PAO SOVCOMFLOT

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

30 June 2016

PAO Sovcomflot

Contents

PAO Sovcomflot

Condensed Consolidated Income Statement
For the period ended 30 June 2016
(unaudited)

	Note	Six months ended (unaudited) 30/06/2016 $'000	Six months ended (unaudited) 30/06/2015 $'000	Three months ended (unaudited) 30/06/2016 $'000	Three months ended (unaudited) 30/06/2015 $'000
Freight and hire revenue		680,260	749,533	338,718	392,956
Voyage expenses and commissions		(103,894)	(131,966)	(53,159)	(64,904)
Time charter equivalent revenues		576,366	617,567	285,559	328,052
Direct operating expenses					
Vessels' running costs		149,812	171,824	75,531	87,983
Charter hire payments		6,353	26,562	4,177	19,279
		(156,165)	(198,386)	(79,708)	(107,262)
Net earnings from vessels' trading		420,201	419,181	205,851	220,790
Other operating revenues		9,062	10,115	4,866	5,261
Other operating expenses		(4,362)	(5,734)	(2,490)	(2,681)
Depreciation, amortisation and impairment		(148,432)	(149,388)	(74,307)	(72,881)
General and administrative expenses		(56,507)	(51,160)	(29,627)	(28,677)
(Loss) / gain on sale of assets		(429)	8,151	(95)	8,151
Loss on sale of subsidiary		-	(579)	-	(579)
Gain on sale of equity accounted investments		-	5,402	-	5,193
Allowance for credit losses		807	124	943	58
Share of profits in equity accounted investments		10,518	7,825	3,933	2,531
Operating profit		230,858	243,937	109,074	137,166
Other (expenses) / income					
Financing costs		(85,980)	(69,769)	(51,870)	(35,554)
Interest income		11,060	8,681	5,705	4,367
Other non-operating income	17	-	40,559	-	15,000
Other non-operating expenses	17	(3,746)	(2,314)	(2,210)	(1,450)
Gain on ineffective hedging instruments		55	341	61	374
Foreign exchange gains		25,745	8,898	6,968	5,432
Foreign exchange losses		(8,065)	(9,495)	(1,478)	(959)
Net other expenses		(60,931)	(23,099)	(42,824)	(12,790)
Profit before income taxes		169,927	220,838	66,250	124,376
Income tax expense	15	(3,935)	(4,532)	(3,364)	(2,446)
Profit for the period		165,992	216,306	62,886	121,930
Profit attributable to:					
Owners of the parent		159,122	205,274	60,319	116,005
Non-controlling interests		6,870	11,032	2,567	5,925
		165,992	216,306	62,886	121,930
Earnings per share					
Basic earnings per share for the period attributable to equity holders of the parent		$0.081	$0.104	$0.031	$0.059

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

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Condensed Consolidated Statement of Comprehensive Income
For the period ended 30 June 2016
(unaudited)

		Six months ended (unaudited)		Three months ended (unaudited)	
		30/06/2016	**30/06/2015**	**30/06/2016**	**30/06/2015**
	Note	**$'000**	**$'000**	**$'000**	**$'000**
Profit for the period		165,992	216,306	62,886	121,930
Other comprehensive income:					
Share of associates' other comprehensive income		16	3	7	6
Share of joint ventures' other comprehensive income	5	(2,509)	2,774	1,598	3,974
Exchange loss on translation from functional currency to presentation currency		(1,225)	(2,288)	(817)	(1,599)
Reclassification adjustment relating to foreign investments disposed of during the period		-	1,834	-	1,834
Derivative financial instruments recycled and debited to the income statement		14,846	14,993	5,392	6,051
Fair value movement of derivative financial instruments (debited) / credited to other comprehensive income		(45,763)	(5,542)	(13,199)	12,487
Other comprehensive income for the period, net of tax to be reclassified to profit or loss in subsequent periods		(34,635)	11,774	(7,019)	22,753
Remeasurement losses on employee benefit obligations		(277)	(167)	(140)	(150)
Other comprehensive income, net of tax not to be reclassified to profit or loss in subsequent periods		(277)	(167)	(140)	(150)
Total other comprehensive income for the period, net of tax		(34,912)	11,607	(7,159)	22,603
Total comprehensive income for the period		131,080	227,913	55,727	144,533
Total comprehensive income attributable to:					
Owners of the parent		124,132	216,630	53,131	138,328
Non-controlling interests		6,948	11,283	2,596	6,205
		131,080	227,913	55,727	144,533

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

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Condensed Consolidated Statement of Financial Position – 30 June 2016 (unaudited)

	Note	30/06/2016 (unaudited) $'000	31/12/2015 $'000
Assets			
Non-current assets			
Fleet	3	5,244,308	5,388,542
Vessels under construction	4	410,462	368,453
Intangible assets		5,037	4,668
Other property, plant and equipment		61,188	60,284
Investment property		7,682	7,468
Investments in associates		108	104
Investments in joint ventures		106,296	98,306
Available-for-sale investments		1,012	1,012
Loans to joint ventures		48,742	52,468
Finance lease receivables	6	64,397	66,956
Derivative financial instruments		184	8,050
Trade and other receivables	7	2,796	16,002
Deferred tax assets		7,054	7,387
Bank deposits	8	10,000	10,000
		5,969,266	6,089,700
Current assets			
Inventories		43,873	37,568
Loans to joint ventures		4,750	8,320
Trade and other receivables	7	203,465	174,605
Finance lease receivables	6	5,234	4,875
Current tax receivable		2,862	888
Cash and bank deposits	8	396,542	357,427
		656,726	583,683
Non-current assets held for sale	9	-	28,130
		656,726	611,813
Total assets		6,625,992	6,701,513
Equity and liabilities			
Capital and reserves			
Share capital		405,012	405,012
Reserves		2,947,718	2,916,047
Equity attributable to owners of the parent		3,352,730	3,321,059
Non-controlling interests		163,743	159,922
Total equity		3,516,473	3,480,981
Non-current liabilities			
Trade and other payables	11	28,865	16,045
Secured bank loans	12	1,497,314	1,596,434
Finance lease liabilities	13	168,331	173,690
Derivative financial instruments		57,560	32,135
Retirement benefit obligations		3,673	3,067
Other loans	14	875,569	875,492
Deferred tax liabilities		980	776
		2,632,292	2,697,639
Current liabilities			
Trade and other payables	11	237,472	181,676
Other loans	14	-	16,984
Secured bank loans	12	208,293	289,142
Finance lease liabilities	13	10,506	10,120
Current tax payable		456	2,042
Derivative financial instruments		20,500	22,929
		477,227	522,893
Total liabilities		3,109,519	3,220,532
Total equity and liabilities		6,625,992	6,701,513

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

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Condensed Consolidated Statement of Changes in Equity
For the period ended 30 June 2016
(unaudited)

	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
At 1 January 2015	**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	-	-	-	-	-	205,274	205,274	11,032	216,306
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	3	-	3	-	3
Share of joint ventures' other comprehensive income	-	-	-	2,774	-	-	2,774	-	2,774
Exchange (loss) / gain on currency translation from functional currency to presentation currency	-	-	-	-	(2,457)	-	(2,457)	169	(2,288)
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	-	-	-	14,993	-	-	14,993	-	14,993
Fair value movement of derivative financial instruments debited to other comprehensive income	-	-	-	(5,542)	-	-	(5,542)	-	(5,542)
Remeasurement losses on retirement benefit obligations	-	-	-	-	-	(149)	(149)	(18)	(167)
Total comprehensive income	-	-	-	12,225	(720)	205,125	216,630	11,283	227,913
Dividends (Note 10)	-	-	-	-	-	(20,543)	(20,543)	(1,355)	(21,898)
At 30 June 2015 (unaudited)	**405,012**	**818,845**	**(834,490)**	**(69,575)**	**(31,678)**	**2,909,065**	**3,197,179**	**166,317**	**3,363,496**
At 1 January 2016	**405,012**	**818,845**	**(834,490)**	**(68,270)**	**(44,542)**	**3,044,504**	**3,321,059**	**159,922**	**3,480,981**
Profit for the period	-	-	-	-	-	159,122	159,122	6,870	165,992
Other comprehensive income									
Share of associates' other comprehensive income	-	-	-	-	16	-	16	-	16
Share of joint ventures' other comprehensive income	-	-	-	(2,522)	13	-	(2,509)	-	(2,509)
Exchange (loss) / gain on currency translation from functional currency to presentation currency	-	-	-	-	(1,332)	-	(1,332)	107	(1,225)
Derivative financial instruments recycled and debited to the income statement	-	-	-	14,846	-	-	14,846	-	14,846
Fair value movement of derivative financial instruments debited to other comprehensive income	-	-	-	(45,763)	-	-	(45,763)	-	(45,763)
Remeasurement losses on retirement benefit obligations	-	-	-	-	-	(248)	(248)	(29)	(277)
Total comprehensive income	-	-	-	(33,439)	(1,303)	158,874	124,132	6,948	131,080
Dividends (Note 10)	-	-	-	-	-	(92,948)	(92,948)	(2,581)	(95,529)
Effect of acquisition of non-controlling interests in PAO Novoship	-	-	-	-	(16)	503	487	(546)	(59)
At 30 June 2016 (unaudited)	**405,012**	**818,845**	**(834,490)**	**(101,709)**	**(45,861)**	**3,110,933**	**3,352,730**	**163,743**	**3,516,473**

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.

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

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Condensed Consolidated Statement of Cash Flows
For the period ended 30 June 2016
(unaudited)

	Note	Six months ended (unaudited) 30/06/2016 $'000	30/06/2015 $'000
Operating Activities			
Cash received from freight and hire of vessels		671,554	699,691
Other cash receipts		6,123	52,756
Cash payments for voyage and running costs		(261,353)	(325,947)
Other cash payments		(65,231)	(62,881)
Cash generated from operations		351,093	363,619
Interest received		4,919	1,824
Income tax paid		(6,569)	(7,149)
Net cash inflow from operating activities		349,443	358,294
Investing Activities			
Expenditure on fleet		(7,929)	(17,178)
Expenditure on vessels under construction		(50,752)	(469,322)
Interest capitalised		(14,000)	(2,952)
Expenditure on other property, plant and equipment		(2,048)	(542)
Loan repayments from joint ventures		7,512	2,628
Proceeds from sale of subsidiary net of cash disposed		-	7,532
Proceeds from sale of vessels		28,172	34,316
Proceeds from sale of other property, plant and equipment		38	8,485
Capital element received on finance leases		2,318	1,988
Interest received on finance leases		6,082	6,868
Bank term deposits	8	-	1,442
Net cash outflow used in investing activities		(30,607)	(426,735)
Financing Activities			
Proceeds from borrowings		889,531	408,722
Repayment of borrowings		(1,063,455)	(214,120)
Financing costs		(36,009)	(4,297)
Repayment of finance lease liabilities		(5,087)	(4,796)
Restricted deposits	8	846	(624)
Funds in retention bank accounts	8	3,966	(4,797)
Interest paid on borrowings		(63,940)	(57,558)
Interest paid on finance leases		(6,033)	(6,323)
Dividends paid to non-controlling interests		(3,674)	(1,315)
Acquisition of non-controlling interests		(59)	-
Net cash (outflow) / inflow (used in) / from financing activities		(283,914)	114,892
Increase in Cash and Cash Equivalents		34,922	46,451
Cash and Cash Equivalents at 1 January	8	332,680	253,840
Net foreign exchange difference		9,005	(1,803)
Cash and Cash Equivalents at 30 June	8	376,607	298,488

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements – 30 June 2016 (unaudited)

1. Organisation, Basis of Preparation and Accounting Policies

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 118 vessels at the period end, comprising 103 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 3, 4 and 9. In addition the Group through its subsidiaries owns 9 escort tug vessels which have been chartered out on bareboat charter to a Russian state controlled entity (see Note 6).

Statement of Compliance

The condensed consolidated interim financial statements are unaudited and have been prepared in accordance with International Financial Reporting Standard (IFRS) - IAS 34 "Interim Financial Reporting". They do not include all of the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2015. Operating results for the six-month period ended 30 June 2016 are not necessarily indicative of the results that may be expected for the year ending 31 December 2016.

Significant Accounting Policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The nature of each new standard or amendment that is relevant to the Group's operations is described below. Although these new standards and amendments apply for the first time in 2016, they do not have an impact on the condensed consolidated interim financial statements of the Group.

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 and intangibles does not use revenue-based methods to depreciate/amortise its non-current assets (effective for annual periods beginning on or after 1 January 2016).

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 have no 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'".

Seasonality of Operations

Although some of the Group's operations may sometimes be affected by seasonal factors such as general weather conditions, management does not feel this has a material effect on the performance of the Group when comparing the interim results to those achieved in the second half of the previous year.

Changes in Estimates

The preparation of the condensed consolidated interim financial statements requires management to make 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. All critical accounting judgements and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2015 except for a change in the functional currency of PAO Novoship, from the Russian Rouble to the US dollar, due to an increase in US dollar denominated operations.

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Notes to the Condensed Consolidated Interim Financial Statements – 30 June 2016 (Continued)
(unaudited)

2. 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. 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 30 June 2016

	Crude Oil $'000	Oil Product $'000	Gas $'000	Offshore $'000	Other $'000	Total $'000
Freight and hire revenue	336,204	136,131	72,960	115,346	19,619	680,260
Voyage expenses and commissions	(70,052)	(30,454)	(394)	(238)	(2,756)	(103,894)
Time charter equivalent revenues	266,152	105,677	72,566	115,108	16,863	576,366
Direct operating expenses						
Vessels' running costs	(68,241)	(38,137)	(13,504)	(22,408)	(7,522)	(149,812)
Charter hire payments	-	(170)	-	-	(6,183)	(6,353)
Net earnings from vessels' trading	197,911	67,370	59,062	92,700	3,158	420,201
Vessels' depreciation	(58,962)	(24,166)	(14,189)	(29,603)	(1,289)	(128,209)
Vessels' drydock cost amortisation	(8,833)	(3,087)	(2,588)	(2,851)	(327)	(17,686)
Loss on sale of vessels	(159)	(281)	-	-	-	(440)
Net foreign exchange gains	-	448	-	223	3,089	3,760
Segment operating profit	129,957	40,284	42,285	60,469	4,631	277,626
Unallocated						
General and administrative expenses						(56,507)
Financing costs						(85,980)
Other income and expenses						20,868
Net foreign exchange gains						13,920
Profit before income taxes						169,927
Carrying amount of fleet in operation	2,207,956	916,492	957,605	1,097,808	64,447	5,244,308
Deadweight tonnage of fleet used in operations ('000)	7,548	1,881	472	1,193	153	11,247

Period ended 30 June 2015

	Crude Oil $'000	Oil Product $'000	Gas $'000	Offshore $'000	Other $'000	Total $'000
Freight and hire revenue	358,137	171,388	63,849	115,202	40,957	749,533
Voyage expenses and commissions	(77,623)	(44,767)	(295)	(830)	(8,451)	(131,966)
Time charter equivalent revenues	280,514	126,621	63,554	114,372	32,506	617,567
Direct operating expenses						
Vessels' running costs	(78,673)	(49,746)	(9,896)	(23,262)	(10,247)	(171,824)
Charter hire payments	-	-	-	-	(26,562)	(26,562)
Net earnings from vessels' trading	201,841	76,875	53,658	91,110	(4,303)	419,181
Vessels' depreciation	(56,155)	(22,807)	(11,976)	(28,614)	(1,424)	(120,976)
Vessels' drydock cost amortisation	(9,605)	(3,340)	(2,233)	(2,508)	(460)	(18,146)
Vessels' impairment provision (net)	-	(5,367)	-	-	(1,934)	(7,301)
Loss on sale of vessels	-	(206)	-	-	-	(206)
Net foreign exchange gains / (losses)	-	1,089	-	(645)	3,095	3,539
Segment operating profit	136,081	46,244	39,449	59,343	(5,026)	276,091
Unallocated						
General and administrative expenses						(51,160)
Financing costs						(69,769)
Other income and expenses						69,812
Net foreign exchange losses						(4,136)
Profit before income taxes						220,838
Carrying amount of fleet in operation	2,382,464	965,772	990,311	1,151,494	74,288	5,564,329
Carrying amount of non-current assets held for sale	-	57,503	-	-	5,750	63,253
Deadweight tonnage of fleet used in operations ('000)	7,811	2,062	472	1,193	230	11,768

3. **Fleet**

	Vessels $'000	Drydock $'000	Total Fleet $'000
Cost			
At 1 January 2015	6,779,919	159,654	6,939,573
Expenditure in period	583	14,951	15,534
Transfer from vessels under construction (Note 4)	408,618	8,000	416,618
Transfer to non-current assets held for sale	(18,864)	(1,602)	(20,466)
Write-off of fully amortised drydock cost	-	(16,513)	(16,513)
At 30 June 2015	7,170,256	164,490	7,334,746
At 1 January 2016	7,071,178	164,932	7,236,110
Expenditure in period	623	1,038	1,661
At 30 June 2016	7,071,801	165,970	7,237,771
Depreciation, amortisation and impairment			
At 1 January 2015	1,582,218	78,372	1,660,590
Charge for the period	120,976	18,146	139,122
Impairment provision	1,496	-	1,496
Transfer to non-current assets held for sale	(12,788)	(1,490)	(14,278)
Write-off of fully amortised drydock cost	-	(16,513)	(16,513)
At 30 June 2015	1,691,902	78,515	1,770,417
At 1 January 2016	1,779,699	67,869	1,847,568
Charge for the period	128,209	17,686	145,895
At 30 June 2016	1,907,908	85,555	1,993,463
Net book value			
At 30 June 2016	5,163,893	80,415	5,244,308
At 31 December 2015	5,291,479	97,063	5,388,542

	30/06/2016	31/12/2015
Market value ($'000)	4,205,500	5,092,750
Current insured values ($'000)	5,648,158	5,830,970
Total deadweight tonnage (dwt)	11,243,584	11,243,584

As at 30 June 2016, management carried out an assessment of whether there is any indication that the fleet may have suffered an impairment loss and concluded that no impairment should be recognised in the period.

Included in the Group's fleet are 2 vessels (2015 – 2) held under finance leases with an aggregate carrying value as at 30 June 2016 of $190.2 million (31 December 2015 – $195.2 million).

4. **Vessels Under Construction**

	30/06/2016 $'000	30/06/2015 $'000
At 1 January	368,453	237,250
Expenditure in period	42,009	477,584
Transfer to fleet (Note 3)	-	(416,618)
At 30 June	410,462	298,216
Total deadweight tonnage (dwt)	233,800	233,800

Vessels under construction at 30 June 2016 comprised one ice breaking LNG carrier, one multifunctional ice breaking ("MIB") supply vessel, three MIB standby vessels and three ice-class shuttle tankers scheduled for delivery between August 2016 and July 2017 at a total contracted cost to the Group of $1,279.0 million of which $520.0 million related to contracts with related parties. As at 30 June 2016, $371.7 million of the contracted costs had been paid for of which $104.0 million to related parties.

5. Investments in Joint Ventures

Investments in joint ventures are analysed as follows:

	30/06/2016 $'000	30/06/2015 $'000
At 1 January	98,306	82,430
Share of profits in joint ventures	10,499	7,809
Share of joint ventures' other comprehensive income	(2,509)	2,774
Dividends receivable	-	(750)
Release of provision for share in net liabilities of joint ventures	-	(2,235)
At 30 June	106,296	90,028

6. Finance Lease Receivables

	30/06/2016 $'000	31/12/2015 $'000
Gross finance lease receivable		
At 1 January	81,325	85,518
Finance lease interest receivable	6,021	12,562
Finance lease instalments receivable	(8,354)	(16,755)
At 30 June / 31 December	78,992	81,325
Allowance for credit losses		
At 1 January	(9,494)	(9,856)
Release of credit losses	133	362
At 30 June / 31 December	(9,361)	(9,494)
Receivable net of provision	69,631	71,831
Less current finance lease receivables	(5,234)	(4,875)
Non-current finance lease receivables	64,397	66,956

7. Trade and Other Receivables

	30/06/2016 $'000	31/12/2015 $'000
Non-current assets		
Financial assets		
Other receivables	96	104
Security deposits	-	13,190
Receivables under High Court judgement award	2,700	2,708
	2,796	16,002
Current assets		
Financial assets		
Amounts due from charterers	113,485	96,289
Allowance for credit losses	(3,201)	(5,166)
	110,284	91,123
Casualty and other claims	6,302	11,191
Agents' balances	1,553	1,354
Other receivables	21,601	22,387
Amounts due from joint ventures	354	491
Security deposits	13,193	-
Amounts due from lessee for finance leases	1,377	1,423
Accrued income	2,407	5,365
Non-financial assets		
Prepayments	21,528	11,385
Voyages in progress	15,116	23,809
Non-income based taxes receivable	9,750	6,077
	203,465	174,605

8. Cash and Bank Deposits

	30/06/2016 $'000	31/12/2015 $'000
Non-current assets		
Bank deposits	10,000	10,000
Restricted deposits	(10,000)	(10,000)
Cash and cash equivalents	-	-
Current assets		
Cash and bank deposits	396,542	357,427
Retention accounts	(19,935)	(23,901)
Restricted deposits	-	(846)
Cash and cash equivalents	376,607	332,680

9. Non-Current Assets Held for Sale

	30/06/2016 $'000	31/12/2015 $'000
At 1 January	28,130	93,163
Transfer from fleet	-	20,737
Impairment provision	-	(8,950)
Reversal of impairment provision	-	1,148
Disposals in period	(28,130)	(77,968)
At 30 June / 31 December	-	28,130

As at 31 December 2015, non-current assets held for sale, comprised two chemical oil product tankers and one crude oil aframax carrier which were all disposed of during the period ended 30 June 2016.

10. Dividends

Dividends of Rouble 3.04 per share totalling Roubles 5,972.7 million, equivalent to $92.9 million were declared on 30 June 2016 and paid on 11 July 2016 (2015 – 0.57 Rouble per share totalling Roubles 1,126.0 million, equivalent to $20.5 million).

11. Trade and Other Payables

	30/06/2016 $'000	31/12/2015 $'000
Non-current liabilities		
Non-financial liabilities		
Employee benefit obligations	28,865	16,045
	28,865	16,045
Current liabilities		
Financial liabilities		
Trade payables	32,696	36,406
Other payables	28,414	46,384
Dividends payable	99,399	7,604
Accrued liabilities	31,976	37,535
Accrued interest	13,246	20,436
Non-financial liabilities		
Deferred income	21,449	23,319
Non-income based taxes payable	10,292	9,992
	237,472	181,676

12. Secured Bank Loans

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

	30/06/2016 $'000	31/12/2015 $'000
Repayable		
- within twelve months after the end of the reporting period	208,293	289,142
- between one to two years	305,979	238,866
- between two to three years	183,689	226,236
- between three to four years	241,113	359,061
- between four to five years	281,993	170,834
- more than five years	484,540	601,437
	1,705,607	1,885,576
Less current portion	(208,293)	(289,142)
Non-current balance	1,497,314	1,596,434

13. Finance Lease Liabilities

	30/06/2016 $'000	31/12/2015 $'000
Repayable		
- within twelve months after the end of the reporting period	10,506	10,120
- between one to two years	168,331	173,690
	178,837	183,810
Less current portion	(10,506)	(10,120)
Non-current balance	168,331	173,690

14. Other Loans

	30/06/2016 $'000	31/12/2015 $'000
$800 million 5.375% Senior Notes due in 2017	139,859	799,089
$750 million 5.375% Senior Notes due in 2023	735,710	-
Other loans from related party	-	93,387
	875,569	892,476
Less current portion	-	(16,984)
Non-current balance	875,569	875,492

On 16 June 2016, the Group, through its subsidiary SCF Capital Limited ("SCF Capital"), issued $750 million of Senior Notes (the "New Notes"), redeemable at par value, maturing on 16 June 2023. The New Notes are unsecured and guaranteed by Sovcomflot. Interest accrues at 5.375% from 16 June 2016 and is payable semi-annually in arrears on 16 June and 16 December of each year, commencing on 16 December 2016. There are no equity conversion rights or options attached to the New Notes. The New Notes were used to partly refinance the $800 million 5.375% Senior Notes (the "Old Notes") due in 2017 issued in October 2010. A total amount of $660,045,000 of the Old Notes was tendered back to the company at a price of $104.125 per $100 par value. Of the $27.2 million premium paid on the tendered bonds, $18.1 million has been expensed to profit and included in financing costs in the income statement for the period ended 30 June 2016. The balance of $9.1 million relating to refinancing of the Old Notes with New Notes has been netted off against the proceeds raised from the New Notes.

Both the Old and New Notes are included above net of unamortised financing costs.

15. Income Taxes

	30/06/2016 $'000	30/06/2015 $'000
Russian Federation profit tax	2,528	3,786
Overseas income tax expense	481	416
Current income tax expense	3,009	4,202
Deferred tax	926	330
Total income tax expense	3,935	4,532

16. Financial Risk Management

(a) Categories of financial assets and financial liabilities

	30/06/2016 $'000	31/12/2015 $'000
Financial assets		
Derivative financial instruments in designated hedge accounting relationships	184	8,050
Cash and bank deposits	406,542	367,427
Available-for-sale investments	1,012	1,012
Loans and other receivables	159,867	149,336
Loans to joint ventures	53,492	60,788
Finance lease receivables	69,631	71,831
Total financial assets	690,728	658,444
Financial liabilities		
Derivative financial instruments in designated hedge accounting relationships	78,060	55,064
Secured bank loans	1,705,607	1,885,576
Finance lease liabilities	178,837	183,810
Other loans	875,569	892,476
Other liabilities measured at amortised cost	205,731	148,365
Total financial liabilities	3,043,804	3,165,291

(b) 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	
	30/06/2016 $'000	31/12/2015 $'000	30/06/2016 $'000	31/12/2015 $'000
Financial assets				
Loans to joint ventures	53,492	60,788	50,659	57,512
Finance lease receivables	69,631	71,831	69,631	71,831
Total financial assets	123,123	132,619	120,290	129,343
Financial liabilities				
Secured bank loans at fixed interest rates	152,282	115,743	161,328	115,924
Secured bank loans at floating interest rates	1,553,325	1,769,833	1,537,353	1,761,909
Other loans	875,569	892,476	903,851	929,588
Finance lease liabilities	178,837	183,810	182,368	177,828
Total financial liabilities	2,760,013	2,961,862	2,784,900	2,985,249

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Notes to the Condensed Consolidated Interim Financial Statements – 30 June 2016 (Continued) (unaudited)

16. **Financial Risk Management (Continued)**

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

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 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.

<u>Fair value measurements of financial instruments recognised in the statement of financial position</u>

The following table provides an analysis of financial instruments as at 30 June 2016 and 31 December 2015 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.

<u>Recurring fair value measurements recognised in the statement of financial position</u>

At 30 June 2016	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Derivative financial instruments in designated hedge accounting relationships	-	184	-	184
	-	184	-	184
Liabilities				
Derivative financial instruments in designated hedge accounting relationships	-	78,060	-	78,060
	-	78,060	-	78,060

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

There were no transfers between Level 1 and 2 during the periods ended 30 June 2016 and 31 December 2015.

<u>Non-recurring fair value measurements recognised in the statement of financial position</u>

At 30 June 2016	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Non-current assets held for sale	-	-	-	-
	-	-	-	-

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

16. **Financial Risk Management (Continued)**

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

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

At 30 June 2016	**Level 1 $’000**	**Level 2 $’000**	**Level 3 $’000**	**Total $’000**
Fair value of assets				
Loans to joint ventures	-	50,659	-	50,659
Finance lease receivables	-	69,631	-	69,631
	-	120,290	-	120,290
Fair value of liabilities				
Secured bank loans at fixed interest rates	-	161,328	-	161,328
Secured bank loans at floating interest rates	-	1,537,353	-	1,537,353
Other loans	903,851	-	-	903,851
Finance lease liabilities	-	182,368	-	182,368
	903,851	1,881,049	-	2,784,900

At 31 December 2015	**Level 1 $’000**	**Level 2 $’000**	**Level 3 $’000**	**Total $’000**
Fair value of assets				
Loans to joint ventures	-	57,512	-	57,512
Finance lease receivables	-	71,831	-	71,831
	-	129,343	-	129,343
Fair value of 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

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.

17. **Contingent Assets and Liabilities**

In relation to the Novoship (UK) Ltd successful claims which received judgment in December 2012, and subsequent settlement agreement concluded by the Group with some of the defendants, on 16 February 2016 the Group was granted leave to appeal the judgment of 15 April 2015 where the High Court in London construed the settlement agreement so that the Group cannot recover the judgment sum of approximately $59.2 million of principal, plus interest (less any amounts received in prior periods of approximately $7.9 million) but is restricted to a recovery of no more than the settlement sum of $40.0 million, which was received in 2015, the defendants said pursuant to the settlement agreement. The hearing in the Court of Appeal will take place on 3-4 May 2017. It is possible that further assets may be recognised in the future.

Some of the defendants in the Novoship (UK) Ltd claims have indicated an intention to pursue the Group for damages in respect of $90.0 million of security provided during the litigation. No claim has yet been filed.

On 12 December 2014 some of the defendants in the 2010 London proceeding served their Points of Claim, which have been subsequently amended, in respect of any recoverable damages caused by the freezing orders made against them in the course of the London proceedings claiming between $73.5 million and $387.8 million plus interest from the discharge date until judgment. However, in the light of certain disclosure from the defendants, the Group 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 2016 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), again to be determined at trial. The trial of the defendants’ above claim (and the hearing for the claimants’ above related application and proceedings) took place in July 2016 and judgment has been reserved and awaited. In any event, Management is of the opinion that the defendants will more likely than not fail in their claim against the Group. The Group will defend its position vigorously. Accordingly, no provision has been made.

An amount, including accrued interest, of $13.2 million is held as security by the American Courts, as a result of a claim advanced by the charterers relating to the grounding of a Group’s vessel in the Suez Canal in November 2004. The claim is in arbitration in London and was heard in May 2016. The Tribunal’s Award was published on 29 July 2016. By that Award the Tribunal rejected charterer’s claim and awarded owners approximately $1.0 million inclusive of interest in relation to their counterclaim. Costs were reserved. The time limit for the charterers to seek permission to appeal is 27 August 2016. Management is of the opinion that the claim is without merit and that the charterers will not be able to successfully appeal against the above Award. Accordingly no provision has been made against this amount which is included in the line security deposits in current trade and other receivables.

17. Contingent Assets and Liabilities (Continued)

A total amount of $3.7 million (30 June 2015 – $2.3 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.

In 2015 and 2016 the Russian tax authorities, following tax audits 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 RUR2,077 million (equivalent to $32.3 million) plus penalties and interest, of which RuR307 million (equivalent to $4.8 million) have been paid and included in trade and other receivables. The Group disagrees with the tax authorities' stance and will challenge the tax authorities' position in court vigorously. The Group has already filed its defence on some of the cases with the Russian Arbitrazh Court and hearings are expected in September 2016. If the Group is required to settle these contingent liabilities, a maximum amount of RUR1,627 million (equivalent to $25.3 million) is potentially recoverable from the charterers, parties to the time charter agreement concerned of which RuR307 million (equivalent to $4.8 million) are included in trade and other receivables.

In 2015, the Russian customs alleged that one of the Group's Russian subsidiaries had breached the customs' regulations in respect of two of its vessels on the basis that it had not obtained the permission of customs prior to chartering out the vessels on time charter. As a result, the Russian local city court, at the request of Russian customs, has imposed penalties in 2016 totalling approximately RUR1,548 million (equivalent to $24.1 million). Russian customs have also requested the Group to pay RUR314 million of custom fees (equivalent to $4.9 million) of which RUR284 million (equivalent to $4.4 million) of the RUR314 million paid, are included in other receivables under trade and other receivables. In two separate court of appeal hearings, in June 2016, the courts overturned the penalties of RuR1,548 million imposed by the local city court and dismissed the cases. The Group also strongly disagrees with the position of the Russian customs in respect of the Customs fees and is in the process of defending its position in courts in Russia. The judgment of the Russian courts is expected by the end of 2016.

18. Related Party Transactions

The below are material transactions entered into during the financial reporting period which are not mentioned in any of the preceding notes.

On 5 and 10 February 2016, the Group drew down from a loan facility granted by a Russian State controlled financial institution, an amount of $23.6 million and $47.3 million, respectively, to refinance, as part of the financing of three ice-class shuttle tankers, unsecured subordinated loans facilities included in other loans referred to in Note 14. Those subordinated loan facilities were repaid in full in February 2016.

On 17 June 2016, the Group entered into a loan facility with a Russian State controlled financial institution totalling $255.0 million, to finance the construction of an ice-breaking LNG carrier referred to in Note 4, at an interest rate of 6.99% per annum repayable in quarterly instalments by July 2029. The Group has not made any drawdown up to the date of these financial statements.

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)	
	30/06/2016 $'000	30/06/2015 $'000	30/06/2016 $'000	31/12/2015 $'000
Transactions with Russian State controlled entities				
Freight and hire of vessels	(86,898)	(100,937)	21,413	645
Financing costs on other loans	-	-	676	-
Other loans	-	-	-	(95,489)
Finance leases payable	5,982	6,272	(178,837)	(183,810)
Payments to related shipyards for vessels under construction	-	-	104,000	104,000
Cash at bank	(4,250)	(1,554)	156,269	128,758
Disposal of associate	-	(5,402)	-	-
Finance leases receivable	(6,021)	(6,308)	80,369	82,748
Allowance for credit losses on finance lease receivables	(133)	(166)	(9,361)	(9,494)
Rental of investment property	-	(74)	-	-
Transactions with Joint Ventures				
Freight and hire of vessel	(4,510)	(4,485)	-	-
Other operating revenues	(1,621)	(1,610)	354	491
Loans due from joint ventures	(581)	(513)	55,693	63,081
Compensation of Key Management Personnel				
Short term benefits	5,040	4,586	(3,087)	(6,713)
Post-employment benefits	35	35	(12)	(6)
Long term service benefits	5,743	4,616	(14,365)	(8,578)
	10,818	9,237	(17,464)	(15,297)

19. Events After the Reporting Period

In July 2016, the Group acquired nine vessels (one aframax tanker, three LR2 oil product tankers and five MR oil product tankers) for a total consideration of $215.0 million. One of the LR2 oil product tankers and two of the MR oil product tankers were delivered to the Group on 5 August 2016, 12 August 2016 and 22 August 2016 respectively. The remaining vessels are expected to be delivered end of August and in September 2016.

In connection with the above, on 22 August 2016, the Group entered into a $125 million loan facility, with three financial institutions, to finance the acquisition, at an interest rate of three month US Dollar LIBOR plus 2.25% margin per annum repayable in quarterly instalments over seven years. The Group has not made any drawdown up to the date of issue of these financial statements.

19. Events After the Reporting Period (Continued)

On 9 August 2016, the Group drew down from available credit facilities granted by a Russian State controlled financial institution, as disclosed in Note 18, an amount of $89.0 million to finance the final shipyard instalment of one of the ice-class shuttle tankers, the m/v Shturman Albanov, under construction as at 30 June 2016 (Note 4) which was delivered to the Group on 16 August 2016.

20. Date of Issue

These condensed consolidated interim financial statements were approved by the Executive Board and authorised for issue on 23 August 2016.