scheduled estimated drydocking period based on the Group's approved drydock plan and thereafter 363 days less the maximum number of days in drydock based on the previously approved plan;
- Use of the vessels until the end of their useful economic life, unless the vessels are sold or planned to be sold; and
- Discount rates between 6.68% to 8.66% pre-tax (2014 – 6.29% to 7.93% pre-tax), depending on the remaining useful economic life of each vessel and the area it trades.

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16. Fleet (Continued)

The following sensitivity analysis has been performed by management as at the period end, all other things being equal:

- A decrease in projected freight rates of 10% over the remaining useful economic life of the vessels would result in an additional impairment provision to fleet of \$56.8 million (2014 – \$11.1 million); and
- An increase in the discount rate of 1% would result in an additional impairment provision to fleet of \$14.1 million (2014 – \$2.9 million).

During the period ended 31 December 2015 management have reassessed the residual value of the fleet in accordance with the Group's accounting policy (see Note 3(o)). The effect of this change in estimate on the results for the period has been to increase the depreciation charge by \$2.4 million (2014 – decrease of \$3.8 million).

Included in the Group's fleet are 2 vessels (2014 – 2) held under finance leases with an aggregate carrying value of \$195.2 million (2014 – \$199.9 million). The depreciation charge in the period in respect of these vessels amounted to \$8.9 million (2014 – \$8.6 million) (see also Note 39).

17. Vessels Under Construction

	2015	2014
	\$'000	\$'000
At 1 January	237,250	244,584
Expenditure in period	548,039	503,634
Transfer to fleet (Note 16)	(416,836)	(510,968)
At 31 December	368,453	237,250
Total deadweight tonnage (dwt)	233,800	423,200

Vessels under construction at 1 January 2015 comprised two LNG carriers, one ice breaking LNG carrier, one multifunctional ice breaking supply ("MIB") vessel, three MIB standby vessels and three Arctic shuttle tankers scheduled for delivery between January 2015 and June 2017 at a total contracted cost to the Group of \$1,677.4 million.

Vessels delivered during the period comprised the following:

<u>Vessel Name</u>	<u>Vessel Type</u>	<u>Segment</u>	<u>DWT</u>	<u>Delivery Date</u>
SCF Melampus	LNG carrier	Gas	93,508	3 January 2015
SCF Mitre	LNG carrier	Gas	93,586	23 April 2015

Vessels under construction at 31 December 2015 comprised one ice breaking LNG carrier, one multifunctional ice breaking ("MIB") supply vessel, three MIB standby vessels and three Arctic shuttle tankers scheduled for delivery between June 2016 and April 2017 at a total contracted cost to the Group of \$1,279.0 million. As at 31 December 2015, \$325.6 million of the contracted costs had been paid for.

In accordance with the terms of the shipbuilding contracts, in the event of termination of the new building contracts due to the Group's default, the shipyard has the right to retain all instalments paid up to the date of termination, in order to recover their losses and damages, as well as to retain the full benefit and property of the vessel constructed. Any proceeds from the sale of the vessel by the shipyard after satisfaction of the shipyard's losses, damages and costs of sale shall belong to the Group.

Included in expenditure in the period is an amount of \$17.5 million (2014 – \$9.0 million) representing interest capitalised during the period in accordance with the Group's accounting policy concerning borrowing costs (Note 3(l)). The interest capitalised includes interest on general borrowings of \$5.1 million (2014 – \$6.6 million) capitalised using a weighted average interest rate of 3.43% per annum (2014 – 4.26% per annum).

As at 31 December 2015 management carried out an impairment review of the carrying amounts of vessels under construction in accordance with the Group's policy (Note 3(t)). The review did not result in any indication that vessels under construction may have suffered an impairment loss.

18. Intangibles

	2015	2014
	\$'000	\$'000
Cost		
At 1 January	7,540	7,099
Additions in period	1,822	775
Exchange adjustment	(195)	(334)
At 31 December	9,167	7,540
Amortisation		
At 1 January	3,551	2,575
Charge for the period	997	1,010
Exchange adjustment	(49)	(34)
At 31 December	4,499	3,551
Net book value		
At 31 December	4,668	3,989

Intangible assets comprise computer software.

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19. Other Property, Plant and Equipment

	Land and buildings \$'000	Miscellaneous \$'000	Total \$'000
Cost			
At 1 January 2014	76,687	62,578	139,265
Additions in period	77	1,531	1,608
Transfer from other assets under construction (Note 21)	7,395	2,417	9,812
Transferred to investment property (Note 20)	(2,385)	-	(2,385)
Disposals in period	(476)	(1,110)	(1,586)
Exchange adjustment	(13,879)	(18,321)	(32,200)
At 31 December 2014	67,419	47,095	114,514
Additions in period	30	1,592	1,622
Transferred to investment property (Note 20)	(1,015)	(925)	(1,940)
Disposals in period	(1,483)	(5,931)	(7,414)
Exchange adjustment	(3,805)	(5,829)	(9,634)
At 31 December 2015	61,146	36,002	97,148
Depreciation			
At 1 January 2014	21,666	34,276	55,942
Charge for the period	1,714	5,120	6,834
Transferred to investment property (Note 20)	(1,826)	-	(1,826)
Disposals in period	(159)	(771)	(930)
Exchange adjustment	(8,021)	(8,142)	(16,163)
At 31 December 2014	13,374	30,483	43,857
Charge for the period	1,476	3,314	4,790
Transferred to investment property (Note 20)	(1,046)	(806)	(1,852)
Disposals in period	(902)	(4,506)	(5,408)
Exchange adjustment	(2,271)	(2,252)	(4,523)
At 31 December 2015	10,631	26,233	36,864
Net book value			
At 31 December 2015	50,515	9,769	60,284
At 31 December 2014	54,045	16,612	70,657
At 31 December 2013	55,021	28,302	83,323

Buildings comprise offices in Moscow, St. Petersburg, Novorossiysk, Limassol and Sochi as well as a cruise terminal in Sochi. Miscellaneous category comprises a yacht marina, office equipment, motor vehicles, fixtures and fittings and leasehold improvements of leased premises.

20. Investment Property

	2015 \$'000	2014 \$'000
Cost		
At 1 January	28,149	33,364
Transfer from other property, plant and equipment (Note 19)	1,940	2,385
Transferred from assets under construction (Note 21)	-	167
Disposals in period	(3)	(384)
Exchange adjustment	(3,140)	(7,383)
At 31 December	26,946	28,149
Depreciation		
At 1 January	17,808	16,391
Charge for the period (Note 12)	1,077	1,120
Transfer from other property, plant and equipment (Note 19)	1,852	1,826
Disposals in period	-	(134)
Exchange adjustment	(1,259)	(1,395)
At 31 December	19,478	17,808
Net book value		
At 31 December	7,468	10,341
Rental income from investment property	1,420	3,322
Direct operating expenses of investment property	523	782

Investment property comprises buildings in Moscow, Novorossiysk and Sochi with a fair value, based on valuations performed by independent qualified valuers as at 31 December 2015, equivalent to \$35.1 million (2014 – equivalent to \$31.5 million).

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21. Other Assets Under Construction

	2015 \$'000	2014 \$'000
At 1 January	-	11,992
Expenditure in the period	-	1,554
Transfer to other property, plant and equipment (Note 19)	-	(9,812)
Transfer to investment property (Note 20)	-	(167)
Exchange adjustment	-	(3,567)
At 31 December	-	-

During the period ended 31 December 2014, the Group completed the construction of a cruise terminal in Sochi and certain outstanding works on the yacht marina which were subsequently transferred to other property, plant and equipment (Note 19).

22. Investments in Joint Ventures

	2015 \$'000	2014 \$'000
At 1 January	82,430	72,507
Investment in joint venture during the period	107	-
Share of profits in joint ventures	15,731	12,861
Share of joint ventures' other comprehensive income	6,013	2,703
Dividends receivable	(2,731)	(2,531)
Release of provision for share in net liabilities of joint ventures	(3,244)	(3,110)
At 31 December	98,306	82,430

As at period end, the Group had interests in the following active joint ventures:

Name of entity	Percentage holding			Country of Incorporation	Principal Activity
	2015	2014	2013		
LNG East-West Shipping Company (Singapore) Pte Limited	37.5%	37.5%	37.5%	Singapore	Vessel owning company of an LNG carrier
LNG North-South Shipping Company (Singapore) Pte Limited	50.0%	50.0%	50.0%	Singapore	Vessel owning company of an LNG carrier
NYK-SCF LNG Shipping No.1 Limited	50.0%	50.0%	50.0%	Cyprus	Vessel owning company of an LNG carrier
NYK-SCF LNG Shipping No.2 Limited	50.0%	50.0%	50.0%	Cyprus	Vessel owning company of an LNG carrier
Eastern Supply Vessels Limited ¹	50.0%	50.0%	50.0%	Russia	Ship chartering and subchartering services
SSV Sakhalin Offshore Limited ¹	50.0%	50.0%	50.0%	Cyprus	Ship chartering and subchartering services
SCF Swire Offshore Pte Limited ¹	50.0%	50.0%	50.0%	Singapore	Ship management
Anubis Shipholding Limited ²	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Gorey Shipping Limited ²	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Plemont Shipping Limited ²	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Rozel Shipping Limited ²	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
Sorel Shipping Limited ²	51.0%	51.0%	51.0%	Liberia	Vessel owning company of LR1 tanker
SCF ST Product Tankers Limited ²	51.0%	51.0%	51.0%	British Virgin Islands	Provision of commercial management services
Magenta Inc ²	51.0%	51.0%	51.0%	Liberia	Holding company of four LR1 tanker owning companies

¹ Effective ownership 33.3%

² All key business decisions require joint approval by the shareholders

The Group through its joint ventures owns and operates 4 LNG carriers (2014 – 4) and 9 Panamax oil product tankers (LR1) (2014 – 9). The Group also operates through its joint ventures 3 ice breaking supply vessels (2014 – 3), one of which it directly owns.

The joint ventures entered into time charter agreements, with aggregate hire revenues as at period end over the firm contract period receivable as follows:

	2015 \$'000	2014 \$'000
Within one year	143,554	131,578
After one year but not more than five years	533,628	531,387
More than five years	636,166	755,725
	1,313,348	1,418,690

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Notes to the Consolidated Financial Statements – 31 December 2015
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22. Investments in Joint Ventures (Continued)

Summarised financial information in respect of the Group's joint ventures is set out below:

At 31 December 2015	LNG East West \$'000	LNG North South \$'000	NYK-SCF LNG 1 \$'000	NYK-SCF LNG 2 \$'000	SCF ST joint ventures \$'000	Other \$'000	Total \$'000
Total non-current assets	144,254	145,673	151,175	151,233	379,639	6,119	978,093
Total current assets	18,671	19,007	14,803	26,004	46,730	13,648	138,863
Total non-current liabilities	(137,328)	(145,904)	(126,376)	(138,616)	(248,623)	(139)	(796,986)
Total current liabilities	(10,040)	(16,691)	(19,732)	(18,918)	(48,367)	(14,118)	(127,866)
Net assets of the joint venture	<u>15,557</u>	<u>2,085</u>	<u>19,870</u>	<u>19,703</u>	<u>129,379</u>	<u>5,510</u>	<u>192,104</u>
Group's share in net assets of the joint venture	5,834	1,043	9,935	9,852	65,983	1,838	94,485
Long term interests in the joint venture	-	-	-	-	2,644	1,177	3,821
Carrying amount of the investment in joint venture	<u>5,834</u>	<u>1,043</u>	<u>9,935</u>	<u>9,852</u>	<u>68,627</u>	<u>3,015</u>	<u>98,306</u>
Provision for share in net liabilities of joint venture	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents	<u>16,140</u>	<u>16,936</u>	<u>14,893</u>	<u>19,994</u>	<u>18,116</u>	<u>7,412</u>	<u>93,491</u>
Current financial liabilities	<u>(10,010)</u>	<u>(16,477)</u>	<u>(15,147)</u>	<u>(16,333)</u>	<u>(35,015)</u>	<u>(3,531)</u>	<u>(96,513)</u>
Non-current financial liabilities	<u>(137,328)</u>	<u>(145,904)</u>	<u>(126,376)</u>	<u>(138,616)</u>	<u>(248,623)</u>	<u>-</u>	<u>(796,847)</u>
Revenues	<u>23,950</u>	<u>24,732</u>	<u>21,638</u>	<u>21,504</u>	<u>91,502</u>	<u>39,389</u>	<u>222,715</u>
Depreciation, amortisation and impairment	<u>(5,844)</u>	<u>(6,217)</u>	<u>(6,323)</u>	<u>(6,099)</u>	<u>(18,061)</u>	<u>(1,235)</u>	<u>(43,779)</u>
Interest income	<u>17</u>	<u>14</u>	<u>-</u>	<u>1</u>	<u>8</u>	<u>-</u>	<u>40</u>
Interest expense	<u>(7,882)</u>	<u>(7,538)</u>	<u>(6,619)</u>	<u>(6,969)</u>	<u>(11,556)</u>	<u>-</u>	<u>(40,564)</u>
Income tax	<u>(317)</u>	<u>(328)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(877)</u>	<u>(1,522)</u>
Joint ventures' profits for the period	<u>5,090</u>	<u>5,801</u>	<u>4,431</u>	<u>4,244</u>	<u>12,122</u>	<u>1,497</u>	<u>33,185</u>
Group's share of joint ventures' profits for the period recognised	<u>1,909</u>	<u>2,901</u>	<u>2,216</u>	<u>2,122</u>	<u>6,182</u>	<u>401</u>	<u>15,731</u>
Joint ventures' other comprehensive income for the period	<u>2,836</u>	<u>2,773</u>	<u>3,160</u>	<u>3,198</u>	<u>766</u>	<u>-</u>	<u>12,733</u>
Group's share of joint ventures' other comprehensive income for the period recognised	<u>1,064</u>	<u>1,387</u>	<u>1,580</u>	<u>1,599</u>	<u>391</u>	<u>(8)</u>	<u>6,013</u>
Joint ventures' total comprehensive income for the period	<u>7,926</u>	<u>8,574</u>	<u>7,591</u>	<u>7,442</u>	<u>12,888</u>	<u>1,497</u>	<u>45,918</u>
Group's share of joint ventures' total comprehensive income for the period recognised	<u>2,973</u>	<u>4,288</u>	<u>3,796</u>	<u>3,721</u>	<u>6,573</u>	<u>393</u>	<u>21,744</u>

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22. Investments in Joint Ventures (Continued)

Summarised financial information in respect of the Group's joint ventures is set out below:

At 31 December 2014	LNG East West \$'000	LNG North South \$'000	NYK-SCF LNG 1 \$'000	NYK-SCF LNG 2 \$'000	SCF ST joint ventures \$'000	Other \$'000	Total \$'000
Total non-current assets	147,416	151,891	155,709	156,319	391,417	4,726	1,007,478
Total current assets	20,785	19,327	15,241	24,682	43,592	16,987	140,614
Total non-current liabilities	(143,898)	(160,839)	(139,584)	(150,664)	(276,188)	(193)	(871,366)
Total current liabilities	(11,390)	(16,866)	(19,086)	(18,078)	(42,336)	(15,260)	(123,016)
Net assets / (liabilities) of the joint venture	<u>12,913</u>	<u>(6,487)</u>	<u>12,280</u>	<u>12,259</u>	<u>116,485</u>	<u>6,260</u>	<u>153,710</u>
Group's share in net assets of the joint venture	4,842	-	6,140	6,130	59,407	2,090	78,609
Long term interests in the joint venture	-	-	-	-	2,644	1,177	3,821
Carrying amount of the investment in joint venture	<u>4,842</u>	<u>-</u>	<u>6,140</u>	<u>6,130</u>	<u>62,051</u>	<u>3,267</u>	<u>82,430</u>
Provision for share in net liabilities of joint venture	<u>-</u>	<u>(3,244)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,244)</u>
Cash and cash equivalents	<u>20,766</u>	<u>19,325</u>	<u>15,155</u>	<u>19,310</u>	<u>11,419</u>	<u>9,896</u>	<u>95,871</u>
Current financial liabilities	<u>(10,289)</u>	<u>(14,808)</u>	<u>(14,219)</u>	<u>(15,171)</u>	<u>(27,556)</u>	<u>(3,531)</u>	<u>(85,574)</u>
Non-current financial liabilities	<u>(143,898)</u>	<u>(160,841)</u>	<u>(139,584)</u>	<u>(150,664)</u>	<u>(276,188)</u>	<u>-</u>	<u>(871,175)</u>
Revenues	<u>23,909</u>	<u>24,462</u>	<u>23,024</u>	<u>23,024</u>	<u>106,668</u>	<u>39,855</u>	<u>240,942</u>
Depreciation, amortisation and impairment	<u>(5,828)</u>	<u>(5,815)</u>	<u>(5,869)</u>	<u>(5,887)</u>	<u>(18,033)</u>	<u>(978)</u>	<u>(42,410)</u>
Interest income	<u>27</u>	<u>28</u>	<u>-</u>	<u>-</u>	<u>7</u>	<u>-</u>	<u>62</u>
Interest expense	<u>(8,131)</u>	<u>(7,953)</u>	<u>(7,009)</u>	<u>(7,369)</u>	<u>(12,453)</u>	<u>-</u>	<u>(42,915)</u>
Income tax	<u>(317)</u>	<u>(324)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(465)</u>	<u>(1,106)</u>
Joint ventures' profits for the period	<u>5,056</u>	<u>5,389</u>	<u>6,324</u>	<u>6,008</u>	<u>2,385</u>	<u>2,668</u>	<u>27,830</u>
Group's share of joint ventures' profits for the period recognised	<u>1,896</u>	<u>2,695</u>	<u>3,162</u>	<u>3,004</u>	<u>1,216</u>	<u>888</u>	<u>12,861</u>
Joint ventures' other comprehensive income for the period	<u>429</u>	<u>830</u>	<u>3,032</u>	<u>1,506</u>	<u>(279)</u>	<u>-</u>	<u>5,518</u>
Group's share of joint ventures' other comprehensive income for the period recognised	<u>161</u>	<u>415</u>	<u>1,516</u>	<u>753</u>	<u>(142)</u>	<u>-</u>	<u>2,703</u>
Joint ventures' total comprehensive income for the period	<u>5,485</u>	<u>6,219</u>	<u>9,356</u>	<u>7,514</u>	<u>2,106</u>	<u>2,668</u>	<u>33,348</u>
Group's share of joint ventures' total comprehensive income for the period recognised	<u>2,057</u>	<u>3,110</u>	<u>4,678</u>	<u>3,757</u>	<u>1,074</u>	<u>888</u>	<u>15,564</u>

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23. Loans to Joint Ventures

	2015 \$'000	2014 \$'000	2013 \$'000
Loans to joint ventures at U.S. Dollar Libor + 0.5% margin per annum	40,476	44,380	50,984
Loans to joint ventures at U.S. Dollar Libor + 3.0% margin per annum	20,312	20,312	19,292
	60,788	64,692	70,276
Less current portion (current assets)	(8,320)	(4,750)	(4,750)
Non-current portion (non-current assets)	52,468	59,942	65,526
Interest income during the period on loans due from joint ventures	1,054	1,066	1,157
Interest receivable at period end on loans due from joint ventures	2,293	1,607	1,004

The loans to joint ventures are unsecured and mature between February 2016 and January 2025.

24. Finance Lease Receivables

	2015 \$'000	2014 \$'000	2013 \$'000
Gross finance lease receivable			
At 1 January	85,518	89,136	92,261
Finance lease interest receivable	12,562	13,137	13,631
Finance lease instalments receivable	(16,755)	(16,755)	(16,756)
At 31 December	81,325	85,518	89,136
Allowance for credit losses			
At 1 January	(9,856)	(6,572)	-
Release of / (allowance for) credit losses	362	(3,284)	(6,572)
At 31 December	(9,494)	(9,856)	(6,572)
Receivable net of provision	71,831	75,662	82,564
Less current finance lease receivables	(4,875)	(4,193)	(3,656)
Non-current finance lease receivables	66,956	71,469	78,908

The minimum lease instalments and their corresponding present value is analysed as follows:

	Minimum lease instalments		Present value of minimum lease instalments	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Within one year	16,801	16,755	4,875	4,193
After one year but not more than five years	67,067	67,067	28,632	24,657
More than five years	53,461	69,901	38,324	46,812
	137,329	153,723	71,831	75,662
Less unearned income	(65,498)	(78,061)	-	-
Present value of minimum lease instalments	71,831	75,662	71,831	75,662

Finance lease receivables comprise nine Escort tugs chartered out to a subsidiary of a Russian State controlled entity, a former associate (see Note 48), on fifteen year bareboat charters commencing on delivery of the tugs by the shipyards, at effective interest rates ranging from 11.96% to 18.39% per annum.

The charter hires are receivable monthly in arrears at daily rates ranging from \$3,411 to \$7,083 through to expiration of the charters. The charterer has the option to acquire the tugs on any hire payment date through to the expiration of the charter, provided that the charterer has fulfilled all obligations under the bareboat charter agreements, at predetermined prices. Upon expiration of the charters in fifteen years from the commencement date, legal ownership of the tugs will be transferred to the charterer at a nominal amount.

Amounts invoiced but outstanding as at the period end are disclosed separately under trade and other receivables in Note 29.

25. Derivative Financial Instruments

The use of financial derivatives is governed by the Group's policies approved by the executive board, which provide principles on the use of financial derivatives consistent with the Group's risk management strategy.

Derivative financial instruments are classified in the statement of financial position as follows:

	2015 \$'000	2014 \$'000	2013 \$'000
Non-current asset	8,050	7,438	10,356
Non-current liability	(32,135)	(37,808)	(42,266)
Current liability	(22,929)	(24,836)	(26,718)
	(47,014)	(55,206)	(58,628)

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25. Derivative Financial Instruments (Continued)

(a) Hedging instruments

	2015 \$'000	2014 \$'000
At 1 January	55,206	52,464
Recycled during the period and credited to the income statement	(25,050)	(20,081)
Fair value movement during the period recognised in other comprehensive income	17,541	23,265
Fair value movement during the period credited to the income statement	(683)	(442)
At 31 December	<u>47,014</u>	<u>55,206</u>

The Group entered into interest rate swap (“IRS”) agreements to hedge the future cash outflows of interest payable on secured loans against LIBOR rate fluctuations. As of 31 December 2015 the Group had the following interest rate swap agreements amortising in accordance with the initial repayment schedules of the relevant loans at fixed rates compared to U.S. Dollar three and six month LIBOR as follows:

U.S. Dollar LIBOR compared to fixed rate	Notional amount 2015 \$'000	Notional amount 2014 \$'000	Fixed interest rate	Expiry date
Three month	-	34,500	1.59%	24 August 2015
Three month	26,600	32,200	2.02%	22 July 2017
Three month	21,780	23,760	4.47%	12 December 2016
Three month	255,075	279,225	5.76%	1 March 2021
Six month	60,000	66,667	1.63%	21 December 2024
Three month	200,000	250,000	0.89%	12 December 2019
Three month	16,217	17,464	2.02%	13 August 2020
Three month	16,217	17,464	2.01%	13 August 2020
Three month	36,476	39,282	2.07%	31 December 2020
Three month	139,567	150,099	2.44%	29 January 2024
Three month	144,467	154,974	2.27%	29 August 2024
Three month	151,394	-	1.98%	9 January 2025
Three month	154,050	-	1.86%	20 April 2025
	<u>1,221,843</u>	<u>1,065,635</u>		

(b) Classified at fair value through profit or loss

	2015 \$'000	2014 \$'000
At 1 January	-	6,164
Fair value movement during the period credited to the income statement	-	(6,164)
At 31 December	<u>-</u>	<u>-</u>

All derivative financial instruments classified at fair value through profit or loss at 1 January 2014 were interest rate financial instruments and were recorded in the statement of financial position as current liabilities.

26. Income Taxes

	2015 \$'000	2014 \$'000
Russian Federation profit tax	21,475	9,565
Overseas income tax expense	777	565
Current income tax expense	22,252	10,130
Deferred tax	(4,948)	(3,045)
Total income tax expense	<u>17,304</u>	<u>7,085</u>

Russian Federation profits tax is payable in Roubles at a tax rate of 20% (2014 – 20%) on the profits arising on Russian operations, as adjusted for Russian fiscal purposes. Taxes are also payable on the results of the Group's overseas management and agency and broking subsidiaries. The liability to taxation of the other subsidiaries is insignificant.

The Group operates in several jurisdictions with significantly different taxation systems. The major shipping and holding companies of the Group are incorporated in foreign jurisdictions historically utilised in the shipping sector and a significant portion of the Group's profit is realised by these companies. Under the laws of the countries of incorporation and / or vessel registration, a number of vessel owning and operating subsidiaries are subject to tax on international shipping income. Management is of the opinion that the Group is fully compliant with the respective tax regime of the countries of incorporation of the vessel owning companies and / or vessel registration.

On 24 November 2014 Federal Law No. 376-FZ of the Russian Federation, effective 1 January 2015, concerning the introduction of amendments to part one and two of the Tax Code of the Russian Federation (regarding the taxation of profit of Controlled Foreign Companies (“CFC”) and tax residence of Foreign Companies in Russia) was enacted. Based on the current interpretation of the Law, the majority of the Group's CFC which generate more than 20% of their revenue from passive activities, subject to a maximum profit exemption, as defined by the Law, are subject to Russian profits tax on their undistributed profits generated after 1 January 2015, provided that such profits are not distributed as dividends until 31 December of the year following the period when the profits are generated. The Group has not incurred any additional tax liabilities as a result of the enactment of this Law.

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26. Income Taxes (Continued)

The income tax expense for the period is reconciled to the expected tax expense based on the Russian Federation tax rate as follows:

	2015 \$'000	2014 \$'000
Profit before income taxes	371,776	90,979
Income tax charge using Russian Federation income tax rate of 20%	74,355	18,196
Difference in tax rates in other jurisdictions	(3,191)	20,578
Profits subject to tonnage tax	(64,672)	(32,501)
Tax effect on intercompany dividends	11,879	(1,172)
Non-deductible expenses and non-taxable income	1,832	(109)
Difference in tax rate of dividends received from other investments	-	(33)
Tax losses (recognised) / unrecognised during the period	(3,303)	2,283
Adjustments in respect of current income tax of previous years	-	(157)
Tax effect on disposal of subsidiary	404	-
Income tax expense	17,304	7,085

Deferred Tax

	Opening balance \$'000	(Charged) / released to income \$'000	Exchange differences \$'000	Closing balance \$'000
<u>At 31 December 2015</u>				
Deferred tax assets	3,575	4,556	(744)	7,387
Deferred tax liabilities	(1,258)	392	90	(776)
	2,317	4,948	(654)	6,611
<u>At 31 December 2014</u>				
Deferred tax assets	2,228	1,963	(616)	3,575
Deferred tax liabilities	(2,477)	1,082	137	(1,258)
	(249)	3,045	(479)	2,317

Deferred tax relates to the following:

	Opening balance \$'000	(Charged) / released to income \$'000	Exchange differences \$'000	Closing balance \$'000
<u>At 31 December 2015</u>				
Fleet	559	(480)	-	79
Drydock	(270)	(517)	142	(645)
Unused tax losses carried forward	607	3,928	(567)	3,968
Accounts receivable	(198)	367	(2)	167
Accounts payable	1,644	948	-	2,592
Bank loans	4	(4)	-	-
Gains on disposal of assets reinvested	(563)	484	-	(79)
Other	534	222	(227)	529
	2,317	4,948	(654)	6,611
<u>At 31 December 2014</u>				
Fleet	380	693	(514)	559
Drydock	(680)	183	227	(270)
Unused tax losses carried forward	531	140	(64)	607
Accounts receivable	(382)	44	140	(198)
Accounts payable	2,352	(209)	(499)	1,644
Bank loans	(34)	38	-	4
Gains on disposal of assets reinvested	(585)	22	-	(563)
Unremitted earnings of Russian subsidiaries	(1,800)	1,800	-	-
Other	(31)	334	231	534
	(249)	3,045	(479)	2,317

The Group has tax losses which arose in Spain of \$15.0 million (2014 – \$20.6 million in Russia and \$11.4 million in Spain), for which a deferred tax asset has not been recognised, that are available for offsetting against future taxable profits of the companies in which they arose. During the period the Group recognised deferred tax assets of \$3.9 million relating to certain operations in Russia based on the projected results of those operations, supported by contracted revenues in subsequent periods.

As in previous years, at 31 December 2015, the Group did not recognise accumulated deferred tax liabilities of \$159.3 million (2014 – \$112.1 million) for taxes that would be payable, if the Group's subsidiaries distribute their retained earnings, on the basis that the Group has the ability to control the timing of the distribution, and does not intend to distribute these retained earnings in the foreseeable future. There is no tax impact on the unremitted earnings of joint ventures or associates. The temporary differences associated with investments in subsidiaries, associates and joint ventures for which a deferred tax liability has not been recognised, aggregate to \$2,890.2 million (2014 – \$2,606.6 million).

There are no income tax consequences attached to the payment of dividends by the Group to its shareholder.

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27. Earnings Per Share

	2015 \$'000	2014 \$'000
Net profit attributable to equity holders of the parent for basic earnings	339,461	80,058
Weighted average number of ordinary shares for basic earnings per share	1,966,697,210	1,966,697,210
Basic earnings per share for the period attributable to holders of the parent	\$0.173	\$0.041

28. Inventories

	2015 \$'000	2014 \$'000	2013 \$'000
Bunkers	17,644	24,305	39,060
Lubricants	17,168	17,454	18,479
Victualling and slopchest	1,595	2,026	1,882
Spare parts and consumables	476	1,195	3,254
Other	685	845	2,044
	<u>37,568</u>	<u>45,825</u>	<u>64,719</u>

The amounts expensed during the period are disclosed in Note 8, Voyage Expenses and Commissions, and Note 9, Vessels' Running Costs.

29. Trade and Other Receivables

	2015 \$'000	2014 \$'000	2013 \$'000
Non-current assets			
Other receivables	104	180	587
Security deposits	13,190	17,183	17,178
Receivables under High Court judgement award	2,708	-	-
	<u>16,002</u>	<u>17,363</u>	<u>17,765</u>
Current assets			
Amounts due from charterers	96,289	82,272	62,831
Allowance for credit losses	(5,166)	(4,214)	(4,135)
	91,123	78,058	58,696
Casualty and other claims	11,191	3,887	5,761
Agents' balances	1,354	4,807	2,767
Other receivables	28,464	24,736	25,298
Amounts due from joint ventures	491	280	1,170
Security deposits	-	6,060	9,789
Amounts due from lessee for finance leases	1,423	1,869	1,662
Receivables under High Court judgement award	-	2,708	2,708
Prepayments	11,385	11,378	9,730
Voyages in progress	23,809	16,359	22,952
Accrued income	5,365	5,030	4,611
	<u>174,605</u>	<u>155,172</u>	<u>145,144</u>

Amounts due from charterers represent amounts receivable from charterers of vessels owned or leased by the Group in respect of voyage charters, time charters, and contracts of affreightment.

Freight from voyage charters and contracts of affreightment is receivable upon discharge of the vessel and hire from time charters is receivable monthly in advance over the duration of the time charter voyage or as per any other contractual arrangement with the charterer. Trade receivables are non-interest bearing. The estimated irrecoverable amounts due from charterers are provided for based on management's past experience.

The Group has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. As at 31 December 2015, \$59.2 million (2014 – \$48.7 million) of amounts due from charterers are neither past due nor impaired.

As at 31 December 2015, charterers with a carrying amount of \$31.9 million (2014 – \$29.4 million) are past due at the reporting date. The Group has not provided for these receivables as there has not been a significant change in credit quality and the amounts outstanding are still considered recoverable.

The ageing analysis of these past due receivables is as follows:

	2015 \$'000	2014 \$'000	2013 \$'000
Up to one month	18,809	15,009	27,462
One to two months	6,452	5,460	3,586
Two to three months	2,535	2,592	2,030
Three to four months	1,450	100	383
More than four months	2,619	6,213	5,097
	<u>31,865</u>	<u>29,374</u>	<u>38,558</u>

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29. Trade and Other Receivables (Continued)

Movement in the allowance for credit losses in respect of charterers balances:

	2015 \$'000	2014 \$'000	2013 \$'000
At 1 January	4,214	4,135	5,435
Amounts written off during the period	(109)	(102)	(1,059)
Amounts recovered during the period and recognised in the income statement	(252)	(3)	(533)
Increase in allowance recognised in the income statement	1,313	184	270
Exchange adjustment	-	-	22
At 31 December	<u>5,166</u>	<u>4,214</u>	<u>4,135</u>

Security deposits comprised the following:

- an amount of \$10.1 million, as at 31 December 2014, of which \$6.1 million classified as current assets, representing securities placed to the Court's Funds Office to cover for potential legal costs of the defendants connected with the claims described in Note 46 (these amounts were released in 2015); and
- an amount, including accrued interest, of \$13.2 million (2014 – \$13.2 million) held as security by the American Courts, in relation to the arrest of one of the Group's vessels in the United States, classified as non-current asset as at 31 December 2015 and 31 December 2014 (see also Note 46).

The voyages in progress contain residual prepaid and accrued income and costs relating to the Group's policy of applying a rateable approach to the recognition of voyage charter results at each period end.

30. Cash and Bank Deposits

	2015 \$'000	2014 \$'000	2013 \$'000
Non-current assets			
Bank deposits	10,000	12,315	8,100
Restricted deposits	(10,000)	(12,315)	(8,100)
Cash and cash equivalents	-	-	-
Current assets			
Cash and bank deposits	357,427	272,201	273,440
Bank deposits accessible on maturity	-	(1,442)	(1,833)
Retention accounts	(23,901)	(16,919)	(14,857)
Restricted deposits	(846)	-	-
Cash and cash equivalents	<u>332,680</u>	<u>253,840</u>	<u>256,750</u>

Retention accounts are bank accounts designated by the Group's lenders for the purposes of the secured bank loan agreements referred to in Note 38. These funds are accumulated to cover future loan principal and interest repayments. Restricted deposits represent additional security for the purposes of certain secured loan agreements and represent minimum liquidity for the duration of the relevant secured loan.

Under the terms of the agreements, two subsidiaries of the Group have to maintain freely available bank balances and cash in the amount of not less than \$35.0 million each. In addition under the terms of the agreements, one of the two subsidiaries has to maintain minimum liquidity of the higher of \$50.0 million and 7.5% of total debt and at least 50% of the minimum liquidity has to be maintained in cash and cash equivalents. The amount of cash and cash equivalents that had to be maintained under the terms of the agreements as at 31 December 2015 were \$52.0 million (2014 – \$57.5 million) and \$35.0 million (2014 – \$35.0 million) respectively.

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and in bank as stated above.

31. Non-Current Assets Held for Sale

	Building \$'000	Fleet \$'000	Total \$'000
At 1 January 2014	15,792	58,460	74,252
Transfer from fleet (Note 16)	-	99,137	99,137
Expenditure in period	-	419	419
Impairment provision	-	(12,504)	(12,504)
Reversal of impairment provision	-	823	823
Exchange adjustment	(777)	-	(777)
Disposals in period	(15,015)	(53,172)	(68,187)
At 31 December 2014	-	93,163	93,163
Transfer from fleet (Note 16)	-	20,737	20,737
Impairment provision	-	(8,950)	(8,950)
Reversal of impairment provision	-	1,148	1,148
Disposals in period	-	(77,968)	(77,968)
At 31 December 2015	<u>-</u>	<u>28,130</u>	<u>28,130</u>

As at 31 December 2014, non-current assets held for sale, comprised five chemical oil product tankers, two asphalt chemical tankers and four MR product tankers.

During the period ended 31 December 2015 the Group disposed of all but two of the five chemical oil product tankers held for sale at 31 December 2014. In addition the Group entered into an agreement for the sale of one of the remaining two chemical oil product carrier held for sale. Moreover, during the period ended 31 December 2015 the Group classified as held for sale one bulk carrier and one crude oil aframax carrier. These vessels were actively marketed for sale at a price approximate to their market values and consequently transferred to non-current assets held for sale. The bulk carrier was sold during the period.

As at 31 December 2015, non-current assets held for sale, comprised two chemical oil product tankers and one crude oil aframax carrier. These vessels were sold in 2016 (see also Note 49).

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32. Share Capital

	2015 \$'000	2014 \$'000	2013 \$'000
Authorised 2,247,653,953 shares of which 1,966,697,210 are issued and fully paid of 1 Rouble each	405,012	405,012	405,012
Share premium arising from issue of shares in exchange for shares in PAO Novoship in 2007 (Note 33)	818,845	818,845	818,845

33. Group Reconstruction Reserve

	2015 \$'000	2014 \$'000	2013 \$'000
Surplus arising on Group reconstruction in 2007	8,960	8,960	8,960
Shares issued by PAO Sovcomflot in exchange for shares in PAO Novoship in 2007	(843,450)	(843,450)	(843,450)
	(834,490)	(834,490)	(834,490)

In 2007 the Federal Agency for Federal Property Management of the Russian Federation transferred its 50.34% shareholding (67.13% of the ordinary shares) in PAO Novoship ("Novoship"), a company incorporated in the Russian Federation, to PAO Sovcomflot in exchange for 602,158,693 shares of the Company, at a price of 34.28 Roubles (\$1.40071) per share (see also Note 32), thus uniting its interest in the two companies. As the Federal Agency ultimately controlled the two entities both before and after the group reconstruction, the acquisition of Novoship has been accounted for on a pooling of interests basis.

34. Dividends

Dividends of Rouble 0.57 per share totalling Roubles 1,126.0 million, equivalent to \$20.5 million, were declared on 29 June 2015 and paid on 13 July 2015 (2014 – 0.15 Rouble per share totalling Roubles 300.0 million, equivalent to \$9.0 million).

35. Non-Controlling Interests

	Currency reserve \$'000	Retained earnings \$'000	Total \$'000
At 1 January 2014	(844)	157,889	157,045
Profit for the period	-	3,836	3,836
Other comprehensive income	(3,162)	134	(3,028)
Dividends	-	(1,464)	(1,464)
At 31 December 2014	(4,006)	160,395	156,389
Profit for the period	-	15,011	15,011
Other comprehensive income	(1,465)	(59)	(1,524)
Dividends	-	(8,196)	(8,196)
Acquisition of non-controlling interest by equity holders	54	(1,812)	(1,758)
At 31 December 2015	(5,417)	165,339	159,922

36. Provisions

	2015 \$'000	2014 \$'000	2013 \$'000
At 1 January	3,244	6,354	26,796
Reductions resulting from remeasurement of guarantees given for its joint ventures	(3,244)	(3,110)	(20,442)
At 31 December	-	3,244	6,354

The Group has legal obligations arising out of its investments relating to guarantees given for its joint ventures. The Group has severally guaranteed to the hedging banks the performance of all the obligations and liabilities under the swap agreements entered into by the LNG carrier owning companies listed in Note 22, limited to its percentage holding in the equity share capital of these companies.

37. Trade and Other Payables

	2015 \$'000	2014 \$'000	2013 \$'000
Non-current liabilities			
Employee benefit obligations (Note 13)	16,045	330	261
	16,045	330	261
Current liabilities			
Trade payables	36,406	57,500	83,579
Other payables	56,376	42,356	60,081
Dividends payable	7,604	1,235	1,912
Accrued liabilities	37,535	41,763	43,336
Deferred revenue	23,319	24,072	27,102
Accrued interest	20,436	17,072	15,338
	181,676	183,998	231,348

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Notes to the Consolidated Financial Statements – 31 December 2015
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38. Secured Bank Loans

The balances of the loans at the period end, net of direct issue costs, are summarised as follows:

	2015 \$'000	2014 \$'000	2013 \$'000
Repayable			
- within twelve months after the end of the reporting period	289,142	394,652	363,259
- between one to two years	238,866	297,782	364,323
- between two to three years	226,236	242,370	225,937
- between three to four years	359,061	240,886	219,372
- between four to five years	170,834	270,927	187,848
- more than five years	601,437	535,991	600,777
	<u>1,885,576</u>	<u>1,982,608</u>	<u>1,961,516</u>
Less current portion	(289,142)	(394,652)	(363,259)
Non-current balance	<u>1,596,434</u>	<u>1,587,956</u>	<u>1,598,257</u>

The interest rates applicable for the secured bank loans during the period are as follows:

Contractual interest rates	Interest rate		Outstanding loans gross of direct issue costs		Maturity
	2015	2014	2015 \$'000	2014 \$'000	
Floating rate loans between 0.75%-3.00% per annum	Libor+2.09% ¹	Libor+1.93% ¹	1,784,510	1,852,645	Between December 2016 - December 2024
Fixed rate	4.75%	4.75%	13,200	18,000	July 2018
Fixed rate	5.19%	5.19%	18,281	24,121	July 2019
Fixed rate	5.50% ²	5.50% ²	21,647	32,875	April 2016
Fixed rate	4.15%	4.15%	63,333	70,000	April 2025
			<u>1,900,971</u>	<u>1,997,641</u>	

¹ Weighted average margin for the period

² In accordance with the loan agreement the secured bank loan is fixed at 4.75% per annum plus margins of 0.50% or 0.75% depending on the employment of the vessels mortgaged.

The Group has the option to repay in whole or any part of the loans on the last date of each monthly, quarterly or semi-annual interest period or such longer interest period as the lenders may agree.

As security for the loans, the lenders have first preferred mortgages on Group vessels with an aggregate carrying value at 31 December 2015 of \$3,965.8 million (2014 – \$4,100.3 million) together with assignments of charter hire monies and all earnings and insurances of those vessels, assignment of the newbuilding contracts reported in Note 17 and pledges of shares in certain of the vessel owning companies.

The Group is subject to a number of covenants in relation to its borrowing facilities which if breached could result in its loans becoming immediately repayable. As at the period end the Group was not in default of any of its bank loan covenants.

39. Finance Lease Liabilities

	2015 \$'000	2014 \$'000	2013 \$'000
Repayable			
- within twelve months after the end of the reporting period	10,120	9,481	8,850
- between one to two years	173,690	10,120	9,481
- between two to three years	-	173,690	10,120
- between three to four years	-	-	173,690
	<u>183,810</u>	<u>193,291</u>	<u>202,141</u>
Less current portion	(10,120)	(9,481)	(8,850)
Non-current balance	<u>173,690</u>	<u>183,810</u>	<u>193,291</u>

On 7 September and 16 November 2010 the Group sold and leased back, under bareboat charter, two of its vessels, for an aggregate consideration of \$230.0 million at effective interest rates of 6.52% per annum.

The charter hires are payable monthly in advance at monthly rates of \$926,652 per vessel expiring in September and November 2017 respectively. On expiration of the bareboat charter agreements, the Group has an obligation to repurchase the vessels from the lessors for an aggregate consideration of \$165.6 million. The Group has the right to re-purchase the vessels at any time during the bareboat charter period at predetermined prices.

40. Retirement Benefit Obligations

	2015 \$'000	2014 \$'000	2013 \$'000
Post retirement pension benefit plans	1,757	2,036	4,978
Long-term service retirement benefit plans	1,310	1,354	2,427
Total obligations	<u>3,067</u>	<u>3,390</u>	<u>7,405</u>

A subsidiary of the Group operates two defined benefit retirement plans, a post retirement pension benefit plan and a long-term service retirement benefit plan for its seafarers and shore based staff.

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40. Retirement Benefit Obligations (Continued)

Post retirement service benefit plans stipulate payment of a fixed amount of monthly pension for all retired employees who have completed a specified period of service with the subsidiary. The pension is paid over the life of the pensioners. In addition, the subsidiary has a long-term service retirement benefit plan stipulating payment of a lump sum to employees who have completed a specified period of service upon their retirement. All defined benefit plans are unfunded. The plans do not have any assets.

Changes in the present value of the defined obligations under post retirement benefit plans are as follows:

	2015 \$'000	2014 \$'000	2013 \$'000
Defined benefit obligation at 1 January	2,036	4,978	5,199
Interest cost	212	317	386
Benefits paid	(328)	(555)	(655)
Exchange adjustment	(412)	(1,689)	(355)
Re-measurement of losses / (gains) recognised in other comprehensive income	249	(1,015)	403
Defined benefit obligation at 31 December	<u>1,757</u>	<u>2,036</u>	<u>4,978</u>

Changes in the present value of the defined obligations under long-term service retirement benefit plans are as follows:

	2015 \$'000	2014 \$'000	2013 \$'000
Defined benefit obligation at 1 January	1,354	2,427	3,984
Current service costs	31	58	153
Interest cost	77	110	117
Benefits paid	(263)	(565)	(183)
Exchange adjustment	(190)	(439)	(60)
Re-measurement of losses / (gains) recognised in other comprehensive income	301	(237)	229
Gain on curtailment	-	-	(1,813)
Defined benefit obligation at 31 December	<u>1,310</u>	<u>1,354</u>	<u>2,427</u>

The amounts recognised in the income statement and other comprehensive income during the period are as follows:

	Post retirement pension benefit plans		Long-term service retirement benefit plans		Total recognised	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Current service cost	-	-	31	58	31	58
Interest cost	212	317	77	110	289	427
Exchange adjustment	(412)	(1,689)	(190)	(439)	(602)	(2,128)
Charged in the income statement	<u>(200)</u>	<u>(1,372)</u>	<u>(82)</u>	<u>(271)</u>	<u>(282)</u>	<u>(1,643)</u>
Experience adjustments on obligation	(10)	(423)	127	(1)	117	(424)
Actuarial changes arising from changes in demographic assumptions	-	10	-	4	-	14
Actuarial changes arising from changes in financial assumptions	<u>259</u>	<u>(602)</u>	<u>174</u>	<u>(240)</u>	<u>433</u>	<u>(842)</u>
Re-measurement losses / (gains) recognised in other comprehensive income	<u>249</u>	<u>(1,015)</u>	<u>301</u>	<u>(237)</u>	<u>550</u>	<u>(1,252)</u>

The principal actuarial assumptions used in measurement of the defined benefit obligations at the end of the reporting period are as follows:

	2015	2014
Discount rate for cash flows in Russian Roubles	9.68%	13.49%
Discount rate for cash flows in US Dollars	1.09%	0.68%
Future salary increases in Russian Roubles	10.00%	7.00%
Future salary increases in US Dollars	-	-
Future pension increases	-	-
Life expectancy in years of a male pensioner retiring at the age of 60	17	17
Life expectancy in years of a female pensioner retiring at the age of 55	26	26
The average duration of the defined benefit plan obligation for post-retirement pension benefit plans	6.7	5.9
The average duration of the defined benefit plan obligation for long-term service retirement pension benefit plans	5.7	3.7

The Group expects to make benefit payments of \$0.5 million (2014 – \$0.6 million) in respect of the defined benefit plans in the annual period beginning after the reporting period end.

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40. Retirement Benefit Obligations (Continued)

A quantitative sensitivity analysis for significant assumptions as at 31 December 2015 and 31 December 2014 is as shown below:

	2015 (Decrease) / increase in net defined benefit obligation		2014 (Decrease) / increase in net defined benefit obligation	
	50 bps increase \$'000	50 bps decrease \$'000	50 bps increase \$'000	50 bps decrease \$'000
Discount rate	(70)	74	(63)	65
Future salary increases	32	(29)	19	(16)
	100 bps increase \$'000	100 bps decrease \$'000	100 bps increase \$'000	100 bps decrease \$'000
Future pension cost increases	70	-	82	-
	Increase by 1 year \$'000	Decrease by 1 year \$'000	Increase by 1 year \$'000	Decrease by 1 year \$'000
Life expectancy of male pensioners	58	(64)	56	(64)
Life expectancy of female pensioners	28	(30)	24	(27)

41. Other Loans

	2015 \$'000	2014 \$'000	2013 \$'000
5.375% Senior Notes	799,089	798,591	798,092
Other loans from related party	93,387	44,291	-
	892,476	842,882	798,092
Less current portion	(16,984)	-	-
Non-current balance	875,492	842,882	798,092

On 27 October 2010, the Group, through its subsidiary SCF Capital Limited, issued Senior Notes (the "Notes") of \$800 million, redeemable at par value, maturing on 27 October 2017. The Notes are unsecured and guaranteed by Sovcomflot. The Notes are included above net of amortised financing costs. There are no equity conversion rights or options attached to the Notes. Interest accrues at 5.375% from 27 October 2010 and is payable semi-annually in arrears on 27 April and 27 October of each year, commencing on 27 April 2011. Interest charged during the period amounted to \$43.0 million (2014 – \$43.0 million) of which \$0.4 million (2014 – \$4.1 million) were capitalised on vessels under construction.

In July 2014 the Group entered into three unsecured subordinated loan facilities with a Russian State controlled entity totalling \$86.2 million (as amended in 2015, increasing the facility amount to \$129.2 million) at an interest rate of 11% per annum, repayable in quarterly instalments. The loan facilities were entered into in connection with time charter agreements signed with the above party for the chartering out by the Group of three Arctic shuttle tankers currently under construction (Note 17). The loans are repayable over twelve years, commencing on the delivery of each vessel to charter and maturing on the expiration of the firm period of each time charter mentioned above. Interest accrued during the period to delivery of the vessels is capitalised as part of the loan. Under the agreements the Group has the right to repay the loan in part or in full at any time before maturity. In December 2015, the Group repaid the outstanding balance on one of the facilities (see also Note 49). Interest charged during the period and capitalised in accordance with the Group's accounting policy concerning borrowing costs (Note 3(l)) amounted to \$14.3 million (2014 – \$2.2 million).

42. Cash Generated From Operations

	2015 \$'000	2014 \$'000
Profit for the period before income taxes	371,776	90,979
Share of profits in equity accounted investments	(15,765)	(12,874)
Depreciation, amortisation and impairment	312,871	321,533
Investment property depreciation	1,077	1,120
Gain on sale of assets	(9,895)	(9,904)
Loss on sale of subsidiary	727	-
(Gain) / loss on sale of equity accounted investments	(5,402)	356
Interest expenses and financing costs	140,492	138,325
Interest income	(16,749)	(16,672)
Gain on derivative financial instruments held for trading	-	(6,164)
Gain on ineffective hedging instruments	(683)	(442)
Foreign exchange differences	9,553	36,970
Change in allowance for credit losses	782	(1,848)
Other long-term employee benefits	15,715	-
Operating cash flows before movements in working capital	804,499	541,379
Decrease in inventories	8,240	18,894
Increase in trade and other receivables	(22,439)	(13,476)
Decrease in trade and other payables	(29,280)	(47,893)
Cash generated from operations	761,020	498,904

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43. Significant Subsidiary Companies

At 31 December 2015, the Group had 120 single vessel owning and operating subsidiaries (2014 – 124) incorporated in Liberia, Malta and Cyprus. The most significant subsidiaries of the Group comprised:

Name	Country of Incorporation	Percentage Holding	Principal Activity
PAO Novoship	Russia	89.42%	Holding company
Fiona Trust and Holding Corporation and its subsidiaries	Liberia	100%	Vessel owning and operation
Intrigue Shipping Limited and its subsidiaries	Cyprus	89.42%	Vessel owning and operation
SCF Gas Carriers Limited and its subsidiaries	Liberia	100%	Vessel owning and operation
Sovcomflot Bulk Shipping Inc. and its subsidiaries	Liberia	100%	Vessel owning and operation
SCF Marpetrol, S.A.	Spain	100%	Vessel owning and operation
Sovcomflot Varandey LLC	Russia	100%	Ship operation
SCF Shelf LLC	Russia	100%	Ship operation
SCF Atlantic LLC	Russia	100%	Ship operation
SCF Geo LLC	Russia	100%	Ship operation
SCF Novoship Technical Management LLC	Russia	100%	Ship management
Unicom Management Services (Cyprus) Limited	Cyprus	100%	Ship management
Unicom Management Services (St. Petersburg) LLC	Russia	100%	Ship management
SCF Unicom Singapore Pte Ltd	Singapore	100%	Ship management
Sovcomflot (UK) Ltd	UK	100%	Agency
Sovcomflot (Cyprus) Limited	Cyprus	100%	Accounting and financial consultancy
SCF Capital Limited	Ireland	100%	Financing
SCF Management Services (Dubai) Ltd.	Dubai, United Arab Emirates	100%	Management services and supervision of operations

The share capital of Novoship comprises voting ordinary shares and non-voting preference shares. Ownership of the shares is analysed as follows:

	At 31 December 2015			At 31 December 2014		
	Ordinary shares	Preference shares	Total shares	Ordinary shares	Preference shares	Total shares
	%	%	%	%	%	%
Share capital composition	90.88	9.12	100.00	90.88	9.12	100.00
PAO Sovcomflot	98.28	1.11	89.42	98.28	-	89.32
Non-controlling shareholders	1.72	98.89	10.58	1.72	100.00	10.68
	100.00	100.00	100.00	100.00	100.00	100.00

In December 2015 Sovcomflot acquired 319,177 preference shares of Novoship from non-controlling shareholders. Ordinary and preference shareholders of Novoship participate equally in the distribution of the net assets of the company on liquidation. Consequently Sovcomflot holds an effective interest in Novoship of 89.42% as at 31 December 2015 (2014 – 89.32%).

Consolidated financial information of Novoship that has material non-controlling interests is provided below. This information is based on amounts before intercompany eliminations.

	2015 \$'000	2014 \$'000
Summarised statement of financial position:		
Total non-current assets	1,539,390	1,647,262
Total current assets	231,243	162,057
Total non-current liabilities	(74,901)	(129,070)
Total current liabilities	(184,182)	(216,131)
Net assets at period end	1,511,550	1,464,118
Cash and cash equivalents	165,109	99,826
Current financial liabilities	90,349	184,111
Non-current financial liabilities	69,232	124,919
Summarised income statement:		
Revenues	424,522	386,819
Depreciation, amortisation and impairment	(100,324)	(89,435)
Interest income	4,161	3,398
Interest expense	(5,497)	(12,891)
Income tax	(16,854)	(1,613)
Profit for the period	140,492	35,914
Other comprehensive income for the period	(14,280)	(28,350)
Total comprehensive income for the period	126,212	7,564
Summarised cash flows:		
Operating activities	225,798	146,859
Investing activities	16,079	(8,867)
Financing activities	(166,021)	(142,799)
Net increase / (decrease) in cash and cash equivalents	75,856	(4,807)

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44. Financial Risk Management

(a) Capital management

The capital structure of the Group consists of net debt and equity. The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns to its shareholder and benefits for other stakeholders;
- to enhance the ability of the Group to invest in future projects by sustaining a strong financial position and high borrowings capacity;
- to provide an adequate return to its shareholder; and
- to maintain and improve the Group's credit rating.

The Group reviews its capital structure and the capital structure of its subsidiaries on a quarterly basis. As part of this review, management makes adjustments to it in the light of changes in economic conditions and the risk characteristics relating to the Group's activities. In order to maintain or adjust its capital structure, the Group may repay existing secured term loans and revolving credit facilities, sell assets to reduce debt, inject additional capital into its subsidiaries or adjust the amount of dividends paid to its shareholder. Management believes that such an approach provides an efficient capital structure and an appropriate level of financial flexibility.

The Group monitors its capital structure on the basis of the net debt ratio and the net adjusted debt ratio both at Group and subsidiary level. The net debt ratio is calculated as net debt divided by net debt plus total equity ("total capital"). The net adjusted debt ratio is calculated as net debt divided by net debt plus total equity as adjusted for the excess or deficit of the market value of the fleet over/under its carrying amount ("total adjusted capital"). Net debt is calculated as the total of secured bank loans, finance lease liabilities and, other loans disclosed in Notes 38, 39 and 41 of the financial statements respectively, less cash and bank deposits (Note 30). Total equity comprises all components of equity.

Certain of the Group's debt agreements, at subsidiary level, contain loan-to-value clauses, which could require the Group, at its option, to post additional collateral or prepay a portion of the outstanding borrowings should the value of the vessels securing borrowings under each of such agreements decrease below their current valuations. In addition, the financing agreements impose operating restrictions and establish minimum financial covenants, including limitations on the amount of total borrowings and secured debt and provide for acceleration of payment under certain circumstances, including failure to satisfy certain financial covenants. Failure to comply with any of the covenants in the financing agreements could also result in a default under those agreements and under other agreements containing cross-default provisions.

During 2015 the Group's overall strategy remained unchanged from 2014. The net debt ratio at 31 December 2015 and at 31 December 2014 and the net adjusted debt ratio of the Group were as follows:

	2015 \$'000	2014 \$'000
Secured bank loans (Note 38)	1,885,576	1,982,608
Finance lease liabilities (Note 39)	183,810	193,291
Other loans (Note 41)	892,476	842,882
Less: cash and bank deposits (Note 30)	<u>(367,427)</u>	<u>(284,516)</u>
Net debt	<u>2,594,435</u>	<u>2,734,265</u>
Total equity	<u>3,480,981</u>	<u>3,157,481</u>
Total capital	<u>6,075,416</u>	<u>5,891,746</u>
Net debt ratio	<u>42.7%</u>	<u>46.4%</u>
Total capital	6,075,416	5,891,746
Deficit of market value of fleet over carrying value	<u>(295,792)</u>	<u>(501,483)</u>
Total adjusted capital	<u>5,779,624</u>	<u>5,390,263</u>
Net adjusted debt ratio	<u>44.9%</u>	<u>50.7%</u>

(b) Categories of financial assets and financial liabilities

	2015 \$'000	2014 \$'000
Financial assets		
Derivative financial instruments in designated hedge accounting relationships	8,050	7,438
Cash and bank deposits (Note 30)	367,427	284,516
Available-for-sale investments	1,012	1,012
Loans and other receivables	149,336	136,874
Loans to joint ventures (Note 23)	60,788	64,692
Finance lease receivables (Note 24)	71,831	75,662
Total financial assets	<u>658,444</u>	<u>570,194</u>
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships	55,064	62,644
Secured bank loans (Note 38)	1,885,576	1,982,608
Finance lease liabilities (Note 39)	183,810	193,291
Other loans (Note 41)	892,476	842,882
Other liabilities measured at amortised cost	148,365	150,161
Total financial liabilities	<u>3,165,291</u>	<u>3,231,586</u>

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(Continued)

44. Financial Risk Management (Continued)

(c) Fair value of financial assets and financial liabilities

Set out below is a comparison, by class, of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	Carrying Value		Fair Value	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Financial assets				
Loans to joint ventures	60,788	64,692	57,512	61,347
Finance lease receivables	71,831	75,662	71,831	75,662
Total financial assets	132,619	140,354	129,343	137,009
Financial liabilities				
Secured bank loans at fixed interest rates	115,743	144,091	115,924	145,658
Secured bank loans at floating interest rates	1,769,833	1,838,517	1,761,909	1,826,076
Other loans	892,476	842,882	929,588	716,778
Finance lease liabilities	183,810	193,291	177,828	183,508
Total financial liabilities	2,961,862	3,018,781	2,985,249	2,872,020

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices (other than quoted prices included within Level 1) from observable current market transactions and dealer quotes for similar instruments.

The fair values of derivative instruments, including interest rate swaps, are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Fair value measurements of financial instruments recognised in the statement of financial position

The following table provides an analysis of financial instruments as at 31 December 2015 and 31 December 2014 that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value valuation inputs are observable.

Recurring fair value measurements recognised in the statement of financial position

At 31 December 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	8,050	-	8,050
	-	8,050	-	8,050
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	55,064	-	55,064
	-	55,064	-	55,064
At 31 December 2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	7,438	-	7,438
	-	7,438	-	7,438
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	62,644	-	62,644
	-	62,644	-	62,644

There were no transfers between Level 1 and 2 during the periods ended 31 December 2015 and 31 December 2014.

Non-recurring fair value measurements recognised in the statement of financial position

At 31 December 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Non-current assets held for sale	28,130	-	-	28,130
	28,130	-	-	28,130
At 31 December 2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Fleet	-	7,920	-	7,920
Non-current assets held for sale	-	93,163	-	93,163
	-	101,083	-	101,083

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44. Financial Risk Management (Continued)

(c) Fair value of financial assets and financial liabilities (continued)

Assets and liabilities not measured at fair value for which fair values are disclosed

At 31 December 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Investment property	-	35,056	-	35,056
Loans to joint ventures	-	57,512	-	57,512
Finance lease receivables	-	71,831	-	71,831
	-	164,399	-	164,399
Liabilities				
Secured bank loans at fixed interest rates	-	115,924	-	115,924
Secured bank loans at floating interest rates	-	1,761,909	-	1,761,909
Other loans	791,928	137,660	-	929,588
Finance lease liabilities	-	177,828	-	177,828
	791,928	2,193,321	-	2,985,249
At 31 December 2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Investment property	-	31,518	-	31,518
Loans to joint ventures	-	61,347	-	61,347
Finance lease receivables	-	75,662	-	75,662
	-	168,527	-	168,527
Liabilities				
Secured bank loans at fixed interest rates	-	145,658	-	145,658
Secured bank loans at floating interest rates	-	1,826,076	-	1,826,076
Other loans	648,520	68,258	-	716,778
Finance lease liabilities	-	183,508	-	183,508
	648,520	2,223,500	-	2,872,020

(d) Financial risk factors

The Group's operations expose it to a number of risk factors including market risk (foreign currency risk, cash flow interest rate risk and spot market rate risk), credit risk and liquidity risk. In 2015 and 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices, devaluation of the Russian Rouble and significant increase of the interest rates, as well as economic sanctions imposed on certain Russian legal entities and individuals by several countries.

The Group seeks to minimise potential adverse effects on the Group's financial performance by employing a sufficiently robust financial risk strategy to withstand prolonged adverse conditions in significant risk factors such as down-cycles in freight rates or unfavourable conditions in the financial markets.

The Group's results and cash flows are influenced by the success of the Group in managing these risk factors as detailed below.

Market riskForeign currency risk

The Group's economic environment is the international shipping market. This market utilises the U.S. Dollar as its functional currency. The majority of the Group's revenues and most of the operating expenses are in U.S. Dollars. Exposure to transaction risk arises because certain revenues from seismic operations, voyage expenses, vessel operating expenses, drydocking and overhead costs are denominated in currencies other than the U.S. Dollar, the most significant of which are the Euro, the Russian Rouble and the Sterling Pound. The Group has not entered into any hedging contracts to protect against currency fluctuations but may seek to hedge this currency fluctuation risk in the future.

The Group has certain investments in foreign operations whose net assets are exposed to foreign currency translation risk. There is a risk that currency exposure arising from the net assets of the Group's foreign operations will have a negative effect on the Group's cash flows. The Group has not entered into any forward contracts to hedge against this translation risk.

The carrying amounts of the Group's most significant foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Euro (EUR)	6,842	10,526	24,348	25,406
Russian Roubles (RUR)	44,193	29,190	89,847	47,348
Sterling Pounds (GBP)	4,564	9,682	20,238	27,755
Others	1,747	1,755	571	559

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Notes to the Consolidated Financial Statements – 31 December 2015
(Continued)

44. Financial Risk Management (Continued)

(d) Financial risk factors (continued)

Market risk (continued)Foreign currency risk (continued)

An analysis of the exposure of the Group to fluctuations in exchange rates against the U.S. Dollar, with all other variables held constant, was performed using the following movement in rates

	Increase		Decrease	
	2015	2014	2015	2014
Euro (EUR)	12.5%	10.0%	12.5%	10.0%
Russian Roubles (RUR)	40.0%	29.0%	13.0%	29.0%
Sterling Pounds (GBP)	4.5%	10.0%	13.0%	10.0%
Others	10.0%	10.0%	10.0%	10.0%

The effect of an increase in the foreign exchange rate between the U.S. Dollar and the above currencies at 31 December is as follows:

	Increase / (decrease) in profit		Increase / (decrease) in equity	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Euro (EUR)	(2,018)	(1,354)	73	2
Russian Roubles (RUR)	2,860	1,527	(15,903)	(5,609)
Sterling Pounds (GBP)	(563)	(1,511)	(112)	(132)
Others	107	105	-	4

The effect of a decrease in the foreign exchange rate between the U.S. Dollar and the above currencies at 31 December is as follows:

	Increase / (decrease) in profit		Increase / (decrease) in equity	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Euro (EUR)	2,595	1,655	(95)	(2)
Russian Roubles (RUR)	(1,495)	(2,775)	8,318	10,192
Sterling Pounds (GBP)	1,954	1,848	389	161
Others	(131)	(129)	-	(4)

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk as it borrows funds at floating interest rates. During 2015 and 2014 all of the Group's borrowings were denominated in U.S. Dollars.

The Group evaluates its interest rate exposure and hedging activities on a regular basis and acts accordingly in order to align with the defined risk limits set by the executive board. To ensure optimal hedging strategies various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and financial hedging instruments.

The Group manages its cash flow interest rate risk by the use of floating to fixed interest rate swaps. Such financial instruments have the economic benefit of converting borrowings issued at variable rates to fixed interest rates. The Group's hedging instruments as at the reporting date are detailed in Note 25 of these financial statements.

The sensitivity analyses below have been determined based on the net exposure of interest bearing borrowings. The net exposure of the Group to interest rate fluctuations as at period end was as follows:

	2015 \$'000	2014 \$'000
Total borrowings gross of direct issue costs (Note 38, 39 and 41)	2,978,553	3,035,845
Fixed rate borrowings gross of direct issue costs (Note 38, 39 and 41)	(1,194,043)	(1,183,200)
Total floating rate borrowings gross of direct issue costs (Note 38)	1,784,510	1,852,645
Notional amount of floating to fixed rate swaps qualifying under IAS 32 / IAS39 (Note 25(a))	(1,221,843)	(1,065,635)
Net exposure to interest fluctuations	562,667	787,010
% of floating rate borrowings exposed to interest rate fluctuations	31.5%	42.5%

The effect on the Group of changes in interest rates is as follows:

Sensitivity of interest rates	2015		2014	
	100 bps increase \$'000	25 bps decrease \$'000	100 bps increase \$'000	25 bps decrease \$'000
Change in fair value of hedging instruments				
- Increase / (decrease) in other comprehensive income for the period	18,131	(4,640)	43,111	(10,851)
- Increase / (decrease) in profit or loss for the period	1,441	(369)	986	(252)
Increase / (decrease) in interest expense for the period excluding interest capitalised	5,933	(1,483)	7,718	(1,929)

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Notes to the Consolidated Financial Statements – 31 December 2015
(Continued)

44. Financial Risk Management (Continued)

(d) Financial risk factors (continued)

Market risk (continued)Spot market rate risk

The Group is exposed to spot market rate risk arising from the cyclical nature of the shipping industry that may lead to volatile changes in charter rates and vessel values that might adversely affect its position and financial performance. The Group is not engaged in any derivative forward freight agreements or futures. Exposure to spot market rate risk is managed by maintaining an optimal mix between vessels trading on time and voyage charters in accordance with the set policies of the Group. During the period 65.0% (2014 – 66.7%) of the vessels' total trading days were on time charter representing 69.7% (2014 – 78.2%) of time charter equivalent revenues of which 4.9% (2014 – 5.3%) of time charter equivalent revenues were from floating rate time charters. As at 31 December 2015, 63.6% (2014 – 64.1%) of the vessels were on time charter.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. Credit risk arises from derivative financial instruments and deposits with financial institutions as well as exposure to charterers, including receivables and committed transactions.

In determining the recoverability of a charterer, the Group performs a risk analysis considering the credit quality of the charterer, the age of the outstanding amount and any past default experience. The concentration of credit risk is limited due to the customer base being large and unrelated. As at 31 December 2015, amounts due from charterers included two charterers (2014 – two) with a balance of freight and hire due representing 31.8% and 19.7% of total amounts due (2014 – 27.2% and 11.9%). Management believes that there is no further credit provision required in excess of the allowance for credit losses. As at 31 December 2015 total freight and hire revenue included revenue of \$194.1 million and \$194.2 million from two charterers (2014 – none) individually representing 13.1% and 13.1%, respectively, of total freight and hire revenue. The revenue from the two charterers relates to the following operating segments:

Operating segment	2015 \$'000
Crude oil	117,664
Oil product	30,999
Gas	102,393
Offshore	78,221
Other	59,015
	<u>388,292</u>

Management is of the opinion that the credit risk on liquid funds and derivative financial instruments is limited as counterparties are banks with high credit-ratings assigned by credit rating agencies. Management continuously monitors the credit-rating of each of the counterparties and maintains the majority of its liquid funds with the Group's lenders which are investment grade financial institutions. Management also monitors the concentration of bank deposits and takes appropriate action to minimise exposure to any one bank. Cash and bank deposits include deposits with three banks (2014 – four) representing 23.5%, 21.3% and 11.7% (2014 – 18.4%, 14.0%, 11.5% and 10.9%) of total deposits of \$367.4 million (2014 – \$282.9 million).

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset and arises because of the possibility that the Group could be required to pay its liabilities earlier than expected.

Management has built an appropriate liquidity risk assessment framework for the purposes of short, medium and long-term funding and liquidity management requirements. Due to the dynamic nature of the shipping industry, the Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve revolving credit facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Below is a table summarising additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk:

	Credit facilities \$'000	Drawn down \$'000	Available \$'000
<u>At 31 December 2015</u>			
Secured bank loans	1,390,681	(635,000)	755,681
Secured revolving credit facilities	248,662	(120,000)	128,662
Other loans	129,240	(129,240)	-
	<u>1,768,583</u>	<u>(884,240)</u>	<u>884,343</u>
<u>At 31 December 2014</u>			
Secured bank loans	699,750	(382,554)	317,196
Secured revolving credit facilities	391,058	(307,208)	83,850
Other loans	86,160	(43,080)	43,080
	<u>1,176,968</u>	<u>(732,842)</u>	<u>444,126</u>

Availability of secured revolving credit facilities is subject to compliance with the relevant loan to value covenants of each of the facilities based on the market value of the vessels used as collateral.

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(Continued)

44. Financial Risk Management (Continued)

(d) Financial risk factors (continued)

Liquidity risk (continued)

The following table details the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	Total \$'000
<u>At 31 December 2015</u>				
Trade and other payables	127,929	-	-	127,929
Minimum lease payments under finance leases	10,345	173,850	-	184,195
Secured bank loans	351,271	945,936	603,764	1,900,971
Other loans	-	814,816	87,368	902,184
Interest payable on derivative instruments	25,546	26,643	1,079	53,268
Interest payable on secured loans	49,347	197,269	70,565	317,181
Interest payable on other loans	45,914	87,099	37,805	170,818
Interest payable on finance leases	11,894	8,430	-	20,324
	<u>622,246</u>	<u>2,254,043</u>	<u>800,581</u>	<u>3,676,870</u>
<u>At 31 December 2014</u>				
Trade and other payables	129,845	-	3,244	133,089
Minimum lease payments under finance leases	9,718	184,195	-	193,913
Secured bank loans	398,107	1,061,209	538,325	1,997,641
Other loans	-	805,304	47,745	853,049
Interest payable on derivative instruments	25,320	26,640	3,965	55,925
Interest payable on secured loans	48,360	186,001	58,884	293,245
Interest payable on other loans	43,597	107,497	23,891	174,985
Interest payable on finance leases	12,522	20,324	-	32,846
	<u>667,469</u>	<u>2,391,170</u>	<u>676,054</u>	<u>3,734,693</u>

45. Operating Lease Arrangements

The Group as Lessee

The Group has the following non-cancellable operating lease commitments as at the period end in respect of vessels and buildings in Novorossiysk, London, Moscow, Dubai and Singapore:

	Vessels		Buildings	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Within one year	16,055	26,112	4,415	4,842
After one year but not more than five years	-	16,055	16,672	16,914
More than five years	-	-	28,884	34,894
	<u>16,055</u>	<u>42,167</u>	<u>49,971</u>	<u>56,650</u>
Expensed during the period	<u>52,812</u>	<u>52,675</u>	<u>4,241</u>	<u>4,777</u>

The Group charters in a seismic vessel with various extension options attached to the bareboat charter contract and purchase options starting from the end of 2014 and thereafter for each subsequent year up to the end of the optional period in 2026. The firm period of the lease on the vessel has a remaining life of less than 9 months. In February 2016 the Group extended the charter period of the vessel for a further three years from the end of the firm period (see also Note 49). Two of the leases for buildings expire within one year with various options attached and the remaining between 6 and 8 years and one lease expiring in 45 years. There are no restrictions placed upon the Group by entering into these leases.

The Group as Lessor

	Buildings	
	2015 \$'000	2014 \$'000
Within one year	1,247	1,619
After one year but not more than five years	7,238	6,966
More than five years	6,722	12,735
	<u>15,207</u>	<u>21,320</u>
Income during the period	<u>1,317</u>	<u>3,449</u>

The Group has entered into commercial property leases on its investment property portfolio, consisting of Group's on shore based facilities in Novorossiysk and Sochi including leased in facilities. The leases expire within 11 years.

46. Contingent Liabilities and Commitments

Contracted revenues and guarantees

The Group through its subsidiaries entered into time charter agreements and in one case a bareboat charter agreement, with aggregate hire revenues as at period end over the firm contract period receivable as follows:

	2015 \$'000	2014 \$'000
Within one year	664,867	578,460
After one year but not more than five years	1,984,020	1,875,508
More than five years	4,249,136	4,663,567
	<u>6,898,023</u>	<u>7,117,535</u>

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46. Contingent Liabilities and Commitments (Continued)

Contracted revenues and guarantees (continued)

The time charters referred to above include various charterers' purchase, termination and extension options.

The Group obtained guarantees from a Russian State controlled entity in respect of the performance of the obligations by its subsidiary as charterer under two time charter agreements entered into by subsidiaries of the Group and the said subsidiary of the State controlled entity. In addition, the Group obtained guarantees from a subsidiary of the Russian State controlled entity in respect of the performance of the obligations by the subsidiary of the guarantor under three time charter agreements entered into by subsidiaries of the Group and the said subsidiary of the guarantor, for vessels that are currently under construction (Note 17), with expected delivery dates between June and October 2016.

Capital commitments

The payment of the Group's contractual commitments under its newbuilding programme referred to in Note 17, and in respect of the construction and development facilities of the port of Sochi, is summarised as follows:

	Less than 1 year \$'000	1 to 5 years \$'000	Total \$'000
<u>At 31 December 2015</u>			
Newbuilding contracts	537,430	-	537,430
Newbuilding contracts with Russian State controlled shipyards	213,040	202,960	416,000
	<u>750,470</u>	<u>202,960</u>	<u>953,430</u>
<u>At 31 December 2014</u>			
Newbuilding contracts	511,540	459,495	971,035
Newbuilding contracts with Russian State controlled shipyards	76,400	416,000	492,400
Construction and development costs for Sochi	267	-	267
	<u>588,207</u>	<u>875,495</u>	<u>1,463,702</u>

Contingent liabilities

The Group operates in several jurisdictions with significantly different taxation systems. The major shipping and holding companies of the Group are incorporated in foreign jurisdictions traditionally utilised in the shipping sector and a significant portion of the Group's profit is realised by these companies. Generally, in most jurisdictions the foreign legal entity may be required to pay income tax if it is a tax resident of such jurisdiction or if its activities constitute a permanent establishment in such a jurisdiction.

Management believes that the Group's shipping and holding companies are subject to taxation in their respective countries of incorporation in full compliance with local tax legislation. However, the concept of permanent establishment and tax residency for legal entities introduced by domestic and international law is subject to interpretation. As a result, there is a risk that the taxation authorities of certain jurisdictions may attempt to subject the Group's earnings from international shipping activities to income taxes. Management believes that it has provided adequately for all tax liabilities based on its interpretations of applicable legislation, official pronouncements and court decisions.

In 2015 the Russian tax authorities, following a tax audit of a number of Russian subsidiaries of the Group, challenged application of 0% value added tax ("VAT") rate charged on hire revenues earned from vessels time-chartered out by these subsidiaries and employed on international trade, requiring the subsidiaries to apply 18% VAT rate on hire revenue. Should the position of the Russian tax authorities be adopted, the potential liability of the Group would be approximately RUR1,609 million (equivalent to \$22.1 million). The Group disagrees with the tax authorities' stance and will challenge the tax authorities' position in court vigorously. If the Group is required to settle these contingent liabilities, a maximum amount of RUR1,204 million (equivalent to \$16.5 million) is potentially recoverable from the charterers, parties to the time charter agreement concerned.

Following a routine inspection of one of the Group's Russian subsidiaries in 2015, the Russian customs concluded that the subsidiary had breached the custom regulations in respect of two of its vessels on the basis that it had not obtained the customs' permission prior to chartering out the vessels on time charter. As result the Group may face liabilities for allegedly breaching these customs' regulations of between 100% and 200% of the market value of the vessels on the date the vessels cleared Russian customs. This contingent liability is currently estimated at between RUR1,369 million and RUR2,738 million (equivalent to between \$18.8 million and \$37.6 million). The Group strongly disagrees with the position of the Russian customs and it will vigorously defend its position in court.

During 2005 through to 2009, the Group's newly appointed management filed claims in London for losses arising out of various transactions that had taken place during 2000 through to 2004. The trial for the claims filed commenced at the High Court in London in October 2009 and concluded in mid-2010. Judgment was handed down on 10 December 2010. The Group was successful on a number of claims, and unsuccessful on a number of others.

As a result of the Group recovering at trial an amount less than the total amount of the two freezing orders granted against some of the defendants in 2005 and 2007 in the course of the London proceedings in the Fiona litigation, these defendants are pursuing a claim for any recoverable damages suffered by virtue of the freezing orders to the extent that the freezing orders were in an amount in excess of the sums recovered under the Judgment. On 12 December 2014 the defendants served their Points of Claim in respect of any recoverable damages on four different bases claiming between approximately \$73.5 million and \$224.6 million. They have subsequently amended their Points of Claim increasing the primary claim from \$224.6 million to \$387.8 million. The trial of this claim has been fixed to commence of 4 July 2016 and last for 2 weeks.

However, in the light of certain recent disclosure from the defendants, the Group have issued an application to reverse the decision permitting the defendants to pursue the damages claim on the basis that the Court was misled by the defendants at the permission hearing on 28 July 2014. That application was fixed to be heard between 8 -10 February 2016. However, on 8 February the Court adjourned the application to the trial. In the light of the defendants' objection that the Court had no jurisdiction to set aside the judge's order, the Group, at the Court's suggestion, issued new proceedings to overcome that objection (if valid). Those new proceedings will form part of the July 2016 hearing. In any event, Management is of the opinion that the defendants will more likely than not fail in their claim against the Group even if permitted to proceed with it. The Group will defend its position vigorously. Accordingly, no provision has been made.

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46. Contingent Liabilities and Commitments (Continued)

Contingent liabilities (continued)

An amount, including accrued interest, of \$13.2 million is held as security by the American Courts, in relation to the arrest of one of the Group's vessels in the United States, as a result of a claim advanced by the charterers of the vessel at the time, relating to the grounding of the vessel in the Suez canal in November 2004. The claim is in arbitration in London and is scheduled to be heard in 2016. Management is of the opinion that the claim is without merit and the Group will defend its position vigorously. Accordingly no provision has been made against this amount which is included in the line security deposits in non-current trade and other receivables.

In late 2005 the Group investigated a number of transactions which involved the former management of Novoship (UK) Ltd ("NOUK"). NOUK and other companies of the Group filed claims at the Commercial Court in London in December 2006 and subsequently vessels further defendants. The trial for these claims commenced on 16 May 2012 and concluded on 5 July 2012. Judgment was handed down on 14 December 2012. The Group was initially successful on all claims, but after appeal unsuccessful on some claims against certain defendants.

Some of those defendants have indicated an intention to pursue the Group for damages in respect of \$90 million of security provided during the litigation. No claim has yet been filed for damages and the defendants agreed to release the \$4.0 million counter security provided by the Group in respect of the security provided by the defendants. The counter security was released on 30 December 2015.

A total amount of \$4.9 million (2014 – \$8.6 million), relating to legal costs and provisions for the costs of certain of the defendants in the unsuccessful claims, has been expensed in the income statement and is included in the line other non-operating expenses.

Details of the Group's obligations under finance leases are disclosed in Note 39.

47. Contingent Assets

In relation to the December 2012 judgment referred to in note 46, in September 2013 the Group concluded a settlement agreement with some of the defendants, pursuant to which a payment of \$40.0 million was to be made to the Group in satisfaction of the judgment of approximately \$59.2 million of principal, plus interest (less any amounts received in prior periods of approximately \$7.9 million). When payment was not received, in breach of the settlement agreement, the Group obtained a freezing order against these defendants in December 2014 to enforce the judgment. As a result of the enforcement actions, on 13 March 2015 the Group received \$25.6 million, from the defendants, they said pursuant to the settlement agreement. On 15 April 2015 the High Court in London construed the settlement agreement so that the Group cannot recover the judgment sum but is restricted to a recovery of no more than the settlement sum of \$40.0 million. On 21 April 2015 the Group received a further \$15.0 million from these defendants in satisfaction of the settlement agreement. The Group sought leave to appeal the 15 April 2015 judgment and leave was granted on 16 February 2016. The hearing date in the Court of Appeal has not yet been fixed. The total amount received of \$40.6 million has been recognised in the income statement and is included in the line other non-operating income.

48. Related Party Transactions

Note 43 provides information about the Group's structure, including details of its subsidiaries. In addition, the below are material transactions entered into during the financial reporting period which are not mentioned in any of the preceding notes.

- (i) On 5 June 2015 the Group disposed of its 49% shareholding in JSC Rosneftflot, to the majority shareholder, a Russian State controlled entity, for a sales consideration of \$6.3 million, realising a profit on disposal of \$5.4 million. An amount of \$0.9 million, being exchange on translation of Rosneftflot, has been reclassified from other comprehensive income to the income statement on disposal of the associate.
- (ii) On 18 December 2015, the Group entered into a loan facility with a Russian State controlled financial institution totalling \$339.7 million, to finance the construction of the three Arctic shuttle tankers referred to in Note 17, at an interest rate of 7.5% per annum, repayable in 48 quarterly instalments (see also Note 49).

The following table provides the total amount of transactions that have been entered into with related parties in the financial reporting period and outstanding balances as at the period end.

	Income Statement (income) / expense		Statement of Financial Position asset / (liability)	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
<u>Transactions with Russian State controlled entities</u>				
Freight and hire of vessels	(195,227)	(124,241)	645	1,368
Other loans	-	-	(95,489)	(45,252)
Finance leases payable	12,487	13,109	(183,810)	(193,291)
Payments to related shipyards for vessels under construction	-	-	104,000	27,600
Cash at bank	(2,735)	(1,426)	128,758	50,742
Disposal of associate	(5,402)	-	-	-
<u>Transactions with Associates¹</u>				
Finance leases receivable	(12,562)	(13,140)	82,748	87,442
Allowance for credit losses on finance lease receivables	(417)	(1,836)	(9,494)	(9,911)
Rental of investment property	(70)	(437)	-	31

¹ The associate was disposed of on 5 June 2015 to the majority shareholder, a Russian State controlled entity.

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(Continued)

48. Related Party Transactions (Continued)

	Income Statement (income) / expense		Statement of Financial Position asset / (liability)	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Transactions with Joint Ventures				
Freight and hire of vessel	(9,045)	(9,045)	-	-
Other operating revenues	(3,659)	(3,541)	491	249
Loans due from joint ventures	(1,054)	(1,066)	63,081	66,299
Compensation of Key Management Personnel				
Short term benefits	12,339	12,292	6,713	4,910
Post employment benefits	72	83	6	85
Other long term service benefits	8,446	50	8,578	211
	<u>20,857</u>	<u>12,425</u>	<u>15,297</u>	<u>5,206</u>

49. Events After the Reporting Period

On 8 and 21 January 2016 the Group signed agreements for the sale of one of the chemical oil product tankers and for its crude oil aframax tanker, respectively, held for sale as at 31 December 2015 (Note 31). The vessels were delivered to their new owners on 3 February 2016 and 18 February 2016 respectively. The net result on their sale is estimated to be insignificant.

On 21 January 2016, the second of the chemical oil product tankers held for sale as at 31 December 2015 was delivered to her new owners. The net result on the sale is estimated to be insignificant.

On 5 and 10 February 2016, the Group drew down from available the loan facility granted by the Russian State controlled financial institution, as disclosed in Note 48, an amount of \$23.6 million and \$47.3 million, respectively, to refinance, as part of the financing of three Arctic Shuttle tankers referred to in Notes 17, the unsecured subordinated loans facilities referred to in Note 41. Those subordinated loan facilities were repaid in February 2016.

On 18 February 2016 the Group extended the charter period of its bareboat chartered in seismic vessel, referred to in Note 45, for three years from the date of expiry of the initial firm period of the charter in August 2016. The total commitment of the Group over the three year extension period of the charter is \$52.8 million.

On 25 February 2016 the Central Bank of the Russian Federation has registered amendments to the prospectus registered by the Company on 12 March 2015 for the issue and public offering of 280,956,743 shares, extending the period over which the shares had to be placed for public offering from one year to two years from the date of initial registration.